EDITORIAL TEAM

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Editorial Note

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This journal has been included in SCOPUS and WESTLAW citation databases since 2015. It presents that the steady efforts of the editing team and all authors in maintaining the quality of the publications and increases the visibility of the articles in the related academic field. We would like to express our appreciation to all the authors, reviewers, editors, advisors of the journal. The editorial board welcomes submissions from legal, management, or interdisciplinary areas related to intellectual property issues from all over the world. We will not limit the scope of the journal to any single jurisdiction, which can confirm the articles in the journal covers all aspects.

In this issue, the selected articles are from different jurisdictions and areas of intellectual property rights. The first article in the issue is related the competition law. Prof. Jiménez analyzed from the perspective of Spanish law to discuss the relationship among the labels, brands, and unfair competition. Next, Ms. Lin researched the multilateral legal system under globalization, and explored the situation of Taiwan's legal system under globalization trends, in particular, the conflicts and co-competition between the national laws and transnational laws. In the article by the research group of Prof. Permata presented a detail analysis about similarity in Indonesia trademark law. Last, Dr. Rahmi Jened, and R. Koos Koentjahjo claimed that the method of Ratoon's Rice management will benefit in supporting food security and the patent right as legalized monopoly is sought to prevent the abuse of this invention by irresponsible parties. In addition to expressing our gratitude to all contributors who made this issue possible, we strongly hope you keep to support us in the future. Your help can maintain the goal and quality of the journal.

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Private labels and manufacturer's brands: legal keys to understand the conflict

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Abstract

The large retail distribution plays a very important role in the European scenario regarding its contribution to the economy, to the creation of employment and to the diversification of the offer to consumers. Retail distribution is a dynamic, innovative and competitive sector. For several decades large distributors have been commercializing, with remarkable success, a great number of goods with their own commercial seal that compete with the brands of leading manufacturers. This has been called own brand or distributor mark. Although the use of such a tool is fully lawful, certain functions of the brand are affected. We do not have to lose sight of the particularities that arise, on the one hand, from the perspective of competition law and, on the other, of unfair competition. The latter will be analyzed from the perspective of Spanish law and, where appropriate, the Community law.

Keywords: Competition law; consumer behavior; intellectual property; international law; unfair competition.

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I. Introduction

Retail distribution is a dynamic and complex sector that includes a wide range of companies of all sizes. The structure of retail distribution reflects the cultural features of the society it serves, and it is continually shaped by sociological, economic, technological and regulatory changes. The factors that most affect distribution are customer habits and the social trends associated to them. Distributors have developed commercial actions that include the creation and consolidation of products manufactured mainly by producers unrelated to the distributors who have, in turn, branded these products as their own – known as private labelling-. Practices involving distributor brands sometimes infringe rules designed to prevent unfair competition.

The term “private label” was originally coined to refer to goods whose packaging and presence was discreet in comparison to brand leaders. Today, however, they stand out as loudly as any brand leader, so the term might be outdated; “distributor brand” perhaps being more appropriate. The private label is a concept that has grown in importance in consumption and market behaviours. Private label goods are those sold exclusively by the distribution and commercialization chains in their own name; they have no advertising, marketing or positioning costs[1].

Private label growth has generated a new competitive marketplace distribution companies are both distributors of, and competitors with, producers/manufacturers. In addition, distributors fix both the final price of the private label and of the product belonging to the producers/manufacturers. In fact, distributors could raise the price of the producer/manufacturer product in order to steer customers towards their own private labels. The consumer can choose the product most similar to what he/she likes and at the lowest price, and within this spectrum we find the distributor’s private label products. Lower pricing is what separates the brand leader product from the distributor’s own brand[2],which, in some cases, could be half as cheap, regardless of

[1] Rao, R. (1991), Pricing and promotions in asymmetric duopolies, Marketing Science, Vol. 10(2), pp. 131-132.

[2] Harris, B. and Strang, R. (1985), Marketing strategies in the age of generics, Journal of Marketing, Vol. 49, p. 70.

quality. This factor is hardly relevant when the economy is buoyant, but in an economic downturn it is crucial as families are forced to cut back on food.

We need to recognize the immense power their distributors currently wield. They have the power to impose conditions on the manufacturer, and it is not outlandish to state today that power now lies in distribution, not in production. In fact, if suppliers wish to sell on the distributors' premises, they have to agree to the conditions, within limits[3],set by the distributor, including those related to private labels. Something similar happened, as we shall see, in selling at a loss[4].

To disorientate consumers' price awareness mechanisms, a goods and/or services provider creates an offer to lure them towards the most frequently purchased products. The offer in question loosens consumers' control mechanisms, leaving them with a single reference point, that of comparing this good or service to their own experience[5].From this moment, even the average consumer enticed to enter the establishment by the offer will decide to stay to purchase all the other products they need in the belief that the general level of prices is acceptable. The consumer, being aware that these specific products or services are abnormally cheap, decides to continue filling his/her shopping basket.

In this sense, Bernardo Trujillo[6]stated that consumers generally know the price of a certain number of products, a formulation of the well-known "islets of losses in oceans of benefits" theory; according to this, if the prices of articles familiar to the

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[3] We need to ensure a balance between the negotiating power of the department stores and the industry. If the power the distributors now possess is taken to extremes, possibly reaching private label saturation point, the industry could disappear.

[4] The act of selling at a loss could constitute, according to the concurrent circumstances in the specific supposition, an infraction in the Spanish legal context, of the law on Defence of Competition, on antitrust grounds, and of the law on Unfair Competition, and could even be considered a criminal offence.

[5] For one sector of the doctrine -Mcgoldrick, P. (1990), Retail marketing, London: McGraw Hill, p. 56-, the consumer's lack of information leads him/her to generalize about price levels in the establishment based on a couple of reference products. The consumer reaches this conclusion after comparing the prices in one establishment, based on his/her experience or against the prices of other establishments.

[6] He was an influential figure for an entire generation of shopkeepers and business people (European, North American and Latin American) for his work on how to sell and distribute mass consumer products.

consumer are lowered[7],they will believe, although it is not true, that all the prices in that establishment are cheaper than those of the competitor, thus leading them to purchase a greater number of products. The average consumer, aware or unaware of the deception, has made a purchase at an establishment that is selling to them at a loss through enticement. This action can be defined as a marketing tool used by retail distributors to attract clients to their establishment which, together with the product or service under promotion, amounts to an extra advantage of great value[8].

To determine whether unfair behaviour is objectively appropriate in selling at a loss in order to deceive users and consumers requires making a value judgement. Two aspects need to be considered here. First, the user and consumer standard at which the behaviour is aimed, and, the objective risk of confusion surrounding this behaviour to induce an error. When seeking to eliminate this behaviour the result is not important, rather that the behaviour is seen as being objectively appropriate for producing the error[9].

Unfair competition consists of setting enticing prices[10]for products sold at a loss to induce users or consumers into buying or contracting other products or services at the same establishment.

It is important not to penalize commercial success, except when it involves practices incompatible with the functioning of the internal market, such as evident cases of abuse by a dominant player or of harm to consumers, in contravention of Article 101 of the Treaty of the Functioning of the European Union. A competitive

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[7] Further reading on consumer price awareness, see Gabor, A. and Grancer, C. (1961), On the price consciousness of consumer, Applied Statistics, Vol. 10(11), pp. 170-188; Allen, J. Harrell, G. and Hutt, M. (1976), Price awareness study, Washington: The Food Marketing Institute, p. 21; Dickson, P. and Sawyer, A. (1990), The price knowledge and search of supermarket shoppers, Journal of Marketing, Vol. 54, pp. 42-53.

[8] In this sense, see Palau, F. (1998), Descuentos promocionales. Un análisis desde el Derecho contra la competencia desleal y la normativa de ordenación del comercio, Madrid: Marcial Pons, p. 233.

[9] On this question, see Humphreys, M. Kimberley, A. Burt, J. Kelly, S. Kimberlee, G. and Burrell, G. (2017), How Important is the Name in Predicting False Recognition for Lookalike Brands?, Psychology, Public Policy, and Law, Vol. 23(3), pp. 381-395.

[10] Given that price is an important indicative element, though not the only one, the law has tried to reinforce correct price setting, free from any unfair competition that might falsify prices, in order to defend users and consumers, as well as the market itself.

market is an efficient mechanism for protecting consumers, and its smooth functioning brings additional benefits. In a free and fair market, retailers compete to provide good service, product quality and value for money.

On the other hand, unfair practices negatively affect both competitors and consumers. The latter suffer in two ways. First, actions that directly harm them such as deception and confusion, and, actions that affect them indirectly in the form of distortions to the correct functioning of the system of competition, such as one market player taking advantage of another's reputation. Such detriment to the consumer can occur in the use of distributor brands which, by diminishing a brand leader's presence, confuses the consumer while simultaneously piggybacking the reputation of a well-known name – repute and prestige accumulated by other producers after years of investment in innovation and advertising-.

According to economic theory, a perfect, transparent competitive model implies all offers are clearly described, such that the consumer can differentiate between one product and another. Each vendor's behaviour is based purely on their own endeavour without obstructing consumers' freedom of choice. However, the system of competition does not prevent competitors from being mindful of their rivals' offers and free to copy all that is not protected under exclusive industrial property rights, or contrary to objective good faith[11], in accordance with Article 4 of Spain's Law 3/1991 on Unfair Competition (10 January 1991), subsequently reformed in 2009.

It is obvious that most of the problems in the distribution sector could be resolved by self-regulation on the part of all the agents interacting in the sector. Self-discipline could be the basis of a voluntary code of conduct to regulate relations between retailers and suppliers. This code would give a large number of medium-sized production and service companies, or even small and traditional firms, the chance to access big distributor establishments with a minimum of guarantees.

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[11] Regarding objective nature, all those behaviours that fully define the non-concurrent institutional purpose of the author and his/her conduct are to be excluded from areas covered by the Law on Unfair Competition. In contrast, those behaviours that are not typically concurrent in areas where the aims are spurious, can be considered concurrent in their purpose.

II. Observations on brand functions

A brand is, generally, a name, term, sign, symbol, design or combination of these elements whose objective is to identify the goods or services of a vendor or group of vendors in order to differentiate them from the competition. The brand thus identifies the vendor or manufacturer. One of the most important functions of the brand is to make the products or services of a company stand out from other firms' identical or similar products or services in the market[12].This function, based on the most significant judgements of the Court of Justice of the European Union[13]relating to the subject, is understood in the sense that the brand guarantees that all countersigned products and/or services originate in its proprietor, who can be a natural person or legal entity under its control (that is, not all brands come from the same source of production). In other words, the essence of the brand is to avoid the danger of confusion, since the basic intention behind a brand is to distinguish products and services in the market so that the average consumer does not confuse them with others[14].Consequently, a sign does not count as a brand if it lacks the power or capacity to make it stand out from the rest, or is supervened[15](Art. 5.1. b) Law on Trademarks 17/2001, 7 December).

[12] Aaker, J. (1997), Dimensions of Brand Personality, Journal of Marketing Research, Vol. 34(3), pp. 347-57; Barrero, E. (2016), Una perspectiva comparada sobre el concepto de marca, el régimen de los signos distintivos notorios y las prohibiciones de registro en las normativas española y nicaragüense, Revista de Derecho, Vol. 21, p. 47.

[13] In this sense, we refer to revealing sentences such as: SA CNL-SUCAL NV versus HAG GF AG (1990): Court of Justice of the European Union, 17 October 1990 –section 16-; and IHT Internationale Heiztechnik GmbH and Uwe Danzinger versus Ideal-Standard GmbH and Wabco Standard GmbH (1994): Court of Justice of the European Union, 22 June 1994 –section 45-.

[14] The mere mental association with, or evocation of, a brand by another seems insufficient in itself to appreciate the concurrence of a risk association. The consumer needs at least to understand a strong legal connection between the names of both brands.

[15] The distinctive feature of a brand can be conceived as its aptitude to distinguish the products and/or services that it identifies, with regard to all other similar or analogous goods and/or services on offer in the market. See Ruipérez De Azcárate, C. (2008), El carácter distintivo de las marcas, Madrid: Reus, p. 54.

The brand can also perform other functions, including publicity, publically indicating the level of quality and the company of origin of the good or service in question[16].We shall refer to this later in the article.

The brand can possess an advertising function[17]by supporting the placement and promotion of the product or service among its potential acquirers and users. This function enables entrepreneurs to use the brand to gain entry to the market and consolidate there. The simple repetition of the brand name in basic advertising media converts the brand into a stimulus for consumers to demand products.

Advertising in its various forms has become such a routine part of our society as to be indispensable[18].Routine, because a product cannot be conceived of without a brand–even in the case of private labels- and indispensable, for developing and consolidating the market, and maintaining, strengthening and modifying social values and attitudes. The advertising discourse utilizes all the communication tools to elaborate the message, forever seeking out objectives for information, persuasion and seduction. The interweaving at work in commercial communication means that advertising professionals constantly study, construct and strive to perfect the message's verbal and non-verbal codes in order to attract and influence the receptor, both by explicit and implicit suggestion. The product, the brand, the values and ideals –in fact, everything- is meshed together in an item of advertising, which seemingly hides more than it shows. In the entire process of research into, and creation of, the presentation, positioning and commercial personality of a product, it is non-verbal communication that plays the crucial role; the symbolism of the product/brand, the values associated to it and the main persuasive thrust of the advert lies essentially in the suggestion that lies behind the message –in other words: "what is left unsaid" and only hinted at- within the advert.

[16] De La Fuente, E. (2001), Propiedad Industrial. Teoría y Práctica, Madrid: Ramón Areces, pp. 119-232.

[17] On the importance of the brand's advertising function, see Areán, M. (1982), En torno a la función publicitaria de la marca, Actas de Derecho Industrial, Vol. 8, p. 59; Fernández-Nóvoa, C. (1984), Fundamentos de Derecho de Marcas, Madrid: Montecorvo, pp. 61-70.

[18] Darby, M. and Karni, E. (1973), Free competition and the optimal amount of fraud, The Journal of Law and Economics, Vol. 16, pp. 67-88.

The direct consequence of this function is the brand's "condensation" of the prestige– also known as goodwill[19]- of the product or service, and it directly affects the prestige of the manufacturer or distributor. Goodwill encompasses the fame or prestige acquired by the entrepreneur during the time the products remain in the market. Of course, not all brands can successfully perform this condensation function of the entrepreneur's prestige. Some brands have strong goodwill while others lack prestige, or even suffer from poor reputation, or illwill[20]-although a brand with a poor reputation is hardly likely to stay long in the market-. Brands with goodwill are the ones that suffer wrongful exploitation by third-party usurpers.

The brand can also have an indicator function to signal to the consumer the level of quality of the products and/or services that distinguishes them. The brand indicates to consumers, and informs them of, the quality of the products, the nature of these products and their characteristics. To preserve purchaser confidence, the brand owner must offer consumers products that are of similar quality, nature and characteristics, making only minimal changes to ensure that any such alterations do not negatively affect them[21].This function enables the brand owner to counter any subsequent commercialization by third parties of the products which, having been introduced to the market by the holder or with the owner's consent, have had their characteristics altered or modified.

The brand can indicate the company of origin of the product and/or service that is distinguished. As previously mentioned, according to both doctrine and jurisprudence, this function acts as a consumer guarantee that the merchandise comes from the same company or group of companies as indicated. To reinforce this function, the law tries to prevent the coexistence of confusable brands[22].However,

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[19] The English word goodwill can be translated as fame or good reputation. See González- Bueno, C. (2005), Marcas notorias y renombradas en la ley y la jurisprudencia, Madrid: La Ley, p. 18; Palau, F. (2005), La obligación de uso de la marca, Valencia: Tirant lo Blanch, p. 20; Herrero-Suárez, C. (2006), Los contratos vinculados (tying agreements) en el derecho de la competencia, Madrid: La Ley, p. 219; Otero, C. (2006), El comercio internacional de medicamentos Madrid: Dykinson, p. 49; Llobregat-Hurtado, M. (2007), Temas de propiedad industrial, Madrid: La Ley, pp. 49-51.

[20] Fernández-Novoa, C. (1978), Las funciones de la marca, Actas de Derecho Industrial y Derecho de Autor, Vol. 5, pp. 33-62.

[21] Dick, A. Jain, A. and Richardson, P. (1997), How Consumers Evaluate Store Brands, Pricing Strategy and Practice, Vol. 5(1), pp. 18-24.

[22] The importance of this function is clear in many resolutions passed down by the Court of Justice

this function cannot always be fulfilled, in particular when its use is licensed separately, or its ownership is ceded and is independent of all or part of the company. So, it is not completely true to say that the brand acts as an indicator medium of the origin of the branded product. It can act as an indicator of quality, as long as its use by the license acquirer is controlled by the license holder. It is important that the parties refer to the licensee's control faculty in the contract since, although it is necessary to protect the quality and set of values that the brand communicates, it might not be considered an essential part of the licensing contract. Therefore, as it is not a natural element of, or inherent in, the licensing contract, this designation cannot be carried out unless established by all parties. Thus, although it is correct to say that control over quality is important, in order to protect the distinguishing and indicative functions of the quality of the brands, it is not considered essential. Firstly because it is not established by law; the legislation seems to leave it up to the parties involved. Secondly, because without legal provision, it is disproportionate to concede this faculty to the license holder even when there is no agreement between contracting parties, since it allows the licensee to interfere in the business of the license acquirer. Finally, it is possible to interpret that it is the licensee who must preserve brand value so that the brand effectively executes all is functions, therefore, an agreement of this type counts as due diligence in any license contract.

III. The use of private labels to counter brand leaders

A. Conceptual definition of the distributor brand

Although there is no commonly agreed terminology on the subject, we can define[23]private labels as products manufactured by an industrial entity that are put

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of the European Union, for example: SA CNL-SUCAL NV versus HAG GF AG (1990): Court of Justice of the European Union, 17 October 1990, fundaments 13 and 14; Canon Kabushiki Kaisa versus MetroGoldwyn Mayer Inc. (1998): Court of Justice of the European Union, 29 September 1998, fundaments 26 and 27. This latter sentence is a reminder of the function of the business origin of the products to avoid consumer confusion. This can happen if the consumer wrongly considers that the products and services come from the same company, or in this case, two companies with apparent financial links that did not exist; and Segabo Inc. and SA Ancienne Maison Dubois et Fils versus GB. Uni SA. (1999): Court of Justice of the European Union, 1 July 1999.

[23] Mills, B. (1995), Own Label Products and the 'Lookalike' Phenomenon: A Lack of Trade Unfair Competition Protection, European Intellectual Property Review, Vol. 3, p. 117, defines private

on sale to the public under the name or brand of the distributor or retailer, who is then responsible for the marketing function to promote them[24].

With the arrival of distributor brands –a strategy that is growing in Europe (although unevenly[25]) but more slowly in the USA[26]-, intermediaries now compete with producers in generating brand image; the fact that the former do so successfully makes it increasingly difficult for producers to differentiate themselves from intermediaries in the market[27].

The development of new concepts and products together with advertising, strategies that producers need to deploy in order to make a difference, involves costs that are beyond many of the market players. In other words, it is becoming more and more expensive for producers to get customers to identify their products in the market, to the extent that the intermediary now directs the customer towards the product. Brand image is the best weapon the manufacturer possesses in any negotiations with intermediaries. In effect the producer, when incentivizing the intermediary to acquire the product and enter into negotiations with him/her, can adopt two different strategies: negotiate directly with the intermediary and pursue a pressure strategy, or aim its efforts squarely on the market and the customer. The latter course of action assumes the producer adopts a strategy that economists call aspirational, by which the customer asks the intermediary to provide the product, so the intermediary becomes "aspired" by the demand aroused by the producer in the market. This is achieved by generating a brand image among customers[28].Thus, in a

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labels as "a brand used by a retailer or wholesales for a line or variety of products under exclusive or controlled distribution".

[24] Desai, D. Lianos, L. and Waller, S. (2015), Brands, Competition Law and IP, Cambridge: University Printing House; Nevo, H. and Van Den Bergh, R. (2017), Private Labels: Challenges for Competition Law and Economics, World Competition Vol. 40(2), pp. 271-298.

[25] The trend is towards upward growth worldwide, especially in Western Europe. In 2000, indicators for Europe showed a volume of 20%, rising to 30% in 2010; growth in other parts of the world has been slower (for example, in China or Russia).

[26] In the USA, sales of distributor brands grew by 2.3% in 2013, but at macro-level, sales seem to have stalled. Distributors of the various channels are focusing on stimulating growth in this area. The good news for distributors is that consumer perception of distributor brands is positive.

[27] Kumar, N. and Steenkamp, J. (2007), Private Label Strategy; How to Meet the Store Brand Challenge, Boston: Harvard Business Press.

[28] Vázquez-Casielles R. and Trespalacios-Gutiérrez, J. (1997), Distribución comercial: estrategias de fabricantes y detallistas, Madrid: Civitas

market with excess supply, a producer without a brand image is, to use a legal term, expendable. And, in the face of strong rivals, pressure strategies can turn against the producer, making its position increasingly untenable.

The doctrine is by no means unanimous on when private labels first emerged. The first distributor brands in France appeared in the second half of the 19th century, in 1874 to be precise, while the Sainsbury's distributor brand first appeared in Great Britain in 1869. In contrast, some commentators say[29]that private labels, far from dating back to the 19th century, arrived more recently, in 1976, with the launch in France of Carrefour's Produits Libres. In the beginning, they were products in white containers with no advertising on the exterior, in other words, a naked product that enabled costs considered to be superfluous to be cut. At that time, these products were clearly different from traditional brands, and confusion between the two was impossible. Now, "white labels" have made fortunes, and continue to be defined and known as such colloquially, even though the "white" element has disappeared.

However, the genuine rebirth of distributor brands is relatively recent, and clearly has room to grow. The appearance of the first distributor brands in Spain, following in the footsteps of France[30],is undoubtedly associated to a strategy of low cost. In some cases, this is a response to the dominant position of manufacturers, or more often, to the demands of rational consumption by those clients who feel the effects of economic downturns.

The term "white label" no longer applies to the majority of distributor references. In fact, white label containers or packaging are commercially more and more colourful, and publicise themselves with increasing intensity in order to associate the image of the retailer to the values inherent in their own brands.

In recent years, big distributors – including Carrefour, Mercadona, Eroski, Auchan, Lidl, Aldi and El Corte Inglés - have adopted an aggressive promotion policy for products under their own brand name. The big distributors have thus

[29] Parker, P. and Kim, N. (1997), National brands versus private labels: An empirical study of competition, advertising and collusion, European Management Journal, Vol. 15(3), pp. 221-223.

[30] The launch of distributor brands began with Carrefour's "free products" (1976).

become the main rivals of manufacturers in the retail distribution market. Traditionally, the costs to the distributor of their own brands have been considerably lower than those borne by the manufacturer when commercializing its portfolio of brands. However, the consolidation of distributor brands across a wide range of categories and markets and, in consequence, their importance as a crucial tool in negotiations with manufacturers and in consumer loyalty to the establishment, means that today's distributors are concentrating more on their own brands and on ramping up the marketing of these products. This can be seen in different areas, including the retailer's dedication to strengthening the quality of his/her own brands[31], in the segmentation of the distributor brand market –incorporating distributors' own Premium brands [32] ,in the merchandising policy applied to these brands -characterised by allotting bigger and better spaces to them in the establishment[33]-, in the designation of these brands to new categories and in the active communication of the distributor brands inside the establishment and in the media[34].

In Spain, private labels have seen considerable growth to the extent that the country now leads Europe in this area. It was at the start of the 1980s when distributor brands' market share began to grow significantly. The consequences for manufacturers have been serious; manufacturers of brand leader products are suffering the effects of distributor label growth. The main effect has been a fall in the volume of sales, followed by a drop in profit margins and a rise in commercialization costs.

The growth of distributor brand sales is due to greater product price sensibility, improved product quality[35]and lack of perceived differentiation between producer

[31] Hoch, S. and Banerji, S. (1993), When do Private Labels Succeed?, Sloan Management Review, Vol. 34(4), pp. 57-67; Halstead, D. and Ward, C. (1995), Assessing the Vulnerability of Private Label Brands, Journal of Product & Brand Management Vol. 4(3), pp. 38-48; Bao, Y. Bao, Y. and Sheng, S. (2011), Motivating purchase of private brands: Effects of store image, product signatureness, and quality variation, Journal of Business Research, Vol. 64(2), pp. 220-26.

[32] Dunne, D. and Narasimhan, C. (1999), The New Appeal of Private Labels, Harvard Business Review, Vol. 77(3), pp. 41-52.

[33] Hoch, S. (1996), How Should National Brands Think About Private Labels?, Sloan Management Review, Vol. 37(2), pp. 89-102.

[34] Richardson, P. Dick, A. and Jain, A. (1994), Extrinsic and Intrinsic Cue Effects on Perceptions of Store Brand Quality, Vol. 58(4), Journal of Marketing, pp. 28-36.

[35] Product quality is one of the main aspects that consumers evaluate prior to purchasing the producer

and distributor brands. Not to mention the fact that consumers buy more distributor brands in times of crisis. Indeed some authors[36]state that this trend does not reverse even when the economy picks up again since, having tried the distributor brand, the consumer remains satisfied with its quality and sticks with the product.

Distributor brands clearly represent the decentralization of production; these brands conceal the source of production, and only the distributor brand is visible. In fact, the private label holder subcontracts production of the product labelled with its own brand, rendering the figure of the producer irrelevant for the consumer.

B. The rivalry between distributor and producer brands

At this moment, Europe is still recovering from a deep economic crisis, some states faster than others, which has had a direct impact on family well-being. This situation has been particularly difficult for families with fewer resources available for consumption. In particular, the middle class has been affected by a significant reduction in disposable income. Economic deceleration and price rises mean that many common household products that families buy are now distributor brands, which are normally cheaper than leading producer brands.

Top producer brands have little room for cutting prices. The big manufacturers are normally unwilling to modify their prices because, among other reasons, it might give the consumer the impression the price of the product is adjusted not to cost but to the profit the producer expects to gain. It does not make sense for manufacturers to drop prices in times of crisis only to raise them when the economy revives, since it could give the impression that profits are not adjusted to the market. So, the

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or distributor brand. In this sense, one doctrinal sector - Bellizi, J. Krueckeberg, H. Hamilton, J. and Martin, W. (1981), Consumers Perceptions of National, Private and Generic Brands, Journal of Retailing, Vol. 57(4), p. 57- emphasises that the differences in quality between producer and distributor brands are based on consumers' low regard for distributor brands in terms of extrinsic attributes. However, another doctrinal tendency - Semeijn, J. Van Riel, A. and Ambrosini, A. (2004), Consumer Evaluations of Store Brands: Effects of Store Image and Product Attributes, Journal of Retailing and Consumer Services, Vol. 11, p. 247- sees the objective quality differential between producer and distributor brands diminishing and, in some cases, the distributor brand is deemed superior.

[36] Kumar, N. and Steenkamp, J. (2007), Private Label Strategy; How to Meet the Store Brand Challenge, Boston: Harvard Business Press.

products of the leading producers are not very sensitive to economic recessions since, according to this position, price is a determinant of quality. As an alternative to the leading brands, consumers can choose private labels or distributor labels, and these are highly valued in times of economic difficulties. The big distributor, while continuing to remain as such, focuses on placing products in the market in two ways: making a product and giving it the distributor's name or creating a private label for all its products.

It needs emphasising that private labels are products produced by an industrial entity but commercialized as a brand of a third party (the distributor) which presents itself to the consumer as the manufacturer of the product. Since the commercialization of private labels is carried out under the umbrella –commercial prestige, financial solvency, legal responsibility- of the entity that places those products on the market, it makes sense not to restrict the real manufacturer from authorizing the distribution and sale of these same products but under the brand of a third party, even within the same geographical zone recognized by another or other branded clients[37].

A brief mention should also be given to so-called black labels[38]. This refers to big producers who collaborate with both distributor and producer brands. Some leading manufacturers use such producers in a way that is not clear to consumers. Multinationals or manufacturers put the producer's stamp or mark on the product but proclaim that the product is made for them by others. In this way, such companies tap into suppliers who work with a range of brands while trumpeting their own claims to innovation and exclusivity.

Although distributors' use of private labels is totally legal, it could be problematic, as we shall see in the next two sections, in terms of Spanish legislation

[37] The manufacturer ensures non-concurrence with any of its clients, but no commercial justification or question of free competition should prevent him from consenting to the presence of any of these brand holders in the same geographical area or commercial zone. These brand holders do not act in the market externally as intermediaries of the manufacturers – as opposed to agents/representatives or licensee/distributor-, but prefer to do so as manufacturers subject to the rules of free competition, competing with those who agree to act in the same way.

[38] An example of a black label is Incopack. This group works with brands such as: Vitalinea; Danette; Côte d'Or; Lidl; Aldi; Tesco; Sainsbury and Nestlé.

in defence of competition and unfair competition. One area that causes legal difficulties relates to when the distributor presents, under its own brand, its product which, let us not forget, is an alternative to the leading manufacturer's product, in a form that is very similar to the rival product. In this case, certain functions of the brand are affected. The function that indicates the company of origin of the product is partially blurred; and the function that identifies quality could be seriously undermined because the big distributor's producer might produce a product that is inferior in quality to that of the leader's. The goodwill function could be affected, too. If these three functions are diminished, then the market's identifying and publicity function will also suffer. In order for all this not happen, the leading manufacturers run advertising campaigns that insist that they do not produce goods for others, indicating that their products will never be classified as private label. Such campaigns aim to draw the consumer's attention to the fact that there are products on the market –private labels or not- similar to their own but which are not produced by them. This aggressive advertising activity on the part of the big manufacturers to defend the manufacturer brand is a consequence of the fierce competition they face in the market from distributor brands.

The brand cannot prosper without consumers. The brand associated to particular products or services sets in motion an entire mental process in the consumer in relation to the product's company of origin, quality and the good reputation of the products to which the brand name alludes, thus protecting not only the interests of the entrepreneur but, in general, those of the consumer too. Private labels weaken the association between the sign that relates to the brand of the market-leading manufacturer and affects the attitude that the consumer shows towards the brand, creating a type of parasitical brand, in that the private label acts as a parasite on the prestige of the leading brand, gradually debilitating the brand of the leading manufacturer. The crisis affects market transparency because it blurs the leading brands, giving rise to brands – distributor brands- that possess distinctive features.

An interesting question regarding private labels is whether they mislead. If they are understood to prompt the consumer to make a mistake, their withdrawal can be requested on the grounds of deception. It should not be forgotten that for a brand to be withdrawn for misleading, the brand would have ceased to perform its differentiating function. Deception exists, for example, when a brand provokes in the mind of the consumer a distorted idea of the nature of the product, its origin, characteristics, how it was produced or other information that could lead the public to error.

C. Obligations regarding defence of competition legislation

In a competitive market, distribution companies are free, if they so wish, to integrate vertically and compete with manufacturers in the same conditions in order to satisfy consumer wants, although this would mean dereferencing the products of one supplier to make space for their own brands[39].The behaviour of the distributor can be perfectly legal, otherwise it would contravene Spain's Law on the Defence of Competition 15/2007, 3 July 2007.

Today, as we have seen, private labels enjoy considerable market share across a range of categories, and compete fiercely with manufacturer brands for space on the shelves and for consumer preferences. Companies with a dominant collective position in the retail supply and distribution market can, as usually happens in practice, subcontract product production under the name of the brand created by the distributor in order to specify their own products–partial integration- but they must guarantee that manufacturers' brands have an equal opportunity to compete with their own, so that in the end it is the consumer who determines the success and profitability of a product. This is how consumer well-being can be guaranteed, preventing big distributors from unilaterally deciding which products are to be consumed. The distributor with market muscle must perform objective and non-discriminatory category management to comply with the law on defence of competition[40].

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[39] Declining to reference, or dereferencing, a supplier, as well as substitution by a private label can only be justified by certain objective and non-discriminatory criteria. Otherwise, it could be considered abuse of a dominant position by the distributor.

[40] Lianos, I. (2009), Private Labels, Brands and Competition Policy, Oxford: Oxford University Press, pp. 161-86; Doyle, C. and Murgatroyd, R. (2011), The Role of Private Labels in Antitrus, Journal of Competition Law & Economics, Vol. 7(3), p. 635.

In Spain, particularly in terms of the typical goods purchased every day, it is obvious that the leading companies in retail distribution hold a dominant collective position, these being: Carrefour, Lidl, Mercadona and Eroski. Although having a dominant individual or collective position in the market cannot be penalized, the opposite is true if any abuse of that situation occurs. In this case, these distributors have deployed various strategies to limit competition[41],particularly in the supply market, to the benefit of their own private brands and in detriment to those of suppliers.

From the competition law perspective, the introduction of private labels can have mixed effects on competition. On the one hand, vertical distributor integration can generate greater efficiencies –transaction cost savings- and competition in the manufacture and distribution markets – product differentiation-. On the other hand, vertical integration places the distributor in a privileged position in relation to the other manufacturers, becoming a double agent that can negatively affect the manufacturer's products and boost its own. The distributor has the final word in relation to the presence of a product of a manufacturer brand in its establishment and, in particular, how it is displayed and priced. This power can tempt the distributor towards a strategy of substituting the products of the manufacturer brand[42].The risk that the distributor abuses its position of power in the market to exclude the manufacturer's brand to the benefit of its own, or to reduce competition between brands of a certain category with no obvious benefit to the consumer, needs to be considered. The considerable power enjoyed by the distributor should not be underestimated.

[41] The distribution market for daily purchased consumer goods is structured in a highly concentrated way (oligopoly). The three market leaders in Spain -Carrefour, Mercadona and Eroski- display parallel behaviours (tacit collusion) that limit competition in the supply and retail distribution market. The oligopolistic companies have a collective dominance with collusive conduct that can give rise to abuses that are forbidden under defence of competition law.

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One of the major problems surrounding distributor-supplier relations is the almost total absence of jurisprudence on the subject, because although abusive practices exist, these go unreported for fear of reprisals –and the subsequent loss of revenue for the supplier- that the manufacturer might face, so potential claimants decline to come forward.

Based on the principle of free will of the agents who act in the market, agreements have been reached that suit both the industry and consumers. These are, generally, voluntary codes of conduct that establish the guiding principles of the commercial negotiations between suppliers and distributors; these principles can provide suppliers with greater legal safeguards in various aspects of commercial relations, such as promotions, logistics (delivery, reception, and return of goods when applicable), services and distributor charges and payment deadlines. Such codes have been adopted in several countries across Europe. In the United Kingdom, the Competition Commission drew up a good practices code for major distributors to regulate their commercial relations with suppliers, a code that is currently being expanded; the Commission has also proposed naming a consumer ombudsperson to ensure compliance.

However, a good practices code drawn up by the main retail distributors on a national level could be interpreted as an invitation for them to band together, to the potential detriment of competition. Despite that, the official policy should always be to examine these codes of practice and ensure that they lead to greater transparency and due diligence, both for the benefit of the retailer and supplier, as well as the consumer in the long term.

A good practices code sets out a series of recommendations with the aim of improving the outcome of commercial negotiations between food companies, manufacturers and distributors. It should be based on principles of motivation for actions, the formalization of agreements and publication of the general contracting conditions. It should also refer to the modification of tariffs, variations in taxes, rates and other obligations, as well as the contribution of the integrated management systems while the commercial agreements are in full force. The code should also establish that companies are to ensure that their management structures and/or regional offices comply with the relevant sections of the commercial accords that affect them, so that lack of information on the agreements cannot be used as an excuse to avoid compliance.

Based on Resolution 10 December 2015, the General Management of the Food Industry in Spain, a Code of Good Business Practices in Food Contracting was published. The motivation behind this document was the need to establish greater balance and transparency in commercial relations between the food supply chain operators, by regulating and facilitating these relations. The text that we analyse is supplementary to the legal framework for the sector. It strengthens the commitment of the companies in Spain's food supply chain to comply with the regulations in force.

Self-regulation, essential for making codes of conduct function properly, assumes that the parties will follow certain behaviour guidelines –principles and ethical norms- compliance with which is the stated aim. It is also the expression of a commitment to social responsibility by a particular industrial sector. In recent years, we have been witnesses to, and in certain cases protagonists in, a vigorous drive, instigated by various parties, towards soft law, or non-binding law, in consumer and/or user protection in numerous settings, including the ones we analyse here. Non-binding, or voluntary, law is a set of instruments which, although lacking the compulsion behind legally binding rules, can significantly affect the legislative landscape by promoting the legal standardization of certain practices.

Since self-regulation as a practice is more informal than legislation and lacks coactive capacity –understood as meaning a virtuality and reach that is close to the state- its efficacy would be extremely poor if all parties involved did not coalesce around it. Self-regulation cannot be seen as an excuse for legislative authority to avoid its obligations, but rather a complement to legislation which, inevitably, can strive to be nothing more than general and ambiguous.

Although codes of conduct are not above criticism they do, in general terms, deserve to be valued positively since they constitute the initial agreement approved voluntarily by the main links in the food supply chain: manufacturers and distributors. In any case, as we have mentioned previously, we must always bear in mind that this is a strictly voluntary accord based on the validity of the principle of freedom of will recognized in Spanish law. Although the obligations in the contracts carry the force of law for the contracting parties concerned, and must be fulfilled accordingly, this is still new territory. The power of the distributor is far superior to that of the manufacturer, meaning that non- compliance with the code will rarely, in our opinion, be reported to the institution charged with resolving such potential conflict of interests out of court.

Experience in certain countries –Australia, for example- shows that codes of conduct are generally violated by distribution companies, and that suppliers are loath to denounce such behaviour. Although codes of good for commercial practices should be valued positively, as we have stated, they do not prevent tacit collusion between the big distributors, and those suppliers with market power, to extract from suppliers high commercial payments for tolerating high concession prices. This collusive behaviour restricts competition in the manufacturers' market, and in the retail distribution market.

In sum, although codes of conduct lack provision to counter anti-competitive behaviour, they represent a plausible attempt to foment fair commercial relations between distributors and suppliers; nevertheless, the function of the competition authorities is to safeguard competition and the well-being of consumers. The collective dominant position of the major distributors in Spain, Carrefour, Lidl, Mercadona and Eroski, in the food supply chain, together with parallel practices that tend to restrict competition in the manufacturing and distribution market, make it necessary for the competition authorities to intervene in order to fix the criteria for applying the Defence of Competition law in this environment.

D. Compliance with unfair competition legislation

Private labels, though legal can, in certain circumstances, be deemed to contravene legislation on grounds of both defence of competition and unfair competition. The private label distributor could promote its products by presenting them in such a form that is very similar to those of the leading manufacturer. Causing confusion in the minds of potential customers is the oldest form of unfair competition as it blurs product differentiation[43].

The distributor takes advantage of another's good reputation by approximating the image of its private label product to the well-known brand leader.

The situation arising from this type of conflict in which the act reported is liable to be classified as illegal trademarking and concurrent, requires close examination and comparison of legislation on both areas, namely the Law on Spanish Trademarks (LST) and Law 3/1991, 10 January 1991, on Unfair Competition (LUC); interpretation should also seek to avoid too strict an application of the principle of speciality, the preponderance of one law over another, especially in supposed situations in which trademark legislation is reluctant to protect brands that have seemingly been harmed. And, not forgetting the different objectives in play in these situations[44],for while the LST tends to protect a subjective right over an immaterial good that is real in nature, although special and effective erga omnes, and conceded by its registration, the LUC does not aim directly to protect the brand owner. In effect, as the exposition of motives in the LST shows, it does not aim to resolve conflicts between competitors but "act as an instrument for orderly behaviour in the market", thus protecting not the brand holders or the entrepreneurs but all those who participate in the market.

In practice, litigation between private label holders and leading brand manufacturers could, according to the suppositions we have presented, be covered by LUC Articles 6 and 12. These precepts regulate confusing imitation of distinctive

[43] Rothman, J. (2005), Initial Interest Confusion: Standing at the Crossroads of Trademark Law, Cardozo Law Review, Vol. 27(1), p. 106; Zaichkowsky, J. (2006), The Psychology Behind Trademark Infringement and Counterfeiting, Lawrence Erlbaum Associates Mahwah; Aribarg, A. Arora, N. Henderson, T. and Kim, Y. (2014), Private Label Imitation of a National Brand: Implications for Consumer Choice and Law, Journal of Marketing Research, Vol. 51(6), pp. 657-75.

[44] Despite this difference in objectives, there exists a reciprocal tension between the two laws given that, on the one hand, the use of a brand constitutes an action in the market with a concurrent aim, and on the other, the risk of confusing the consumer (whose protection is not absent in the LST) constitutes the nucleus of the infringement of the law regarding the brand and some illegal concurrences –Articles 6, 11.2 and 12 of the LUC-.

brands (formal creations), while Article 11 deals with product imitation (performance or services).

LUC Article 6, as in Article 10bis of the Paris Convention for the Protection of Industrial Property, considers that “all behaviour liable to create confusion by another’s activity, performance or establishment” to be unfair. It is sufficient if there exists “risk of association by the consumer in relation to the origin of the item or service delivered.”

So-called parasitical competition, as established in LUC Article 12, is understood to mean those behaviours by an entity that lead to taking undue advantage of the reputation of brands that are distinctive in any way (brands, commercial names, certifications of origin, indications of origin, etc.) for its own or others’ benefit; the second paragraph of the article is particularly emphatic in declaring unfair “the use of the distinctive brands of others, or false certifications of origin accompanied by the indication as to the true origin of the product, or expressions such as “model”, “system”, “type”, “class” or similar”.

The legislation discussed here refers to the confusion caused in relation to the means of identification used by an entrepreneur in the market, arising from its activity, products or services rendered, or from the commercial establishment. In other words, it relates to the identification or presentation of products, not as a purely regulatory concept, since it cannot generate risk of confusion if there is no effective use made of the brand, and a degree of insertion in the market is lacking[45].Any judgement on confusability requires a comparison of not only the brands and products or services that have caused the controversy, but an examination of another set of circumstances such as the prices of the products cited, the distribution channels for these products, the advertising of the products, etc., references that can strengthen, weaken or even eliminate the risk of confusion.

[45] Finch, A. (1996), When Imitation Is the Sincerest Form of Flattery: Private Label Products and the Role of Intention in Determining Trade Dress Infringement, The University of Chicago Law Review, Vol. 63(3), pp. 1246-1262.

The risk of confusion that these precepts try to exclude –which is the risk of confusability, that is, the mere possibility that this might occur even though it might not have occurred yet- needs to be interpreted in light of the amplitude applied in the design of the First EU Directive, 21 December 1988, which drew together Member States' legislation on trademarks (Article 4.1.b), and Regulation (Executive Committee) nº. 40/94 of the Council, of the Community Trademark[46]- Articles. 8.1. B and 9.1.b-, which is also applicable to the concurrent setting, with a broad and comprehensive criterion regarding risk of association. This criterion is activated when the consumer has no confusion as to the identity of the company of origin but rather is aware that the products distinguished by the brands in question have a different company of origin, wrongly supposing that there exists an economic, commercial, organization or any other type of relationship between the companies offering each of these products. It has been stated repeatedly in the jurisprudence that any judgement on confusability between various battling brands requires an overall synthetic vision of the totality of the elements that constitute the brands, without separating their phonetic[47]and graphic unity, and that if there are likenesses, it is necessary that they are referenced, not only in terms of the individualized elements of each of the brands but also, and principally, with regard to the generality, or whole, of the various parts that form the brand.

Determining likenesses or similarities between two brands is, in principle, the job of the courts that try the case in the first instance, but, as this is an undetermined legal concept, its appreciation needs to be based on the guidelines established by sentences handed down by the Court of Justice of the European Union and doctrinal jurisprudence. The Spanish Supreme Court has declared that the analytical and comparative criterion applied in the first instance must be maintained, except when its decisions run contrary to logic or common sense. Common sense implies coherence and rationality, and likeness has to be a solid enough entity for creating risk of confusion in consumers; this requires an assessment of all those circumstances which, in relation to the expressive sign of each brand, can contribute to potential

[46] This disposition was modified by Regulation (EC) nº 1653/2003 of the Council, 18 June 2003.

[47] The Supreme Court has repeatedly declared that in business traffic it is the verbal aspect that prevails over all other elements in the brand because it is by verbal communication, and with exclusive reference to the certification, that the consumer normally requests the product.

confusion which can occur in the market with product identification. There exists risk of confusion, in the strict sense, when there is a mistaken belief that goods and services are rendered by the same company, and broadly, if it is wrongly supposed that the product comes from companies that are different but which form part of the same structure or global organization[48].

There are very few judicial resolutions that analyse possible unfair actions by distributors – to commercialize the private label - that consist of imitating the packaging or containers designed for certain products produced by leading manufacturers. One of the few cases to reach court and be resolved was Nutrexpa, SA versus Chocolates Hosta Dulcinea, SA and Lidl Autoservicio Descuento, SA (2002): Provincial Court of Barcelona, 28 June 2002. The case related to the launch of a product by the defendant (Lidl) of powdered cocoa distinguished by, and packaged in, a cylindrical jar with a yellow background with the figures of African origin holding the product, which evoked the cocoa product commercialized by the plaintiff (Nutrexpa). This represented a presentation that potentially caused customers to confuse this product, due to its colour and other design elements, with the presentation of the product of the Cola Cao brand, thus giving rise to risk of confusion.

The presentation of the container commercialized by Lidl (circular jar of equal dimensions and format similar to that which distinguishes the product of the actor Nutrexpa- yellow with blue letters, with the presence of the classic African characters that popularized it) undoubtedly evokes the famous Cola Cao product. All indications point to an article that is close to the original (same colour jar, size, format in which figures appear that are very similar and in identical pose);and this appreciation is by no means undermined by the fact the circumstance that yellow is normally used to identify and recognize this type of powder product derived from cocoa; in fact, following the demand presented by the actor, the defendants were obliged to change the colour of the container lid from red, the colour used by Cola Cao, to blue. On the other hand, it cannot by adduced that the distribution channels of both products are in any way different, and that the product at the centre of the

[48] See Balpri, SL versus Chanel, SA (2005): Supreme Court, 7 October 2005.

controversy with the plaintiff – Nutrexpa- constitutes a typical private label commercialized by the defendant – Lidl- only for sale in its own establishments, for, as the resolution determines, "this would impede confusion if the product manufactured by the actor was not sold there, which was not found to be the case".

In any case, the Supreme Court overturned the sentence handed down by the court of the first instance –in which the demand presented by Nutrexpa against the distributor Lidl was rejected, in which the plaintiff sought a declaration of unfair behaviour that we have described- declaring that the activity of the defendant to commercialize a powdered cocoa product using certain presentation packaging meant that these characteristics made it confusable with the presentation of the product produced by the Cola Cao brand of the actor. Lidl was ordered to cease packaging and commercializing the product (known as Golden Sur) in a container that could confuse, owing to its colours and other elements similar to the original product, and was ordered to withdraw its product from the market at its own cost.

IV. Conclusion

Distributor brands (nowadays occupying more and more space in an increasing number of consumers' shopping baskets) can be defined as those products made by a particular industrial entity that are offered to the consumer under the name, or brand, of the distributor or retailer, which assumes the function of marketing these products. The big distributor, while still retaining that role, has ventured to introduce products in the market in two ways: producing a product and branding it in the distributor's name, or creating a private label that covers all its products. As an alternative to the leader brands, the consumer can now choose private labels or distributor labels, which are highly valued in times of economic crisis.

The diverse functions that a brand can perform –creating distinctiveness, advertising, identifying quality and the company that originates the good or service in question- are blurred in the case of private labels. The function that indicates the origin of the company that produces the product has partially disappeared[49].The

[49] Consumers, more and more demanding and better informed, insist on knowing who those responsible are for the commercialization of the food products they view before making decisions

function that identifies quality could be seriously undermined, since it is possible for the big distributor's manufacturer to produce a product that lacks the quality of that of the leading manufacturer. Finally, the goodwill function could also be affected. If all three functions are diminished then the identification and advertising function of the market will also be affected.

To avoid this situation from occurring, the leading manufacturers undertake advertising campaigns to highlight the fact that they do not manufacture products for others, emphasising that their products cannot be found under the name of a private label. Such campaigns aim to warn the consumer that certain products exist –private labels or otherwise- that are similar to their own but which do not come from their company. This aggressive advertising activity on the part of leading manufacturers to claim the manufacturer brand is a consequence of the fierce competition they are subjected to in the market by distributor brands.

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The Role of Intellectual Property Rights in High-Tech Mergers and Acquisitions

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ABSTRACT

A trend has emerged in recent decades in technology-driven industries; facing the rapid and diversified environment, a merger or an acquisition is a common use for those high-tech companies. More and more companies, under this circumstance, find that growth through acquisition is the most effective option. Issues pertaining to M&A activities in High-tech industry are not simply relegated to large, multi-national corporations. Understanding how intellectual property rights are involved with mergers and acquisitions, in addition to those anti-trust and unfair competition issues arose from technology monopoly are essential given how M&A activities in the legal field has come to dominate, both in volume and in value, merger transactions. In reviewing, analyzing and organizing the rule of laws, the law system and the numerous cases in the United States, this study intends to discuss issues in acquiring technology, especially focusing on the issues of valuation and due diligence of intellectual properties.

Keywords: intellectual property、merger and acquisition、 high-tech industry、 due diligence 、IP valuation

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I. Introduction

Technology driven industries have seen fast moving technology changes, higher complexity and reduce product life cycles. Like other industries, the high-technology (high-tech) industry operates within a large legal framework of which intellectual property laws are only a part, albeit a crucial one. Most legal debate in the high-tech industry is confined to copyright, patent and the trade secret laws, under the three major domains of intellectual property law.[1]Unlike acquiring a traditional industry company, the goal of a company purchasing a high-tech company is often the acquisition of coveted rights to intellectual property in the form of licenses that the target either holds or grants.[2]In the technology licenses, it usually grant no use for a third-party, and the provision in most license agreements prohibit an assignment as part of a reverse triangular or direct merger and stop transfers of control of a license.[3]As a consequence, stock acquisitions of high-tech companies with intellectual property became the preferred acquisition technique.[4]Between the years 2001 and 2017, Apple and Google, the world's most valuable and leading high-tech companies, had strikingly different appetites for Merger and Acquisition (M&A) transactions; the fact that these two superstar technology companies had vastly different patterns of acquisition activity is testimony to the reality that there's more than one corporate development road to value-building victory.[5]Mergers and acquisitions activity around the world saw $3.5 trillion in 2014, and $214 billion was accounted for technology M&As.[6]

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[1] William W. Fisher, *Theories of Intellectual Property,* NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY 182-3 (Cambridge University Press, 2001).

[2] *See* DALE A. OESTERLE, THE LAW OF MERGERS AND ACQUISITIONS 3D ED. 213 (Thomson/West 2005).

[3] *PPG Industries, Inc. v. Guardian Industries Corp*., 597 F.2d 1090 (6th Cir., 1979).

[4] Daniel F. Spulber & Christopher S. Yoo, *Rethinking Broadband Internet Access*, 22 HARV. J. LAW & TEC 1, 13-5 (2008).

[5] George T. Geis, *Google versus Apple: M&A Paths Diverge, then Converge*, SEMI-ORGANIC GROWTH: TACTICS AND STRATEGIES BEHIND GOOGLE'S SUCCESS 31, 31 (John Wiley & Sons Inc. 2015).

[6] Qatalyst, (available at http://www.qatalyst.com/index.php/q-news2, latest visited on 4/2/2019); Alex Konrad, *Salesforce.com Acquires RelatedIQ for $390 Million, Preempting a Future Rival,* FORBES (Jul. 2014 available at http://www.forbes.com/sites/alexkonrad/2014/07/11/salesforce-com-acquires-relateiq-for-390-million-preempting-a-future-rival/#37aa99cc7a5e, latest visited on

Facebook's $19.5 billion acquisition of WhatsApp, Microsoft's $8.5 billion purchase of Skype, and SAP's $9.1 billion takeover of Concur accounted for 40% of the volume.[7]In recent years there has been increasing focus on the relationship between mergers and technological innovation. The technological performance of M&A deals with not only short-term effects but also long-term effects. The acquiring company normally intends to obtain access to R&D and technological capabilities to simply produce an already existing, combined technological output shortly through M&A. However, long-term effects the expected synergetic characteristics of M&A can contribute to technological performance through the successful introduction of new technologies, new products and processes by the combined companies which could eventually lead to improve profitability of companies. Thus, motivation for high-tech M&As is widely discussed in researches.[8]

While there are a number of reasons why a company would choose to grow through M&A, there are a number of objectives that the company may wish to achieve through such transaction, especially for the high-tech companies, M&A is an efficient way to achieve technologies.[9]Instead of other means for high-tech companies, M&A is the fast way to have a presence in a particular technology. Considering Google's acquisition of YouTube, [10] Google had been trying unsuccessfully to enter the online video stream market since early 2005 through

4/2/2019).

7 *Id.* at qatalyst.com.

8 Pleatsikis & Teece, *The Analysis of Market Definition and Market Power in the Context of Rapid Innovation*, 19 INT'L J. INDUS. ORG. 665,667 (2001).

9 *See* Diane Meyers, *Growth through Acquisition or Merger*, INTELLECTUAL PROPERTY STRATEGIES FOR THE 21ST CENTURY CORPORATION, EDITED BY LANNING G. BRYER, SCOTT J. LEBSON AND MATTHEW D. ASBELL 47,47-53 (John Wiley & Sons, Inc. 2011).

10 Andrew Ross Sorkin and Jeremy W. Peters, *Google to Acquire YouTube for $1.65 Billion* (available at https://www.nytimes.com/2006/10/09/business/09cnd-deal.html, latest visited on 5/11/2018): On October 9, 2006, it was announced that the company would be purchased by Google for US$1.65 billion in stock, which was completed on November 13. At that time it was Google's second-largest acquisition. The agreement between Google and YouTube came after YouTube presented three agreements with media companies in an attempt to avoid copyright-infringement lawsuits. YouTube planned to continue operating independently, with its co-founders and 68 employees working within Google. Google's February 7, 2007 SEC filing revealed the breakdown of profits for YouTube's investors after the sale to Google. In 2010, Chad Hurley's profit was more than $395 million while Steve Chen's profit was more than $326 million.

its own service; although YouTube launched shortly after Google Video, YouTube had far greater success. Google opted against trying to organically grow Google Video and instead buying YouTube to increase advertising revenue and accumulate user data by virtue of the acquisition.[11]One other reason to choose M&A over other avenues is reduced R&D cost in developing new technologies, legal and administrative issues, R&D personnel with technical background and obtaining intellectual property protection.[12]It is undisputable that intellectual property as an object of target of business and legal status of a technology has gained significant importance,[13]M&A activities shall and have adapted to the specific intellectual property law requirements when dealing with IP assets.[14]Understanding how intellectual property rights are involved with mergers and acquisitions is essential given how merger and acquisition activities in the intellectual property field dominates both in value and volume.[15]Most of the transactions involving IP assets are acquirer's desire for the intangible assets ranging from patents, copyright and trademark. Thus, before an acquirer will definitely commit to an acquisition, it will typically do extensive due diligence on the selling company's patents, copyrights, license, trademarks, and other intellectual property.[16]The acquisition of a business, whether via the purchase of either its shares or its assets, often involves the transfer of intellectual property. Generally, in the former scenario, the transfer of IP is by operation of law, whereas in the latter case, the specific intellectual property rights subject to the transfer are specifically detailed, usually in a schedule to the purchase agreement governing the deal. In either case,

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[11] *See supra* note 9 at 53.

[12] Oliver Gupta, Göran Roos, *Mergers and Acquisitions Through an Intellectual Capital Perspective*, J. OF INTEL. CAP. Vol. 2 Issue: 3 297, 297 (2001).

[13] GORDON V. SMITH AND RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTAGIBLE ASSETS 3RD ED. 11 (John Wiley & Sons, New York 2001).

[14] *See* LANNING G. BRYER & SCOTT J. LEBSON, INTELLECTUAL PROPERTY ASSETS IN MERGERS & ACQUISITIONS 27 (John Wiley & Sons, Inc. 2002).

[15] *Id.*

[16] 2 Lanning G. Bryer & 2 Scott J. Lebson, *Intellectual Property Assets in Mergers & Acquisitions*, WIPO (WIPO available at http://www.wipo.int/export/sites/www/sme/en/documents/pdf/mergers.pdf, latest visited on 5/18/2018): This article has been redacted from the recent book Intellectual Property Assets in Mergers and Acquisitions, *see supra* note 14.

careful attention must be paid to the IP during the diligence phase in order to effectively capitalize on the full value of the IP's intangible rights.[17]

II. Intellectual Property in High Tech M&A

The pace of inventions is advancing at an ever-increasing rate, constantly challenging the legitimacy of legal frame works that govern how new technologies should be developed, controlled and used. The practice of law in the high-tech intellectual property law field often require the integrative thinking; as well, to understand the adequacy of existing laws to the challenges posed by M&A activities may encourage the development of technologies and achieve the best solution in helping the industry grow. After all, in this highly competitive industry, controlling a key intellectual property may eliminate competition and gain a temporary dominant position among competitors. The situation may only be relieved to a fair competition after other company develops a similar technology and gain a new set of intellectual properties. Nevertheless, research and development take time, as well as, are not guaranteed to a solid success. Hence, most companies use M&A to gain necessary technology. However, those assets are often referred to as the ultimate M&A deal-breaker, which is the result of possible information asymmetries that can arise in case the garget company's intellectual properties turned out to have been exaggerated, absent, worthless, incompatible with acquirer's IP portfolio or other internal resources, as well as having a liability or potential legal disputes.[18]

1. Purposes of Acquiring Intellectual Properties

The emergence of information technologies has immensely contributed to the increased need of IP protection. Intellectual property assets gained

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[17] *See* PATRICK A. GAUGHAN, MERGERS, ACQUISITIONS, AND CORPORATE RESTRUCTURINGS 26-9 (Wiley 2011).

[18] Martin B. Robins, *Intellectual Property and Information Technology Due Diligence in Mergers and Acquisitions: A More Substantive Approach Needed*, 321, 321 DEPAUL J. ART TECH. & INTELL. PROP. L. NO. 09-006 (2008).

recognition as the key tool for business expansion providing its owners with an invaluable commercial advantage. Products and services based on intellectual property are typically characterized by large initial investments (fixed cost) and relatively low costs associated with producing goods or providing services (variable costs), thereby encouraging sellers to reduce price to acquire additional sales. [19] This, in turn, requires potential competition to acquire intellectual property and increase sales beneficial to consumers. Mergers and acquisitions allow access to the targets' asset bases, and intangible assets are suggested as more likely to be sources of sustainable competitive advantage.[20]M&A activities have already adapted to the specific requirements that have to be taken into consideration when dealing with IP assets. In most cases, the acquirer's desire for the target's intellectual properties is incentivized for M&A activities. However, the valuation of intangible assets remains the greatest challenge and pitfall of due diligence procedure. IP-driven M&A became obsolete and had to be modified in accordance with the IP trend, due to the unavailability of sufficient data for valuation and the technological race intensifies.[21]In addition, many practitioners and IP lawyers still perceive IP issues in M&A activity predominantly as risk factors, for an actual or prospective infringement litigation that presents the imminent threat of monetary damages with possibly fatal financial impact on acquirer's operation and occasionally result in company's bankruptcy.[22]Moreover, intellectual property laws are now globalized in nature, due to current economy and border-crossing distribution of products and services. Although in this study, the perspective of the M&A activities is limited to domestic events within the territory of United States, the intellectual property

[19] Thomas G. Jackson, *U.S. Antitrust and Intellectual Property in Mergers and Acquisitions*, INTELLECTUAL PROPERTY ASSETS IN MERGERS AND ACQUISITIONS 7.1 (John Wiley & Sons, Inc. 2002).

[20] Asli Musaoglu Arikan, *Does It Pay to Capture Intangible Assets Through Mergers and* ACQUISITIONS*?* MERGERS AND ACQUISITIONS: CREATING INTEGRATIVE KNOWLEDGE 156, 156-9 (Blackwell Pub. 2004).

[21] *See supra* note 28 at 27.

[22] BRUCE BERMAN, FROM ASSETS TO PROFITS: COMPETING FOR IP VALUE & RETURN 217 (John Wiley & Sons, Inc. 2009).

assets incorporated in products and services are regularly subject to several regimes.[23]

[23] Marci A. Hamilton, *The Top Ten Intellectual Property Law Questions That Should Be Asked* ABOUT *Any Merger Or Acquisition*, 66 U. CIN. L. REV. 1315 (1998).

2. Issues of Acquiring Intellectual Properties

The high-tech industry often cannot predict how intellectual property law applies to specific types of behavior shown by companies in the marketplace, to concerns about specific elements, or industry-wide issues for many questions are unresolved,[24]such as, is a particular element "prior art"[25]and thus freely available, or is it wending its way through the patent process, emerging months from now as exclusive owned intellectual property? In a private company acquisition, the seller has not been subject to the scrutiny of the public markets, and the acquirer has little ability to obtain all of the IP-related information it requires from public sources.[26]

III. Intellectual Property Valuation and Due Diligence

Mergers and acquisitions play a critical role to enable strong companies to grow faster than competition and provide entrepreneurs rewards for their efforts, as well as, are a vital part of any healthy economy and importantly the primary way that companies are able to provide returns to owners and investors. The word

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24 *See* NATIONAL RESEARCH COUNCIL, INTELLECTUAL PROPERTY ISSUES IN SOFTWARE 21 (the National Academic Press 1991).

25 *See* 35 U.S. Code § 102 - Conditions for patentability; novelty (d) Patents and Published Applications Effective as Prior Art.—For purposes of determining whether a patent or application for patent is prior art to a claimed invention under subsection (a)(2), such patent or application shall be considered to have been effectively filed, with respect to any subject matter described in the patent or application— (1) if paragraph (2) does not apply, as of the actual filing date of the patent or the application for patent; or (2) if the patent or application for patent is entitled to claim a right of priority under section 119, 365(a), 365(b), 386(a), or 386(b), or to claim the benefit of an earlier filing date under section 120, 121, 365(c), or 386(c), based upon 1 or more prior filed applications for patent, as of the filing date of the earliest such application that describes the subject matter. Intellectual property laws provide incentives for innovation by establishing enforceable property rights for the creators of new and useful products, efficient processes, and original works of expression. Prior art (state of the art or background art), in most systems of patent law, is constituted by all information that has been made available to the public in any form before a given date that might be relevant to a patent's claims of originality. If an invention has been described in the prior art or would have been obvious over what has been described in the prior art, a patent on that invention is not valid.

26 George Chondrakis and Tomas Farchi, *Technological Similarity in Acquisitions and Innovative Performance Revisited: Does the Nature of Technology Matter?* ADVANCED IN MERGERS AND ACQUISITIONS VOL. 13 43,48-51 (Emerald Group Publishing 2014).

'merger' has a strictly legal meaning;[27] it occurs when one corporation is combined with and disappears into another corporation. Mergers usually have substantial effects on the rights of shareholders of all of the combining corporations. Thus, in the default "direct merger", the corporation statutes generally require approval of mergers by the boards and shareholders of both the surviving and disappearing corporations.[28]In a triangular merger, the acquirer creates a wholly-owned subsidiary, which in turn merges with the selling entity. The selling entity then liquidates. The triangular merger retains the main benefit of ordinary mergers – the acquisition of control over the target's assets and liabilities by operation of law but generally avoids some of the burdensome corporate law formalities.[29] A forward triangular merger is an acquisition structure where one company acquires another company using a subsidiary of the acquiring company. The only difference between a forward triangular merger and a direct merger is that a subsidiary of the purchasing company, not the purchasing company itself, is the entity that acquires the target.[30]A reverse triangular merger (also called a reverse subsidiary merger) is an acquisition structure where one company acquires another company using a subsidiary of the acquiring company. In a reverse triangular merger, a merger subsidiary of the acquiring company merges with and into the target company, with the target company surviving the merger. A compulsory share exchange accomplishes the same result as a reverse triangular merger.[31] While mergers are probably the most popular form of corporate combination, another way for corporations to combines is to have one corporation purchase all, or substantially all, the assets of the other.[32]

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[27] STANLEY FOSTER REED, ALEXANDRA LAJOUX, AND H. PETER NESVOLD, THE ART OF M&A, 4TH ED.: A MERGER ACQUISITION BUYOUT GUIDE 3 (McGraw-Hill Education 2007).

[28] DGCL §251; MBCA §§ 11.02, 11.04: the shareholders of all of the combining corporations are generally entitled to appraisal rights (i.e., the right of those who vote against the transaction or who abstain from voting "dissenters" to opt out of the merger and elect to have the corporation purchase their shares for "fair value".) *See also* DGCL §262; MBCA §13.02.

[29] *See* STEPHEN KENYON-SLADE, MERGERS AND TAKEOVERS IN THE US AND UK : LAW AND PRACTICE 87-8 (Oxford University Press 2004).

[30] *Id.* at 10-9.

[31] *Id.*

[32] ANGELA SCHNEEMAN, THE LAW OF CORPORATIONS AND OTHER BUSINESS ORGANIZATIONS, 4TH ED., at 462-496, 2007.

Part of the fuel for the fifth merger wave was provided by the technology sector, where the attraction of merger targets was often their valuable intellectual property.[33] The rapidly evolving high-tech sector caused industry participants to rapidly seek out assets, often in the form of intellectual property, so as to keep up with the rapid pace of technological development in their industry.[34]Assessing intrinsic value of IP assets appears to be one of the most peculiar issues related to the due diligence.[35]Specific nature of IP assets and currently inefficient IP market lead to considerable information asymmetries concerning the value of IP assets.[36]When valuing abstract objects such as intellectual property or other intangible assets the true dilemma arises.[37]As the ratio of intangible assets to tangible capital in the companies has shifted immensely in favor of intangibles, the question of valuation has gained strategic importance. The percentage of the value created by intangible assets in several renown companies such as Johnson & Johnson (87,9%), Procter & Gamble (88,5%), Merck (93,5%), Microsoft (98,7%) and Yahoo! (98,9%)[38]proves that the prevalence of intangible assets is imminent across the industries, not being limited to pharmaceutical, software or internet companies. Moreover, the same result of IP dominance could be expected in case of innovative start-ups, whose core value often reaches out to 100% in intangibles.[39]

1. Structural Factors of IP Valuation

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33 *See supra* note 14 at 1.1.

34 *See supra* note 14 at 2.28-31.

35 Sheldon Burshtein, *Intellectual Property and Technology Due Diligence in Business Transactions*, INTELLECTUAL PROPERTY ASSETS IN MERGERS AND ACQUISITIONS *supra* note 4 at 8.1, 8.2.

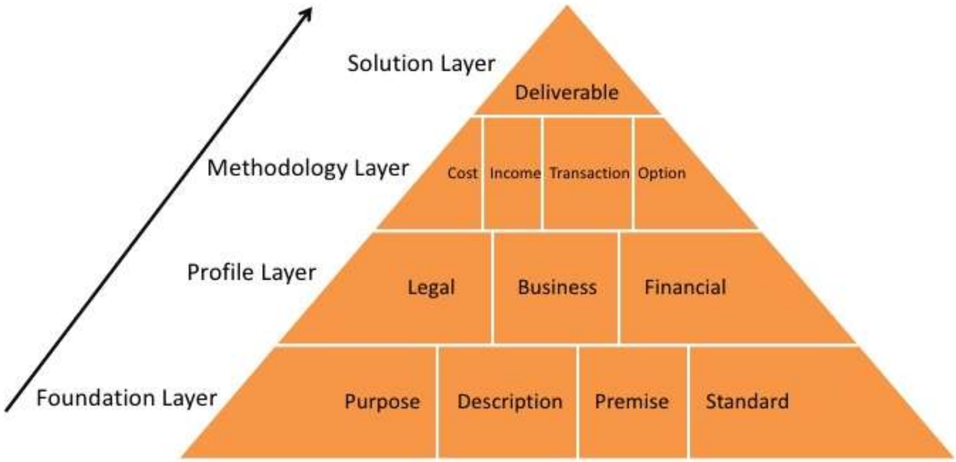
36 *See* Ninon Kohers and Theodor Kohers, *the Value Creation Potential of High-Tech Mergers*, FINANCIAL ANALYSTS JOURNAL BY ASSOCIATION FOR INVESTMENT MANAGEMENT AND RESEARCH (2000).

37 *See* Sheldon Burshtein, *Intellectual Property and Technology Due Diligence in Business Transactions*, INTELLECTUAL PROPERTY ASSETS IN MERGERS AND ACQUISITIONS *supra* note 14 at 320.

38 *See* GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS 3RD ED. 366 (Wiley 2000).

39 *See* Paul Flignor and David Orozco, *Intangible Assets & Intellectual Property Valuation: a Multidisciplinary Perspective*, WIPO (available at http://www.wipo.int/sme/en/documents/ip_valuation_fulltext.html, latest visited on 5/18/2018).

Any valuation exercise can be viewed as a 'pyramid,' where each level supports the analysis generated on the level above (see Pic. 2).[40]



(Pic. 2 The IP Valuation Pyramid)

The first level of the pyramid is the 'Foundation' level – the underlying rationale for and key assumptions of the IP valuation. The second level is the 'IP profile' level, where the business, legal and economic attributes of the IP asset are defined. The third level is the 'Methodology' level, where the specific quantification and financial analysis is performed to generate a financial result.[41]The top level is the 'Solution' level. IP is never valued for curiosity, it is always valued to resolve a specific business issue. This highest level of the pyramid addresses the important issue of how the valuation analysis solves a business problem or generates a recommendation to a specific business question.[42]

Intangible assets embrace not only traditional IP assets such as patents, copyrights and trademarks, but also other capital embodied in distribution networks, customers' lists, trained workforce and many more.[43]Therefore intangible assets shall be differentiated and divided into intellectual property assets and additional

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[40] *Id.*
[41] *Id.*
[42] Ted Hagelin, *A New Method to Value Intellectual Property*, 30 AIPLA Q. J 353,354 (2002).
[43] *See* Rick Nathan, *Valuation of Software Inventions: What Are They Worth In Economic Terms?*, SD35 ALI-ABA 145,159 (1998): the diference between value and price has long been recognized by economists. Adam Smith noted that the value in use of a good is not the same as the value in exchange of a good. *See also* PAUL A. SAMUELSON, ECONOMICS 10TH ED. 437-8 (1976).

intangible capital. Choice of adequate method, application of several methods for the comparison of results and evaluation of different valuation outcomes using different methods pose numerous questions that are not even close to be answered.[44]Volatility of the intellectual property assets value is eminent due to count of factors directly influencing the result. If the valuation is displayed as an equation, the number of variables involved complicates the quest for the ultimate result.[45]The aforementioned factors prove that intellectual property assets must be valued with regard to broader circumstances in the respective industry and respective market. Without such factors, the valuation would be deprived of contact with reality. [46] Any information asymmetries between target company and market regarding these factors could result in misleading outcome of the valuation.[47]The cost of valuation such as required time and financial resources should be also taken into consideration. [48] Contrary to financial and physical assets, public markets for intellectual property assets are just emerging.[49]Moreover information regarding the details of comparable transaction is very rarely available for public186 and is subsumed under confidentiality policy of parties to the transaction.

2. Valuation Approaches and Their Applications

The ultimate result of valuation process is frequently not assumed as definite price of the asset, and final sum to be paid is subject to further negotiations. Therefore,

[44] *See* 2 RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW 9th ed. 14-15 (Wolters Kluwer Law & Business 2014): in economic theory, value maximizing exchanges result in economic efficiency by channeling resources to their highest and best uses.

[45] *Id.* at 17: the distinction between value and price is the basis for asset exchanges. If the price of an asset is greater than the value of the asset to the seller and less than the value of the asset to the buyer, the asset will be exchanged and both the buyer and seller will be better off.

[46] Ted Hagelin, *A New Method to Value Intellectual Property*, 30 AIPLA Q. J 353,356 (2002).

[47] Richard Razgaitis, *Early-Stage Technologies: Valuation and Pricing*, IPHANDBOOK OF BEST PRACTICE 813,819 (University of New Hampshire School of Law 2007)(available at http://www.iphandbook.org/handbook/chPDFs/ch09/ipHandbook-Ch%2009%2003%20Razgaitis%20Pricing%20IP%20of%20Eary-Stage%20Technologies.pdf, latest visited on 5/18/2018).

[48] *Id.*

[49] *See* GORDON V. SMITH AND RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTAGIBLE ASSETS 3RD ED. 209 (John Wiley & Sons, New York 2001).

value of the IP assets calculated by one of the methods serves as the benchmark for the price negotiations.[50]Further analysis will embrace three basic valuations methods, originally developed for valuation of tangible assets and their relevance for valuation if intangible assets will be assessed.[51](1) The income-based method values the asset based on present value of future net income stream that the assets in question are expected to generate. The income method values an asset based upon the present value of the net economic benefit expected to be received over the life of the asset.[52](2) The cost-based method is designed to measure the future benefits of ownership by quantifying the financial amount required to obtain or develop identical or similar IP asset in question.[53]The rationale of the cost-based method is that the expenses to acquire or develop identical or equivalent asset (equivalent according to utility) corresponds with the economic value that will be retrieved from the asset in the future.[54]The cost method is no more helpful in valuing intellectual property assets. The value of an intellectual property asset is a function of the demand for the tangible products or processes which incorporate the intellectual property assets.[55]The cost of developing an intellectual property asset has no relationship to the market economics which determine the demand for the products or processes which embody the intellectual property asset.[56](3) The market-based method is widely accepted and used in case of valuation of tangibles.[57]The actual value of an asset is calculated by comparison to equivalent or similar transaction of unrelated

[50] *See supra* note 42 at 322.

[51] JOHN W. SCHILICHER, LICENSING INTELLECTUAL PROPERTY: LEGAL, BUSINESS, AND MARKET DYNAMICS 20 (Wiley 1996).

[52] *See supra* note 45 at 164: the income method is best suited for the valuation of contracts, licenses and royalty agreements, patents, trademarks and copyrights, franchises, securities and business enterprises.

[53] *See supra* note 45 at 184.

[54] *Id.*

[55] *See* JOHN W. SCHILICHER, LICENSING INTELLECTUAL PROPERTY: LEGAL, BUSINESS, AND MARKET DYNAMICS 19 (Wiley 1996).

[56] Lauren Johnston Stiroh & Richard Rapp, *Modern Methods for the Valuation of Intellectual Property*, 532 PLI/PAT 817,821 (1998).

[57] See Andrei Hagiu, *Intellectual Property Intermediaries*, HARVARD BUSINESS SCHOOL STRATEGY UNIT CASE NO. 711-486 (January 25, 2012 available at https://www.hbs.edu/faculty/Publication%20Files/12-023_0e95cdce-abbf-46ea-b8cb-15a3ebb054ed.pdf, latest visited on 5/18/2018).

parties on the market. Although the market for IP is definitely existent, it lacks the liquidity and transparency. Despite the lack of closely comparable transactions, the market method can still serve as a useful benchmark of intellectual property value.[58]

3. Intellectual Property and Technology Due Diligence in Mergers and Acquisitions

There are an increasing number of corporate divestitures, acquisitions, and reorganizations. Divestitures are now an accepted way to reduce overhead, remove stagnant business lines, restructure a company to avoid hostile takeovers, and increase the value of a company. Business transactions often involve the transfer of intellectual property rights. Although proper due diligence is always important in business transactions, the need for proper due diligence when dealing with a technology-oriented business cannot be overstated. Due diligence may be defined as the "measure of prudence, activity, or assiduity, as is properly to be expected from, and ordinarily exercised by a reasonable and prudent person under the particular circumstances; due diligence is not measured by any absolute standard but depending on the relative facts of this special case.[59]

A. Overview of IP Due Diligence

Named as one of the crucial factors of successful M&A transactions, due diligence ("DD") tends to have a reputation of a "what can go wrong" procedure. Even more wrinkles appear on the faces of DD conductors, when it comes to due diligence of IP assets.[60]Like all acquisitions, conducting IP due diligence is essential.

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[58] *See supra* note 42.

[59] Merriam-Webster's, Inc., *Merriam-Webster's Dictionary of Law* (available at https://www.merriam-webster.com/dictionary/due%20diligence, latest visited on 5/18/2018): the process of investigation carried on, usually by a disinterested third-party (such as an accounting or law firm) on behalf of a party contemplating a business transaction (as a corporate acquisition or merger, loan or finances, or especially the purchase of securities) to provide information with which to evaluate the advantages and risks involved.

[60] Michele C. Bosch & Adriana L. Burgy, *Demystifying IP Due Diligence*, FINNEGAN, MANAGING INTELLECTUAL PROPERTY (June 2006 available at https://www.finnegan.com/en/insights/demystifying-ip-due-diligence.html, latest visited on

Intellectual property and information technologies have become the key determinants of company's value but so far it seems the modified methods of due diligence have not been reduced to practice. With very few exceptions, entrepreneurs and their M&A team emphasize traditional matters such as minute books, suit papers, credit agreements and accounting work papers.[61] Before commencing the IP due diligence process, the acquirer's lawyers and other advisors need to understand and think through the goal of the acquirer for the acquisition and the role IP plays in realizing those goals and then develop a suitable IP DD plan. The actual process by which the DD investigation is conducted is as important as the specifics of the investigation. Placing insufficient attention on the process can result in both excessive costs and a flawed investigation. In addition to understanding the acquirer's goas certain other general steps should be taken before the details of the IP DD review are determined or begun.[62]

B. Key Issues of an Intellectual Property Due Diligence

IP due diligence is a legal exercise wherein skilled IP counsel defines, examines and analyzes an IP portfolio of a target company, either offensively (to purchase or in-license) or defensively (to sell or out license).[63]Regardless of whether you are the

5/18/2018): IP due diligence is a legal exercise wherein skilled IP counsel defines, examines and analyzes an IP portfolio of a target company, either offensively (to purchase or in-license) or defensively (to sell or outlicense). Regardless of whether you are the target company or the buyer in a business transaction involving IP, the due diligence should be designed to reveal the value of the involved intangible assets—patents, trade marks, copyrights and trade secrets—by examining the strength, scope and enforceability of the IP, the ownership rights surrounding the IP, and the future potential to be derived from the IP. The breadth and depth of these inquires should be directly proportional to the importance of the IP and its corresponding impact on the value of the transaction.

[61] Martin B. Robins, *Intellectual Property and Information Technology Due Diligence in Mergers and Acquisitions: A More Substantive Approach Needed*, 321, 321 DEPAUL J. ART TECH. & INTELL. PROP. L. NO. 09-006 (2008).

[62] Michael J. Dunne, *Intellectual Property Due Diligence*, INTELLECTUAL PROPERTY DESKBOOK FOR THE BUSINESS LAWYERS – A TRANSACTIONS BASED GUIDE TO INTELLECTUAL PROPERTY LAW 3D ED. BY SHARON K. SANDEEN 131,134 (ABA Business Law Section Intellectual Property Committee 2013).

[63] Philip Mendes, *IP Due Diligence Readiness*, WIPO (available at http://www.wipo.int/sme/en/documents/due_diligence_readiness_fulltext.html, latest visited on 5/19/2018).

target company or the buyer in a business transaction involving IP, the due diligence should be designed to reveal the value of the involved intangible assets—patents, trademarks, copyrights and trade secrets—by examining the strength, scope and enforceability of the IP, the ownership rights surrounding the IP, and the future potential to be derived from the IP.[64]Comprehensive due diligence is essential to any successful M&A deal. But getting a complete and transparent view of the financial, operational and cultural characteristics of an acquisition target isn't always easy especially when it involves intellectual properties. Some of the biggest brands[65]in the world even make mistakes. Those critical undiscovered issues resulted in blown deals, law suits, claw back, increased liability and unrealized payouts; as a matter of facts that poor DD is one of the most crucial factor why an M&A fails from those unsuccessful cases.[66]The breadth and depth of these inquiries should be directly

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[64] *See supra* note 57 at 329: The results of the license compliance and patent strength assessments need to be properly used and managed.

[65] Poornima Gupta & Nicola Leske, *HP accuses Autonomy of wrongdoing, takes $8.8 billion charge,* REUTERS, (Novermber 21, 2012 available at https://www.reuters.com/article/us-hp-results/hp-accuses-autonomy-of-wrongdoing-takes-8-8-billion-charge-idUSBRE8AJ0OB20121121, latest visited on 5/19/2018): Hewlett-Packard Co (HPQ.N) stunned Wall Street by alleging a massive accounting scandal at its British software unit Autonomy and taking an $8.8 billion writedown, the latest in a string of reversals that renewed questions about the competence of the storied company's board and senior managers. HP has for years relied on deal-making, acquiring businesses ranging from EDS to Compaq to Palm, but has largely failed to articulate a clear strategy or establish a strong position in growth businesses like computer services or mobile computing. The news sent the company's shares plunging 12 percent to a 10-year low of $11.71. HP, which for decades was synonymous with technical excellence and innovation as one of the bedrock companies of Silicon Valley, now has a market value of roughly $20 billion, down from $155 billion in April of 2000. Robert Enderle, a tech analyst at the Enderle Group, said he has never seen such a potential misrepresentation of financials, "You have to rely on what the firm gives you during due diligence and I've never seen a misstatement at this level."

[66] Marcus Alexander & Harry Korine, *When You Shouldn't Go Global*, HARVARD BUSINESS REVIEW (December 2008 available at https://hbr.org/2008/12/when-you-shouldnt-go-global, latest visited on 5/19/2018): Taiwanese consumer electronics company BenQ's acquisition of Siemens's mobile-device business followed a similar story line, including incompatibility of cultures and processes, as well as difficulties in integrating R&D activities. In a haunting echo of the scramble by Daimler-Benz and Chrysler to merge, BenQ didn't visit Siemens workshops and production lines before inking the deal, relying only on due diligence documents. Although BenQ continues to be active in mobile equipment, its German unit was declared bankrupt in 2007. BenQ had no experience in the field of mobile business and simply not competent enough to handle business internationally. Handing over Siemans to such an enterprise made the employees of both companies disappointed. The merger was deemed an economic disaster. Had employees

proportional to the importance of the IP and its corresponding impact on the value of the transaction.[67] Ideally, IP DD should be conducted at the onset of the negotiations surrounding the transaction. With the performance of strategically timed due diligence, not only can a more reasoned value of the IP be determined, but corrective action can proactively be taken, if and when any legal concerns are identified that may affect the value of the IP. In most instances, however, when IP counsel is initially engaged for DD purposes, the terms of the transaction have already been set to account for the perceived value of the involved IP.[68]Then, just before the deal is finalized, the IP attorneys are sent in to conduct a reconnaissance mission to confirm the pre-determined value, typically under severe time constraints, and to discover whether any deal breakers are rooted in the IP.[69]Determining the scope of due diligence is often one of the most difficult decisions but it may be appropriate to a specific transaction. The quantity and quality of review of the intellectual property, technology assets, and liabilities depend on the length of the DD period, the financial resources of the client, the importance of intellectual

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known about such a decision well in advance, they would have been able to mentally prepare for such a situation. BenQ should have established an effective communication plan before the deal had been concluded, keeping in mind the differences between the two corporate cultures. From the beginning, there were reportedly conflicts between German management and the Taipei Headquarters on the process of development of a new products. This BenQ study, shows that if an effective communication plan had been implemented well in advance, keeping in mind the difference in the corporate cultures, the acquisition would have probably gone a lot smoother, and resulted as a fail merger due to a poor DD in all aspects; especially the lacking of including the critical patent rights.

[67] *See* Jackie Hutter, *The Problem with Patent Due Diligence in Mergers & Acquisitions (M& A) and How to Fix It*, JDSUPRA LEGAL NEWS (November 26, 2008 available at https://www.jdsupra.com/legalnews/the-problem-with-patent-due-diligence-in-09972/, latest visited on 5/19/2018); *see also* Elaine D. Ziff and Grace Del Val, *IP Due Diligence Issues in M&A Transactions Checklist*, THOMSON REUTERS, PRACTICAL LAW INTELLECTUAL PROPERTY & TECHNOLOGY (2014 available at http://us.practicallaw.com/3-501-1681, latest visited on 5/19/2018).

[68] *See* Molly McDonough, *Flying Under the Radar: After Percolating Quietly, These Legal Issues May Grab Headlines in 2005*, 91 A.B.A. J. 35, 36 (2005): noting many instances of "inadvertent waiver" have been caused by distribution of information to "unintended recipients," which has contributed to an erosion of the attorney-client privilege; *see also Zubulake v. UBS Warburg LLC.*, 217 F.R.D. 309, 324 (S.D.N.Y. 2003): any efforts to safeguard such materials must comply with obligations under the Federal Rules of Civil Procedure and comparable state law to avoid spoliation of evidence that appears to be germane to pending or anticipated litigation.

[69] *Id.*

property and technology assets to the business and other issues.[70] The risks and benefits uncovered during the investigation need to be balanced in view of the objectives of the due diligence to the transaction. The boundaries of the investigation should be revisited to confirm that they continue to reflect the priorities initially identified. In addition, there may be limitations on what information was disclosed by the target company and what information the buyer could review given time constraints that need to be integrated into the overall evaluation. DD work must always address not only prevailing legal doctrines in the respective areas—such as patent, copyright, trademark and trade secret—but also obligations contained in the applicable license documents. In many cases, behavior that is clearly permissible or, at worst, arguable under common and statutory law, is the subject of an express contractual provision that either permits or prohibits it.[71]

III. Conclusion

Famous of its patent wall, Qualcomm owns a variety pack of patents in wireless technology including chips and software.[72] Qualcomm is a sweet target for aggressive market player in the communication business including chips and software, such as Broadcom. In late 2017 and earlier 2018, Broadcom launched a series of action in attempting acquiring Qualcomm.[73] This takeover attempt was sensational. Though it finally has been blocked by the president of United States

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[70] *See* Adam Jaffe & Josh Lerner, *Innovation and Its Discontents*, WALL ST. J., A14 (2006): injunctions or large settlements/damage awards often result from infringement claims and attorney's fee awards are also fairly commonplace. Large legal fees are certain. The well-known lawsuit involving the patents associated with the Blackberry device—which nearly caused the shutdown of Blackberry service and was settled for over $600 million, despite serious questions about the validity of the patents—is an example of the impact of such claims…noting that a business was forced to pay a settlement of over $600 million to prevent Blackberry handhelds from going dark, due to a potential injunction resulting from patent infringement litigation).

[71] *See* Donald M. Cameron & Rowena Borenstein, *Key Aspects of IP License Agreements* 13–15 (2003 available at http://www.jurisdiction.com/lic101.pdf, latest visited on 5/19/2018.)

[72] [https://www.qualcomm.com/invention/qroniclesofinvention/index.html] and [http://pwe.qualcomm.com/], latest visited on 8/29/2018.

[73] *See* Greg Roumeliotis & Liana B. Baker, *Broadcom to End Bid for Qualcomm, Keeps Plan to Move to U.S.* (March 13, 2018 available at https://www.reuters.com/article/us-qualcomm-m-a-broadcom/broadcom-to-end-bid-for-qualcomm-keeps-plan-to-move-to-u-s-sources-idUSKCN1GP1ND, latest visited on 8/29/2018).

citing national security,[74] Qualcomm raised concerns about potential antitrust issues and said Broadcom would damage, if not destroy, its intellectual property licensing business that is valued at over $4 billion. Intellectual properties always play a crucial role in nowadays M&A activities.

There are two fundamentally different approaches to a sale and purchase: by acquiring or selling company shares; or, by acquiring or selling the assets of a company. In a share purchase, the target company is purchased as a whole, including all its assets, such as patents and other intellectual property owned by it, as well as all the company's liabilities. All licenses in and out of the company being purchased will remain with it, although these must be checked during the due diligence process for provisions barring change of control. The ownership of the intellectual property and parties are carried across automatically with the shares in the target company and therefore separate assignment is not required. In an asset sale, the purchasing company buys those assets that it would like from the target company, but it does not purchase the company itself. In this way many assets (and liabilities) remain with the target company. The consequence of this is greater complexity, because all the intellectual property assets being transferred must be assigned separately from the other assets of the company. It happens often to M&A transaction of high-tech industry especially when the activity is tended to acquiring specific technology. Even a thorough due diligence has been performed, a potential risk of infringing intellectual property rights remains. Through the following cases, we can clearly find that, one may acquire a specific technology for commercial purpose, but have to spend a lot more for IP infringement litigation, including millions attorney fees and billions penalties and punitive damages. Intellectual Property Law provides an exclusive right in some point of technology; filling the gap of technology, acquiring intellectual property rights through M&A sometimes create monopoly and at the same time create its own issues with regards of IP laws. Investigations into companies with strong

[74] Marthe Fourcade, Broadcom Will Abandon Attempt to Acquire Qualcomm, Bloomberg Technology (March 14, 2018 available at https://www.bloomberg.com/news/articles/2018-03-14/broadcom-said-to-abandon-qualcomm-bid-on-government-opposition-jeqd4ss6, latest visited on 8/29/2018).

market positions are increasingly focused on the possible anticompetitive use of IP rights. Companies need to be able to navigate their way through, as abusive conduct can carry severe penalties which may reach hundreds of millions dollars. Parties also need to carefully consider the appropriate contractual allocation of risk in light of the competition and other regulatory issues presented. The key is a thorough analysis of the substantive issues, and the potential objections and theories that may be advanced by regulators.

This study provides an additional issue of acquiring technology and/or intellectual property that simultaneously creates risks of IP infringement litigation.[75] Furthermore, more IP issues such as poor diligence or a risk of potential IP infringement litigation have been brought out in this study. IP due diligence involves gathering information on the target party's assets/liabilities to assess the merits and risks of the transaction. With respect to mergers and acquisitions, target parties sometimes conduct intellectual property due diligence investigations, for place itself in a better negotiating position. However, the acquirer typically conducts the diligence investigations and started from reviewing all available public information, as well as, identifying proper ownership in the assets, and any liabilities associated with those assets related to intellectual property assets include infringement claims, also rights granted to third-parties under any licensing agreements. Even though a thorough solid due diligence has been performed, the circumstance may still be changed for a further M&A activity.

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[75] *Oracle v. Google* took 8 years so far and the attorney fees for both side have come to 16 million US dollars, *see* Swapna Krishna, *Oracle vs. Google Is Still a Thing, Thanks to US Federal Court*, Engadget (March 27, 2018 available at https://www.engadget.com/2018/03/27/oracle-google-lawsuit-appeal-ruling/?guccounter=1, latest visited on 5/19/2018).

In addition, most of the acquirers assume that the target's IP licenses automatically go with the deal.[76]Legal conflicts and deal formats can get in the way.[77]

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[76] *See* Saji Sam George; Namratha V Prasad; Sachin Govind, *Benq Corp's Failed Acquisition Of Siemens' Mobile Devices Division*, IBS CENTER FOR MANAGEMENT RESEARCH (2007 available at https://www.thecasecentre.org/educators/products/view?id=73451, latest visited on 5/23/2018): In 2005, Taiwanese BenQ Corp. announced to acquire Siemens Mobile division. The stated goal of the company was to pull together BenQ's lifestyle experience, their design team and Siemens' engineering capabilities to create a new leader in the mobile communications arena. BenQ originally intend to acquired the Siemens mobile division for all its patents and intellectual property, and that it did not intend to continue manufacturing mobile phones in Germany. However, it turned out of failing in acquiring those patents and other intellectual property including trade secrets. On 30 January 2007 the BenQ Mobile factory in Kamp-Lintfort closed, after no suitable investors for the German division had been found. Representatives of the labour union IG Metall bid farewell to the last 165 workers with flowers.

[77] *See* Stephen E. Gillette, Daniel R. Mitz, Nancy Yamaguchi, *How to Secure Licenses You Pay for Mergers & Acquisitions: a Deal Maker Journal*, JONESDAY EXTERNAL PUBLICATIONS (2005 available at https://www.jonesday.com/How-to-Secure-Licenses-You-Pay-For-iMergers--Acquisitions-The-Dealmakers-Journali-06-02-2005/#, latest visited on 4/2/2019): A particularly surprising example of the problems that can arise in technology deals emerged from a 1991 decision in *SQL Solutions Inc. v. Oracle Corporation* ((No. C-91-1079 MHP, (N.D. Cal. Dec. 18, 1991)), which is precedent in the states of California and Washington, California found that an assignment occurred under California law when a licensee went through a "fundamental change in its form of ownership" as a result of a reverse triangular merger. The court then applied federal copyright law to find that a reverse triangular merger in which the licensee became a wholly owned subsidiary of a competitor of the licensor violated an anti-assignment clause in a non-exclusive copyright license. However, *see* Practical Law Intellectual Property & Technology, *Assignability of IP Licenses in Reverse Mergers: Will SQL Survive?* THOMAS REUTERS, PRACTICAL LAW (Feb. 17, 2015 available at https://content.next.westlaw.com/Document/I69852132b6dc11e498db8b09b4f043e0/View/FullText.html?contextData=(sc.Default)&transitionType=Default&firstPage=true&bhcp=1, latest visited on 5/23/2018): the same court that decided SQL, found that a reverse triangular merger was not an impermissible assignment of an IP and know-how license under California law (*Florey Inst. of Neuroscience & Mental Health v. Kleiner Perkins Caufield & Byers*, No. CV 12-6504 SC, (N.D. Cal. Sept. 26, 2013)). Thus, recent findings considers that to decide whether SQL solution case applies depending on the type of IP and applicable law, IP specialists finally have cases in their arsenal to argue that, consistent with their clients' and corporate transaction teams' expectations, reverse merger transactions do not trigger anti-assignment provisions in IP licenses, where many tech firms are located. Briefly, a federal district court ruled that a transfer of a license to a buyer breached its anti-assignment clause, which generally prevents a change in who holds the license unless the licensor consents.

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Similarity In Indonesia Trademark Law

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ABSTRACT

Consumer confusion is something that Trademark Law wants to prevent. This is so that consumers who initially intend to buy goods with a particular trademark are not deceived to buy other items similar to that trademark. To prevent this, the trademark law prohibits the use of trademarks that have similarities to cause consumers to be confused, deceived. Consumers must get protection that when he buys an item with brand A, it is certain that he buys the item with the quality and source produced by brand A.This principle in Indonesia is termed similarity principle. Problems regarding similarity basically arise when a trademark with one another has similarities in principle but in different classes of goods and or services. Before the existence of the Trademark Law , there was a legal vacuum regarding equality in principle for goods and or services that were not of the same type.This causes Well Known Mark owners to suffer because there are brands that have similarities in principle with the famous brand. The case example is BMW v BMW BODY MEN WEAR , IKEA v IKEMA. Several questions emerge from the above discussion. First,

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how Indonesian trademark law regulates similarity? Second, how is the implementation of trademark similarity in Indonesia? The regulation of Trademark similarity in Indonesian Trademark Law has not provided clear guidance in determining similarity in principle. The absence of clear guidelines can lead to uncertainty and injustice for the parties because it is very dependent on the subjectivity of the judge who decides on a case. The implementation of trademark similarity in Indonesia is still inferior because the Judge only focuses on finding similarities and differences between the trademarks in dispute without focusing and considering on Trademarks goodwill and reputation.

Keywords : Trademark、Trademark Similarity、Trademark Infringement

I. Introduction

Almost everyone knows what a trademark is just by looking at a product of goods and / or services. [1]With the existence of a trademark we can distinguish and identify an item and / or service. Problems will arise when consumers have difficulty distinguishing between one item and / or service with other goods and / or services. This problem is caused by the trademark used has similarities until finally consumers are deceived, confused.[2]

Consumer confusion is something that Trademark Law wants to prevent.[3]This is so that consumers who initially intend to buy goods with a particular trademark are not deceived to buy other items similar to that trademark.[4]To prevent this, the trademark law prohibits the use of trademarks that have similarities to cause consumers to be confused, deceived. Consumers must get protection that when he buys an item with brand A, it is certain that he buys the item with the quality and source produced by brand A. This principle in Indonesia is termed similarity principle.[5]

The definition of similarity[6]is basically the resemblance caused by the presence of the dominant element between one trademark and another, giving rise to the impression of similarity, both in terms of form, method of placement, combination of elements, and similarity of speech sounds contained in the trademark that is. The similarity is one of the reasons for filing a lawsuit for cancellation and claim of brand

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1 Roger E. Schechter Dan John R. Thomas, *INTELLECTUAL PROPERTY THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* (United States Of America: West Group, 2003), 539.

2 Barton Beebe, "Search and Persuasion in Trademark Law.," *Michigan Law Review* 103, no. 8 (2005): 2035.

3 Robert Bone, "Taking the Confusion Out of 'Likelihood of Confusion': Toward a More Sensible Approach to Trademark Infringement," *Northwestern University Law Review* 106, no. 3 (2012): 1309.

4 Mark P McKenna, "A consumer decision-making theory of trademark law," *Virginia Law Review* 98 (2012): 849.

5 Mark P Mckenna, "Teaching Trademark Theory Through the Lens of Distinctiveness Mark," *Saint Louis University Law Journal* 52 (2008): 85.

6 Article 21 (1) Law No. 20 of 2016 on Trademarks and Geographical Indications

infringement in Indonesia. This is regulated in Article 76[7]and Article 83[8]Law No. 20 of 2016 on Trademarks and Geographical Indications (hereinafter referred to as Indonesian Trademark Law).

Problems regarding similarity basically arise when a trademark with one another has similarities in principle but in different classes of goods and or services. Before the existence of the Trademark Law[9],there was a legal vacuum regarding equality in principle for goods and or services that were not of the same type. This causes Well Known Mark owners[10]to suffer because there are brands that have similarities in principle with the famous brand. The case example is BMW v BMW BODY MEN WEAR[11], IKEA v IKEMA[12]

Several questions emerge from the above discussion. First, how Indonesian trademark law regulates similarity? Second, how is the implementation of trademark similarity in Indonesia?

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[7] Article 76 (1) Law No. 20 of 2016 on Trademarks and Geographical Indications : The cancellation claim of a registered Mark may be submitted by an interested party based on the reasons referred to in Article 20 and / or Article 21.

[8] Article 83(1) Law No. 20 of 2016 on Trademarks and Geographical Indications: Registered Trademark Owners and / or Registered Trademark Licensee may file a lawsuit against another party who unlawfully uses a Mark which has similarities or in its entirety for similar goods and / or services in the form of: a. substitute claim and / or b. termination of all acts relating to the use of that Mark.

[9] Law No. 20 of 2016 on Trademarks and Geographical Indications, this law replaces Law No. 15 of 2001 on Trademarks.

[10] Indonesian Trademark Law provides guidance for determining a trademark is a well-known Trademark, namely by paying attention to the general knowledge of the community regarding the trademark in the relevant business field. In addition, it is also noted that the reputation of the trademark obtained due to intense and massive promotion, investment in several countries in the world carried out by the owner, and accompanied by evidence of registration of the intended trademark in several countries. If this is not considered sufficient, the Commercial Court can order an independent institution to conduct a survey to obtain conclusions about whether well known or not the trademark is the basis of the refusal.

[11] BMW v. BMW BODY MAN WEAR, Case No. 29 PK/Pdt. Sus-HKI/2016.

[12] IKEA v. IKEMA Case No. 165 PK/Pdt. Sus/2012

II. The Regulation of Similarity In Indonesia:

According to the Trademark Law theory, trademark similarity is basically a trademark that has similarities in essence with a confusing risk (a likelihood of confusion). So there is a confusing equation (a likelihood of confusion). The term "similarity in principle" can be seen in the explanation of Article 21 (1) Indonesian Trademark Law as follows: "What is meant by "similarity in principle" is the similarity caused by the presence of dominant elements between one trademark and another, giving the appearance of equality, both in terms of form, method of placement, combination or elements of speech, and similarity of speech sounds, which is contained in the trademark."

The definition of similarity in principle described in the explanation of Article 21 (1) above is in accordance with the doctrine of "nearly resembles", the most important factor in this doctrine is that the use of trademarks that have similarities in principle can cause actual confusion or deceive the consumer community. It is as if the trademark originates from the same source or producer, so that in it there is an element of unwavering intention to free rides on other people's fame.[13]

Besides the aforementioned theory in determining whether there is a similarity between trademark and another known trademark, there is known 2 (two) theories:[14]

(1) The holistic approach theory

According to this theory to determine whether there is a trademark similarity must be seen as a whole both from the sound, the meaning, the spelling, or the appearance

(2) Dominancy theory

[13] Marni Emmy Mustafa, *Aneka Penegakan Hukum Hak Cipta, Paten, Merek dan Indikasi Geografis* (Bandung: P.T. Alumni, 2017), 46.
[14] *Id.*

To determine the existence of similarities between one trademark and another trademark, it is enough to take the element that is considered the most dominant of the trademark.

Several factors to determine the similarity can be based on:[15]

1. Similarity in the image equation;

2. Almost similar or almost the same arrangement of words, colors, or sounds;

3. Not absolutely the goods must be of the same type or class;

4. The use of brands creates actual confusion or deceive the consumer community.

According to Sudargo Gautama,[16]the criteria that apply to be seen as an equality in principle are that if something is concerned the trademark will cause a mistake in the general public, if for similar goods, then there is a similarity in principle. Whereas to determine that there are similarities in principle, a trademark must be seen as a whole.

The element that determines whether a trademark has similarities in principle with other trademarks is the impression of the trademark concerned to the general public. In this case the determination depends on the judge. Judges must be able to pay close attention to how the public in general can distinguish between those products, whether the community in general can distinguish clearly or not. Impressions that arise in the community towards a trademark are the same as other trademarks are:

[15] Yahya Harahap, *Tinjauan Merek Secara Umum dan Hukum Merek di Indonesia Berdasarkan Undang-Undang Nomor 19 Tahun 1992* (Bandung: PT Citra Aditya Bakti, 1996), 417.

[16] Sudargo Gautama, *Komentar atas Undang-Undang Merek Baru 1992 dan Peraturan Pelaksanaannya* (Bandung: Alumni, 1994), 20.

a. Pronunciation or sound

It can be said that the community considers the sound of pronunciation or sound more important than the outward traits of a brand. Example: SUNSWEET & DEVICE v. SUNDAY & DEVICE.

b. Translation or meaning of a brand

The translation can be said that there are similarities in the main. Example: the case between "SWALLOW GLOBE BRAND v. BOLA DUNIA", in Indonesia "BOLA DUNIA" means GLOBE.

c. Added words from a brand

This can be said to have similarity in principle because it aims to disrupt the origin of goods. Example: NEW FUJITA v. FUJITA. The case between NEW FUJITA and FUJITA is having the same product, the hanging map. So that consumers assume the hanging map produced by FUJITA is a production from NEW FUJITA.

There are several guidelines that can be found in the Indonesian Trademark Law, Indonesian Ministerial Regulations and Indonesian Supreme Court Verdict, to provide guidance in determining the occurrence of similarities in principle:

Article 21 (1) of Indonesian Trademark Law

"What is meant by" similarity in principle "is the similarity caused by the existence of a dominant element between one Trademark and another, giving rise to the appearance of equality, both in terms of form, method of placement, combination of elements, and similarities in speech sounds. which is contained in the Trademark."

Article 17 (1) Regulations of Indonesian Minister of Law and Human Rights No. 67 of 2016 on Trademark Registration:

"Baseline evaluation as referred to in Article 16(2) is carried out by taking into account the similarity caused by the existence of the dominant element between one Trademark and the other, giving the appearance of equality, both in terms of form, method of placement, method of writing or combination between the elements, as well as the similarity of speech sounds, contained in the Trademark"

Indonesian Supreme Court Verdict

Indonesian Supreme Court Verdict, under Number 279 / PK / Pdt / 1992 dated January 6, 1998 related to the Rolex case, states that a trademark has similarities in principle and as a whole if there are elements as follows:

- Similarity of form;
- Similarity of composition;
- Similarity of combination;
- Similarity of elements;
- Sound similarity;
- Phonetic similarity;
- Similarity in appearance;

III. The Cases Of Trademark Similarity In Indonesia:

A. BMW v. BMW (BODY MAN WEAR)[17]:

This case is a dispute between BMW v BMW BODY MEN WEAR.

[17] *Supra Note* 11

This case began at the District Court level which won the BMW over the cancellation lawsuit of the BMW BODY MEN WEAR brand but at the cassation level the Supreme Court granted a cassation request from the owner of the BMW BODY MEN WEAR brand so that the decision to cancel the registration of the BMW BODY MEN WEAR brand was cancelled.

The judge's judgment on the appeal level that the BMW BODY MEN WEAR brand does not violate the BMW brand is

"That even if there can be proven similarity in principle or in whole between the brand of the Plaintiff" BMW "and the Defendant's brand of BMW BODY MAN WEAR, the two trademarks are produced in two" different types of goods ". Arrangements as determined in Article 6 (2) of Law Number 15 Year 2001; whereas to this matter there has not been a "Government Regulation" which is the implementation of these provisions;

B. IKEA v. IKEMA Case:

In the first level decision[18], the IKEA trademark was declared a well-known trademark, against the demands of "trademark similarity ", the panel of judges also concluded that the trademark similarity between IKEA and IKEMA, so that the cancellation of the IKEMA trademark was granted. This decision then at the cassation level is strengthened. [19] However, at the level of review (case No. 165 PK / Pdt.Sus / 2012), the PK assembly stated:

[18] IKEA v. IKEMA. Case No. 39/Merek/2011/PN. Niaga.Jkt.Pst.
[19] IKEA v IKEMA, Case No. 697 K/Pdt.Sus/2011.

a. the IKEA trademark does not have similarity in principle with IKEMA as the Angsa Daya arguments about the origin and pronunciation of IKEMA originating from the Chinese language;

b. the IKEMA trademark registered in class 19 is not a similar item or class with IKEA trademarks registered in grades 11, 21, 24, 35, 42;

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c. the application of Article 6 paragraph (2)[20] concerning "well-known trademarks" related to Government Regulations that require requirements, and until now there has not been any.

IV. The Implementation of Trademark Similarity in Indonesia:

Whereas from the above cases it can be seen that the implementation of trademark similarity in Indonesia only focuses on finding similarities and differences between the two trademarks in dispute. Trademarks dispute resolution tends to focus only on whether there are similarities between the two trademarks that are in dispute. Such an approach is actually less considering the aspect of fairness in the ownership of a legitimate trademark.[21]

Trademark dispute resolution does not pay attention to the reputation and goodwill of a trademark. Reputation and goodwill should be considered in resolving trademark disputes. This is because the reputation and goodwill are selling points which are generally only owned by well-known trademarks. Famous trademarks have greater selling power than ordinary trademarks in general. Famous trademarks reflect the reputation and goodwill that the trademark owner has painstakingly built.

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[20] Law No. 15 of 2001 on Trademarks (it is an old Indonesian trademark law before replaced by Law No. 20 of 2016 on Trademarks and Geographical Indications.

[21] Indirani Wauran dan Titon Slamet Kurnia, "Confusion dan Pembatalan Merek Oleh Pengadilan," *Mimbar Hukum* 27, no. 2 (2015): 272.

It will be unfair if goodwill is utilized by those who are not entitled to get profits quickly.

Trademark similarities also pose problems of uncertainty in resolving different trademarks of classes of goods and or services. Before the Law Number 20 of 2016, Indonesia still used Law Number 15 of 2001, in the old Trademark Law there were no rules regarding similarity in principle for classes of non-similar goods. This results in a legal vacuum so that the judge's decision in various cases of trademark cancellation tends to reject similarity claims in principle because it is based on the absence of rules regarding equality in principle regarding the class of non-similar goods.

At present the regulation has been regulated in the Laws and Regulations of Indonesian Minister of Law and Human Rights:

Criteria for determining similar goods and / or services as referred to in Article 16 paragraph (2)[22] letter a and letter b can be in the form of goods with goods, goods with services, or services determined by:

a. the nature of goods and / or services;

b. the purpose and method of using goods;

c. complementary goods and / or services;

d. competition for goods and / or services;

e. distribution channels of goods and / or services;

f. relevant consumers; or

[22] Regulations of Indonesian Minister of Law and Human Rights No. 67 of 2016 on Trademark *Registration*:

g. origin of production of goods and / or services;

It is expected that with these rules, the dispute over a well-known trademark containing the same equality for goods and or services that are not similar can be resolved.

V. Conclusion:

1. The regulation of Trademark similarity in Indonesian Trademark Law has not provided clear guidance in determining similarity in principle. The absence of clear guidelines can lead to uncertainty and injustice for the parties because it is very dependent on the subjectivity of the judge who decides on a case.

2. The implementation of trademark similarity in Indonesia is still inferior because the Judge only focuses on finding similarities and differences between the trademarks in dispute without focusing and considering on Trademarks goodwill and reputation.

VI. Suggestion:

1. It is recommended that in Indonesian Trademark be given a clear guide in determining trademark similarity so that the Judge will be more objective in deciding a case so that it provides certainty and justice for the parties.

2. The implementation of trademark similarity in Indonesia should not focus solely on finding similarities and differences, it must be understood that the substantial element is consumer confusion, not just looking for similarities and differences.

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PATENT PROTECTION FOR A METHOD OF RATOON RICE MANAGEMENT IN SUPPORTING FOOD SECURITY

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Abstract

Pursuant to Article 25 Universal Declaration of Human Rights (1945) that: "Everyone has the right to a standard of living, adequate health and well-being of himself and his family including the right for food". Essentially food security can be described as" a phenomenon relating to individual food security which exists when all people at all the times have physical , social and economic access to sufficient, safe and nutritious food which meet their dietary needs and food preferences for an active and healthy life". However, since 2009 the food security situation has worsened and continuous to pose a serious threat especially in the developing nations.

The internationally agreed target from the World Food Summit of 1996 to halve hunger by 2015 was not met. Despite progress in some countries, United Nations Food and Agricultural Organization (FAO)'s estimates in 1997-1999 there 865 million people were undernourished, 777 million in developing countries, 27 million in transition countries and 11 million in the industrialized countries. Even if the target is met, it would still leave 400 million people under nourished. The fact that in the year 2017 there was 19, 4 million Indonesian people who did not meet their required food needs.

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Pursuant to Article 33 paragraph 3 of the 1945 Constitution (UUD1945) stated that: “The earth, the water and all the wealth contained therein are controlled by the State and used as much as possible for the welfare of the people. Production branches that are important and affect the livelihood of many people controlled by the State shall be used for the greatest prosperity of the people.”

This paper will argue that the Method of Ratoon’s Rice Management will benefit in supporting Food Security because it has many advantages over the conventional rice cultivation. The Patent right as legalized monopoly is sought to prevent the abuse of this invention by irresponsible parties.

Key words: food security, patent, management, Ratoon’s rice, method.

I. Introduction

Nowadays, we are in a situation that exists when people lack secure access to sufficient amount of safe and nutritious food for normal growth and development an active healthy life. It may cause by in-availability of food, insufficient purchasing power or the inappropriate distribution or inadequate use of food at the house hold level.[1]

The internationally agreed target from the World Food Summit of 1996 to halve hunger by 2015was not met. Despite progress in some countries, FAO's estimates 865 million people were undernourished in 1997-1999, 777 million in developing countries, 27 million in transition countries and 11 million in the industrialized countries .Even if the target is met, it would still leave 400 million people under nourished.[2]The fact that in the year 2017 there was 19, 4 million Indonesian people who did not meet their required food needs.[3]

Many Non-Governmental Organizations (NGO) are calling a broader concept of Food Sovereignty to be used to guarantee the right of small producers to provide and of poor consumers to eat food. The produced a plan of action involving trade, genetic resources, agriculture- ecology, and implementing an international legally

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1 GEOFF TANSEY, ***Food Security, Biotechnology and Intellectual Property: Unpacking Some Issues Around TRIPs***, p. 5 Quaker United Nation (QUNO), Geneva,(2002,)

2 These are also in line with The Plan Action of the World Food Summit (1996) which is as follows:3(1)We strive to ensure that food agricultural overall trade policies are conducive to fostering food security for all through a fair and market oriented world trade system; (2) We will implement, monitor and follow up this plan of action at all level in cooperation with international community; (2)The present parties to the present Covenant recognizes the fundamental right of everyone to be free from hunger.
FAO Division Economic and Social Department."Implementation of The World Food Summit Plan of Action: Agriculture and Economic Development Analysis" http://www.fao.org/3/w9990e/w9990e07.htm

3 "Data dari Bank Dunia Sebut Banyak Rakyat Indonesia Masih Kelaparan https://www.republika.co.id/berita/ekonomi/makro/17/03/14/omsnii382-data-dari-bank-dunia-sebut-banyak-rakyat-indonesia-ke

binding right to food at NGO Forum at the World Food Summit – fife years later in Rome in June 2002.[4]

Pursuant to Article 25 Universal Declaration of Human Rights (1948) stated that: "*Everyone has the right to a standard of living, adequate health and welfare of himself and his family including the right for food*". The provisions with similar connotation are also incorporated in Article 11 Paragraph (1) and (2) of Covenant on Economic Social and Cultural Right (ICESCR, 1996) and Article 27 Paragraph (1) of Convention on the Right of Child (1989).[5]

Pursuant to Article 33 paragraph 3 of the 1945 Constitution (UUD1945) stated that: *"The earth, the water and all the wealth contained therein are controlled by the State and used as much as possible for the welfare of the people. Production branches that are important and affect the livelihood of many people controlled by the State shall be used for the greatest prosperity of the people."*

This provision is the legal politic of Sovereign Food of the Indonesian nation to carry out economic development of the Indonesian nation in managing its natural resources based primarily on agrarian society. Therefore, the plants existing on the earth of Indonesia and the management and cultivation of its plants is part of the constitutional right. [6]

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[4] Division, Economic and Social Department, supra note no.2. Also in Food Summit Five Years later (10-13 June 2002, Circular no.2, 30 April (2002).

[5] Convention on the Rights of Child， https://www.unicef.org/child-rights-convention/what-is-the-convention

[6] In the Indonesian context, the food issue is one of the substantive matters which was one of the prominent reason for the struggle for independence. Ir. Sukarno very clearly mentioned the necessity of the State, to end the poverty and hunger conditions of the people. Ir. Sukarno also emphasized that such action can only be exercised if the State is based on kinship and mutual cooperation.The spirit of kinship and mutual cooperation is what animates the formulation of the idea of management of people's economic resources in the 1945 Constitution. www.pikiran-rakyat.com/nasional/2016/06/22/soekarno-dan-pidatonya-yang-tak-terlupakan-372577.

The Republic of Indonesia is the second largest archipelago *in the World* with nearly 17,000 islands by area of 1.82644 million km square.[7]The biggest islands are *Borneo, Papua, Sulawesi, Sumatera* and *Java.* Most of the islands are uninhabited, only *Java* that has been inhabited by almost 60% of the population. Population are living in Indonesia has more than 265 million inhabitants in 2017.[8]

Indonesia consists of 32 provinces and 3 Special Regions; each of these is headed by a Governor. Each region has its own special product that generates income per capita.In 2018 the Gross Domestic Product (DGP) in Indonesia was US$ 10.15.54 billion that supported by private and government expenditure.Contribution of agricultural and plantation sector amounted to US 2, 5 million.[9]However, it turns out from these amount there are a lot of agricultural or plantation products own by Multinational Corporation (MNCs) or Transnational Corporation (TNCs),like BISI Limited Company that is subsidiary of Monsanto Incorporations.

Richard Cook a former analyst of US Federal Government in his paper *"Crisis in Food Prices Threatens Worldwide Starvation: It is Genocide"*,[10]states that: “It is the time for the Country to reaffirm the importance of a distinct policy in agricultural sector, so that the food production will not be controlled by agribusiness companies and financial capitalists internationally through Multinational corporations (MNCs) or Trans National Corporations (TNCs)”.[11]

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[7] Badan Perencanaan Pembangunan Nasional (BAPENAS), “Wilayah Kritis Keanekaragaman Hayati di Indonesia: Instrumen Bagi Pengambil Kebijakan”, p. 19, (2003).

[8]. “ 2018 , Jumlah Penduduk Indonesia 265 juta jiwa ” https://databoks.katadata.co.id/datapublish/2018/05/18/2018-jumlah-penduduk-indonesia-mencapai-265-juta-jiwa

[9] “Indonesia DGP”https://tradingeconomics.com/indonesia/gdp and also in “Ekonomi Indonesia 2018 Capai Rp 14.837,4 T, Ini komposisinya” https://www.cnbcindonesia.com/market/20190206140257-17-54058/ekonomi-indonesia-2018-capai-rp-148374-t-ini-komposisinya.

[10] Editorial. “Pertanian di Negara Berkembang dihancurkan oleh Rezim Peragangan Global”, p.1, Kompas Jakarta, 8 August (2008).

[11] According to JOHN H. DUNNING in a book of International Business Law defined as: “one undertakes foreign direct Investment (FDI) i.e. which owns or controls income gathering assets in more than one country and in so doing st produces goods or services outside its country of origin i.e. engages international productions”.from RAY AUGUST, *International Business Law: tax,*

II. SOME FACTORS THAT WEAKENING FOOD SECURITY

The term of "Food Security" is defined by The United Nation Food and Agriculture Organization (FAO) [12]as:" a phenomenon relating to individual food security which exists when all people at all the times have physical , social and economic access to sufficient, safe and nutritious food which meet their dietary needs and food preferences for an active and healthy life". Whereas the Parameter of Food Security are:

a. Physical availability of food;
b. economic and physical access to food;
c. food utilization and;
d. Stability of the other of three dimension overtime.

Regarding with the physical availability of food a and economic and physical access to food can be seen to the Annual Report 2016 issued by the South Center that 75% of cereal products (grains) are controlled by only two multinational corporations (MNCs), 50% of banana produced and traded by two MNCs, 83% of cacao produced and traded by three TNCs, 85% of tea products controlled by three TNCs, 83% of sugar produced and traded by three MNCs, and pesticide and supporting agricultural/plantation products are controlled by four MNCs.[13]

It is estimated that by year 2020 the world population will reach near about 80 billion and 83% of them would be living in developing countries. Therefore, annual food production will increase to 3,000 metric tons from currently 1,800 metric tons[14]

Cases and Readings, p.202-206, (4th ed), Pearson Education International, Prentice hall, Sydney,(2002).See also in RAHMI JENED, ***Teori dan Kebijakan Hukum Investasi Langsung (Direct Investment,*** , p. 233(Kencana Prenada Media Group, (2016)

[12] Master in Human Development and Food Security (2010/2011) Toward Insecurity Multidimensional Index (FIMI), p.7. http://www.fao.org/fileadmin/templates/ERP/uni/FIMI.pdf.

[13] Editorial "*Pertanian Di Negara Berkembang Dihancurkan Oleh Rezim Perdagangan Global"*p.1. Kompas ,8August (2008), Also IN JULIATI CHOLIL, *Hak Petani (Farmer Right)*, p. 8-14, Thesis Disertation , Doktor Ilmu Hukum (Doctor of Jurisprudence) of the Law Faculty Airlangga University , Surabaya, Indonesia, (*2014).*

[14] GRAHAM DUTFIELD, ***Plant Variety Protection ,Traditional Knowledge and Genetic Resources,*** Teaching Material, p.2, European Community and ASEAN Intellectual Property

However, since 2009 the food security situation has worsened and continuous to pose a serious threat especially in the developing nations, like Indonesia. Even though Indonesia has already regulated Food Security by Government Regulation Number 68 of year 2002[15], however still there are several factors that cause weakening of food security.

First, the reduction in agricultural land due to the shift in the allocation of agricultural land to industrial and residential housing. Second, reduced rice productivity because of the many natural disasters such as floods, earthquake, and volcanic eruptions[16]which destroy rice plants.Third, the high cost of fertilizer because of the price game of bad faith business people.

Four, abuses of rice import licenses which are often carried out during the harvest season with abundant production are actually damaged by the entry imported rice, resulting lower grain prices at the farm level. Five, the increasing fears among traditional farmer will be criminalized by large companies with allegations of damaging plants that contaminate the plants of large companies, most of which have been protected by plant variety rights or plant patents. Or the MNC's bio-piracy conduct.[17]

Sixth, the fear of the existence of various kind of genetically engineered agricultural products, on the contrsry, has resulted in traditional farmers being unable to do seedlings traditionally and conventionally. Seven, the danger of genetically

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Cooperation Program (ECAP)II, Queen Mary Intellectual Property Research Institute University of London, UK, (2005). See BAYU KRISNAMURTI, "Agenda Pemberdayaan Petani dalam Rangka Pemantapan Ketahanan Pangan, Jurnal EkonomiTh II, no. 7 Oktober (2003).

[15] Government Regulation No. 68 of 2002 Regarding Food Security (hereinafter as Peraturan Pemerintah Nomor 68 Tahun 2002 Tentang Ketahanan Pangan...

[16] Food and Agriculture Organization (FAO) of the United Nations, "The Impact of Natural Hazards and Disasters on Agriculture and Food Security and Nutrition: A Call for Action to the Resilient Livelihood", updated May, 2015. http://www.fao.org/3/a-i4434e.pdf.

[17] Fortunately this Rice already has been protected by Geographical Indication of Cianjur West Java Region.

modified organism (GMO) in agricultural products even fake rice made from plastic.[18]

There are some alternative solutions to address these problems, among others the invention of Ratoon' Rice Management Method which also consequently support the Government Program for Realization of Food security.

III. THE METHOD OF RATOON'S RICE /PADDY MANAGEMENT

Rice is included in the world/kingdom of Plantae, species/genus of Oryza, family of Poaceae, order of Poales, and belongs to the species of Sativa. [19] So the Latin name of the rice plant is *Oryza sativa*.[20]

There are several methods of paddy fields and land management have been done to utilize the management of paddy fields in post- harvest waiting time to obtain maximum yields, however the existing methods are perceived to be less effective and efficient in achieving desired goals.

Rice is a very important plant other than potatoes, corn, wheat and other cereals as a staple food for about half of the world. Rice has been staple food for many Asian countries including Indonesia.[21] Besides containing carbohydrates that are easily digested, it also contains important vitamins and minerals.

Technology for the management and storage is simple and it is easy to grow from the tropics to the sub-tropic regions, from the lowlands to highlands, can be

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[18] Liputan 6 Metro TV 3 Juli 2015, "Kementerian Pertanian Dinas Pertanian Banten Menolak Benih Murah Transgenik Monsato. ."

[19] Binomial nomenclature is the standard naming rules for all living organisms in the world consisting of two names (binomial itself has meaning two names) by taking the name of the genus and species name of the living beings. Rules of binomial nomenclature itself were first conceived by *Carolus Linnaeus* www.ricepedia.org.

[20] BAO RONG LU, ***Taxonomy of the Genus Oryza (Poaceae) Historical Perspective***, www.researchgate.net/publication/285277190_Taxonomy_of_the_genus_Oryza_Poaceae_Historical_perspective_and_current.

[21] RAHMI JENED at.all, ***Perlindungan HKI untuk Pola Tanam Pertanian dan Produk Padi,*** Hasil Penelitian Fundamental, Kementerian Riset dan Teknologi, p.12-39. Jakarta (2016).

cultivated traditionally until fully mechanized, the varieties extend up to 9000 varieties, even the vegetative part can be used for feed, organic fertilizers and industrial raw materials.[22]

Efficient cropping pattern must require greatest efficiency of land fertilizer, complex irrigation water and other in-puts. The word "cropping pattern" means the most efficient use of land and other resources the cropping pattern also defined as”:” a sequence of planting on a plot of land in one year including the land management”.[23]

The cropping pattern in plant cultivation or a part of the cultivation system, so it can be developed one or more systems of cropping patterns and no cropping pattern can be good for all times or a proportion area under various crops at a point of time. The cropping pattern is applied in order to obtain optimum benefits, so as to avoid the risk of harvest failure. Unlike the traditional cropping patterns, planting of hybrid rice seeds (high yielding variety) in the era of green revolution in monoculture lead to the erosion of biodiversity. [24]

Cropping patterns and agricultural products are traditionally rice with local varieties based on seasonal conditions and the local ecology.[25]There are several methods of paddy field and land management have been one in order to take advantage of the subsequent waiting time so that the maximum yield of paddy fields, especially those that have experienced the harvest period, however the existing methods are perceived to be less effective and efficient in achieving desired goals , such as Conventional, Intensification Rice System (SRI), Polycultural, Hadzon, Jajar Legowo, Gogo Rancah .[26]

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[22] FAO, “ Fertilizer Resources”, http://www.fao.org/3/W6928E/w6928e06.htm

[23] Interviewed with Mrs. Ir. DIAH AHMAD, head of the Agricultural Research Institute of Environmental Research (Balingtan), Jl Raya jakenan- Jaken Km 05 59 182 Pati, Central Java. August 15, 2016

[24] See previous note no.24.

[25] DIAH AHMAD, see previous note no.25.

[26] RAHMI JENED at.all, see supra note no. 23, p. 12-39.

General description can be described that paddy is mainly grown in paddy fields in West Java, Center Java, East Java and South Sulawesi . The rice crop can be harvested 2 (two) times per- year with the length of planting time until the harvest for 4 months. So the rice paddy field will be idle for approximately 2 (two) months waiting for the next planting period. During this time of unemployed rice field, the farm laborers almost certainly do not have a definite job.

Beside some factors that are already mentioned above, younger generation are no more interested to practice farming because of low yields and income so they prefer to work in factories or in cities. By decreasing agricultural employment, farmers can be categorized: [27]

a. Farmer as land owner with average about 2 hectare;
b. Farmer as permanent worker;
c. Farmer as peasant laborer.

In addition the decreasing of agricultural land and paddy field and the reduction of traditional farmers willing to work in the rice paddy fields resulted in a high rate of poverty.

The method of Ratoon Rice/ Paddy Management invention conducted in Krawang of West Java which was originally known as a Rice Barn or Granery (hereinafter as Lumbung Padi)" of java island. This invention applied in 2 hectares paddy field.

The field of technology of this invention relates to a management of paddy fields, in particular Ratoon's rice management method, which is a rice plant derived from shoots that grow from stumps after harvesting and produce new tillers to be harvested, which can take advantage of time to wait for farmers after harvesting within of 45-60 days.

[27] Interviewed with Farmer Bapak R. KOOS KONTJAHJO in Karawang, 16 August 2016.

The purpose of the invention can be achieved by implementing the method of Ratoon's rice management which includes the following stages:

1. 1st day, post-harvest rice plant in paddy rice field are dispensed;
2. 1st day the remaining pieces of rice plant that have been harvested are flattened with a certain average height. Where the height of the rice tree cut is 10cm average from the soil surface and in the dry season is an average of 5cm, in this case the condition of dry planting media and age of day-1;
3. 5th day, the area of paddy rice fields of the remnants of harvesting straw and former cuts of rice plant trunks are cleaned;
4. Paddy rice field watered until the condition of muddy planting media;
5. 7th day NPK Plus as much as 20 sacks @ 25kg sprinkled in the condition of muddy planting media
6. 12th day, grass and weed are weeded;
7. 14th day, Urea as much as 100kg sprayed a in the condition of muddy planting media;
8. 15th day, organic fertilizer Super liquid as much as 5 bottles (@ 500ml) per hectare sprayed a in the condition of muddy planting media;
9. The condition of muddy planting media is still maintained;
10. 19th day, drug enhancers as much as 5 tablets with organic fertilizer Super water as much as 3 bottles are squirted and mixed;
11. 20th day, NPK Mutiara (NPK 16:16:16) as much as 100kg the condition of muddy planting media applied; and
12. 45th-60 day when the rice is mature harvested.

After that, still according to the present invention, what is meant by the condition of muddy planting media is the wet cultivation media (soil) but not inundated by water.

Then, the composition of the Pearl NPK is 16: 16: 16 where the element content is: [28]

Nitrogen (N): 16%

Phospate (F): 16%

Potassium (K): 16%

Magnesium (MgO): 0.5%

Calcium (CaO): 6%.

In addition, the elements contained in the liquid organic fertilizer Super are:

C Organic: 9.6%

P2O5: 1.22%

K2O: 0.32%

Fe: 31.8 ppm

Mn: 0.48 ppm

Cu: 0.08 ppm

B: 179 ppm

[28] Patent Description, p. 5-6.

Mo: 0.1 ppm,

This paper specifically investigate there are some differences between the staple basic rice and Ratoon's rice. *First,* in the staple rice which requires the processing of land, whereas Ratoon's rice does not. *Second,* the staple basic rice needs nursery or seedlings activities, on the other hand Ratoon's rice utilizes the remaining staple crops after harvesting to be managed.

Third, the basic staple rice requires the amount of water from complex irrigation, but the Ratoon's rice is only needs about 30% of the staple rice water requirement. *Fourth,* the staple planting is requiring sufficient paddy fields, while the atoon's rice does not need a field. Fifth, embroidery activities exist in basic rice crops, whereas in Ratoon's rice only maintains the remaining crops of staple rice harvested.

Sixth, - the basic staple rice requires Urea as much as 400 kg, whereas Ratoon's rice only need as much as 100 kg. *Seventh,* the basic staple rice needs NPK Mutiara as much as 200 kg, wheres Ratoon's rice needs a total of 100 kg. *Eighth,* the staple basic rice needs of NPK plus as much as 625 kg, whereas in Ratoon rice as much as 500 kg.

Ninth, the basic staple rice planting periodds or rice harvest average 110 days, while Ratoon's rice harvest age is about 45 - 60 days. *Tenth,* suppose the basic rice crop produces yields are X kg, then the Ratoon's rice yield is about 90% - 110% of X kg. *Eleventh*, the quality of rice that is not pollen, but the Ratoon's rice will be pollen (more like stick rice).

Twelveth, the basic staple rice is not flavored rice, but on the Ratoon's rice will appear a little aroma fragrance. *Thirteenth*, if the basic staple rice total cost of rice processing is IDR Y, then the total Ratoon's rice will cost 40% - 50% of IDR Y. Finally the basic staple rice regular harvest time are twice a year, but Ratoon' rice is 4 times a year. [29]

[29] The advantages of this invention as see in Patent Description, p.8-9.

One of the uniqueness of Ratoon's rice is the possibility of adjusting the short length of harvest time based on the choice of method of management.Given the existing shortcomings of existing paddy rice management methods, The Ratoon Rice Management Method creates a better method of paddy field management that can address the food security problem. Or gain better objectives through the method of Ratoon's rice management.

The purpose of the present invention is to provide a technique or method of processing or managing paddy fields so as to obtain optimal yields on the paddy fields and more paddy yields compared to conventional rice cultivation.

The present invention relates to "Ratoon's Rice Management Method" which enables creation of a Ratoon's rice that can be available in relatively shorter period of time with good rice quality.

In this case, the use of the above 2 month period has a very big and positive meaning for farm laborers and land productivity, where farm workers can earn extra income that they usually do not get any income at all. Paddy production increases from the usual 2 harvests in a year to become 4 times.

This invention will benefit 2 positive things plus the low cost and time of the method of Ratoon's rice management and production, considering most of the villagers work as farm laborers, so the presence of Ratoon's rice can help improve the welfare.

Currently the presence of the method of Ratoon's rice management was greeted with great enthusiasm by the farmers and the local government, and Ministry of Agriculture. This invention has already implemented widely in Karawang regency.

IV. PATENT RIGHT THE METHOD OF RATOON’S R ICE MANAGEMENT IN SUPPORTING FOOD SECURITY

The title of the invention is “Method of Ratoon’s Rice / Paddy Management has already been granted Simple Patent Right through certificate IDS 000001730 dated 20 December 2017. The term of protection will be 10 (ten) years commencing from filing date 11 November 2016.

According to World Intellectual Property Organization (WIPO) that:

A utility model is similar to a patent. In fact utility models sometimes referred to as “Petty Patent” or “Innovation Patent” that defined as:”A utility model is an exclusive right granted for an invention, which allows the right holder to prevent others from commercially using the protected invention, without his authorization, for a limited period of time. In its basic definition, which may vary from one country (where such protection is available) to another[30], a utility model is similar to a patent...The requirements for acquiring a utility model are less stringent than for patents”.

Patent is legalized monopoly granted is given for a period of time specifically in exchange for the inventor disclosing to the public how to make or practice the invention.[31] Patent is a part of Intellectual Property Rights.[32.]

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[30] In Indonesia the application procedure all together within 9 months from the filing date.

[31] MINDAUGAS KISKIS, “Transparency, for Efficiency of the International Patent System”, p. 123 -124, 3 NTUT, of Intel. Prop. L& Mgmt.

[32] . Property Rights is mainly divided into 2 (two) are:

I. Copyrights and related rights

II. Industrial Property Rights that consists:

a. Patent;

b. Plant Variety rights;

c. Trademark; Geographical Indications;

d. Industrial Design Lay-out of Topographic of IC ;and

e. Undisclosed information especially Trade Secret.

Pursuant to Article 2 Patent Law Number 13 of year 2016[33] there are two types of patent applications can be filed in Indonesia. One is an invention patent application and the other is a simple patent application.

The term of “novelty” can be assessed from the technology itself and from the grace period. From view point of technology, the term ‘novelty’ in patent system is the new state compared to a prior art of the same technology or cannot be anticipated by prior art.

Pursuant to Article 3 of Act number 13 of 2016 stated Patent is granted to the invention that fulfills patentability novelty; inventive step; and industrial application.[34]

The ‘novelty’ in patent system is the new state compared to a prior art of the same technology and from the view point of technology. In the case Van der Lely v. Bamford (1963) in W.R Cornish & Llewelyn books, the invention is novel if the invention that registered cannot be anticipated by prior art as “ the invention not be abandoned, surpressed or concealed”.[35]

Regarding with the novelty of this invention is stated to be new compared to prior art of the same technology so called some prior arts as follows:[36]

a. P00201300710 The Rice Harvesting Method;

RAHMI JENED, ***Interface Hukum Kekayaan intelektual dan Hukum Persaingan***, p.8,Rajawali Press, (2013).

[33] Previously regulated in the Act number 14 of 2001 on Patent.

[34] RAHMI JENED, Hak ***Kekayaan Intelektual: Penyalahgunaan Hak Eksklusif,*** p. 129, ***Airlangga*** University Press, (2007) p.211-2112. See also in MINDAUGAS KISKIS supranote no. 35, p.129.

[35] WR CORNIS & LLEWELYN, ***Intellectual Property, Patetys, Copyrights, Trademarks and Allied Rights.*** p. 173-175***, 5th Ed.***, Thomson Sweet Maxwell, (2003).

[36] P00201300710 Metode Panen tanam Padi, P 00201200252 Meode Pembiakan Padi dan Metode Promosi Perkecambahan Biji Padi,WP00201200703 Protein yang berhubungan Bentuk Bulir Padidan Daun Padi Gen penyandi dan Penggunaannya,W00200601118 Padi dan Produk-Produknya yang Menandung Pati dengan Proporsi Amilosa yang ditingkatkan. As discussion with Ptent Examiner Bapak Fauzi tanjung, December 2017.

b. P00201200252 The Method of Rice Breeding ;
c. The Method Promotion of Rice Seed Germination;
d. W 002012200703 Protein Related to Grain Shape , Rice Leaves Coding Genes and their Use;
e. W 002012200118 Rice Products containing Starch with an increased Proportion of Amylose.

The novelty of this invention was also compared to the prior art that in general rice planted with the particular seeding system to produce good seed by soaking salt or by arranging cropping pattern to produce abundant crops such as used Jajar Legowo Sytem, or Hadzon System .

The new state is viewed from the grace period of its registration, which means its registration shall be applied not more than 6 (six) months after the date of invention is concluded.

The new state is viewed from the grace period of its registration, which means its registration shall be applied not more than 6 (six) months after the date of invention is concluded. The inventor start invent in May 2016 at that time we were conducting Fundamental Research grant with the title of "Potential and Protection of Intellectual Property Rights for Cropping Patterns of Agricultural and Rice Farming Products".[37]

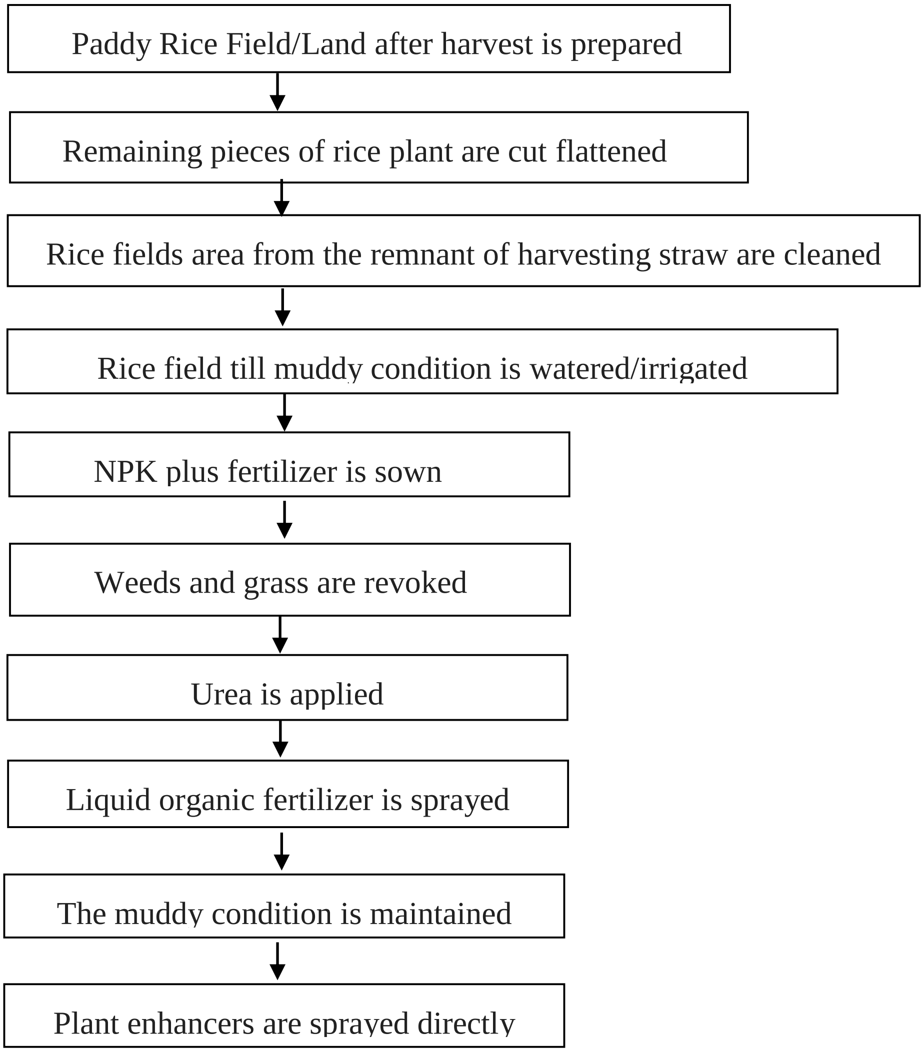
According to Prof Strauss, The 'inventive step' in patent means the non-obvious Invention for person having ordinary skilled of the art (Poshita) which is patent examiner. Test of Obviousness according to Prof Strauss that among others: [38]

a. Problem-solution approach;
b. The closest prior-art- teaching – Motivation- Suggestion (TMS);
c. Could-would test as a reasonable expectation of success (RES).

[37] RAHMI JENED at all, see supra note no.23.
[38] DRES.H.C. JOSEF STRAUSS, International and European Patent Law, p.37-52, IP Training, MIPLC Max Planck Institute, Munchen, (2004).

According to judge Giles Rich that: "Even though their invention are not as good as what already exists, such as inventors are not being rewarded for standing still or for retrogressing, but having invented something... The system is not concerned with individual inventor 's progress but only with what is happening to technology...". [39]

The mechanism of Ratoon's Rice Management Method as follows:



[39] DONALD S. CHISUM and F SCOTT KIEF, ***the Principle of Patent Law***, p. 328, Foundation Pres, (2004).

NPK pearl fertilizer is applied

Harvesting is done after 45 to 60 days

The "inventive step" value of this invention that the patent examiner did not expect that the same rice would grow from the remaining rice paddy plant that have been harvested leaving 5-15 10 cm from the land surface paddy field.[40] The Ratoon's Rice Management Method mentioned in the description above and listed in the drawing is merely an example used to illustrate the embodiment of the present invention. Of course, another embodiment, as mentioned above, is easily made by someone skilled in the art after reading the description of this invention. Therefore, the present invention is not limited to the embodiment.

The 'industrially application' means an invention whether product or process must be able to be applied in industry that if the invention is in the form process, then its process can be carried out. The invention can be applied industry-proven even though the initial experiment was use polybag but subsequent experiment of the method has been applied in 2 hectares of paddy field in Kerawang region of East Java province. The scope or extent of the present invention is expressed in the following claims are:[41]

A method of Ratoon's Rice management which includes step 1 to 12 that mentioned above;

The method of Ratoon's Rice management to claim 1 as mentioned above;

The method of managing Ratoon's rice according to claim 1 as mentioned above using the new elements of the Pearl NPK and liquid organic fertilizer super.

[40] as stated by Patent Examiner Bapak Fauzi Tanjung, in Jakarta, 9 December 2016
[41] Patent description, p.10-11.

In addition, there are limitations and exceptions to the invention as guided by the national policy as the manifestation of state sovereignty to grant patent rights. Beside patentability, there are discoveries or activities that not categorized as invention enumerated (non-statutory invention) under Article 4 of Act number 13 of 2016 as follows:

Invention does not include:

a. Esthetical creation;
b. Schema;
c. Rules or methods for conducting activities as follows:
    1. That involves mental activity;
    2. Games;
    3. Business.
d. Rules or method that only consist software;
e. Presentation of information;
f. Discovery as form of:
    1. New usage of known product, or
    2. New form of an existing compound which does not result in a significant increase in efficacy an there is a corresponding difference in chemical structure of the compound substance or composition.

There is also non- statutory patentable subject matter stated in Article 9 Act number 13 of 2016 that:

Patents are not granted for the Invention on:

a. Processes or products which the notice and the use or operation of which is contrary to applicable legislation, religious morality, public order or morals;
b. Methods of examination, treatment, treatment and / or surgery applied to humans and / or animals;
c. Theories and methods in the field of science and mathematics;
d. All living things, except micro-organisms;

e. Biological processes that are essential for producing plants or animals, except for non-biological processes or microbiological processes.

The Patent Right is obtained based on 'First to File System', this means that the legal assumption arises based on the first registering person to become the party deserving the right, until it is proven the contrary.[42] During the typical patent prosecution process the patentability of the claimed invention is authoritatively evaluated by the pertinent patent office through the search and review process. Normally, lack in any of the patentability characteristics shall be an obstacle to grant of the patent. If the patent an application is not subject to search and examination, the patentability is not established at all. Whether to undergo the search and examination remains the unilateral decision of the applicant.[43]

Once the application is filed, a formality check is performed (Article 24 refer to Article 34 of Law No. 13 of 2016). If it contains no elements that may be deemed unsuitable for publication through examination, it shall be published in 18 months after the filing date. Substantive examination will then be proceeded upon a request filed by the applicant (Article 46 Law No. 13 of 2016). If the application is not rejected, it will be published and granted patent right. For utility model patent application, after it is filed, it will undergo a formality check and formality examination (Article 122 Law Number 13 of 2016). If the application passes both, then it will be published and granted.

The term of an invention patent shall expire 20 (twenty) years from the filling date of application (Article 22 Law Number 13 of year 2016). The term protection of a simple patent shall expire after a period 10 (ten) years effective commencing from filing date of application (Article23 Law Number 13 of year 2016). The both two protection without possibility of extension renewal.

After obtaining the Agenda of patent application for registration, inventors receiving duty and trust from Dr.Soekarwo, a governor of East Java where the

[42] See RAHMI JENED, supra note no.23, p.132.
[43] MINDAUGAS KIKIS, supra note no.34, p.128.

Method of Ratoon's Rice Management was simultaneously used by farmers who affiliated in the Central Market of Puspa Agro and applied in 120 hectares of paddy field.[44]

In principle, the Patent Holder has the Exclusive Right with the dimensions moral right and of economic right. Moral Right is for the purpose that his name as the Inventor shall remain be stated at the Patent Certificate although the patent is held by another person such as a corporation where the inventor works as employee.[45] While the Economic Right is the right to enjoy the financial benefit from the exploitation of his right.

Pursuant to Article 19 of the Law Number 13 of year 2016 Patent right give an exclusive substantive right to execute and to prohibit other without authorization:

In the case of patent product: making, using, selling, importing, lease, assign, or provide for sold, or lease or delivered patented products;

In the case of process:using the process production patented process of production are given patent to make goods and others actions.

Patent granted have been central to the innovation system around the globe at least these last fifty years. Economic and technological development as well as globalization have contribute to the explosion of patent application and patent grants worldwide. So the purpose of obtaining patent right in order to execute this invention as the Method of Ratoon's Rice Paddy Management throughout the territory of Indonesia. Considering all ,the (13) advantages of the Method of Ratoon's Rice Paddy Management will enable to support Food Security program and at the same

[44] As discussion between Bapak R. KOOS KONTJAHJO farmer inventor and Bapak FAUZI TANJUNG, PATENT EXAMINER OF DGIP in Jakarta, 9December 2016.

[45] Based on Written Agreement on Assignment between Bapak Koos and Rahmi Jened, Rahmi Jened will eligible for Patent of the Mrthod of Ratoon's Rice Management, whereas patent for the liquid fertilizer belongs to Bapak Koos. Then both of us will endow our patent right to the Indonesian Government. If possible both of these inventions are displayed in all regions of Indonesia as National Movement.

time able to prevent the abuse of this invention by irresponsible parties.

V. CONCLUSION

The right to food is constitutional right enshrined under Art. 25 of Universal Declaration of Human Rights 1945 and Article 33 of Constitution 1945 of Indonesia as a realization of Food Sovereignty.

There are some factors causing the deterioration to the state providing Food Security, among other is the reduction of agricultural land, abuse of Import Permit License.

The method of Ratoon's Rice Management can be offered as one of the best possible solutions because it has many advantages, such as, does not need development of paddy field, does not need irrigation and seed compared to the Conventional Rice Cultivation. This invention can be turned into a National Movement Program which would support food security to ensure the welfare of the Society. There is also arises a cogent need to take proper caution to prevent misappropriation of this invention by the irresponsible parties.

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