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SECURING RIGHTS: FROM SCRIPT TO SCREEN

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MODERN MASTERS UNDER THREAT



Photo: Giacometti Foundation

Alberto Giacometti, Femme de Venise IX, 1956, bronze

Fake copies of this original work have been seized at the request of the Giacometti Foundation.

A booming global art market, worth an estimated 43 billion euros in 2010, has given rise to an alarming increase in the circulation of counterfeit works of art. As the commercial value of art has grown, so too has the number of illegal copies of highly priced works entering the market place. Gallery owners and right holders alike agree that this trend is a cause of great concern. Counterfeit art¹, the unauthorized reproduction of a work of art or any portion of it, undermines the economic and moral rights of visual artists and threatens public trust in the integrity of museums and other custodians of cultural heritage – not to mention the distress caused when art lovers and collectors are duped into spending hefty sums on what were believed to be authentic and original works.

While the illegal copying of music and film and its corrosive effect on employment and the economy regularly make headline news, the plight of individual artists and the threat to their intellectual property (IP) rights resulting from the unauthorized reproduction of their works often go unnoticed. The Giacometti Foundation and the Picasso Succession, responsible for managing rights in the works of two of the 20th century's creative geniuses, Swiss sculptor Alberto Giacometti and Spanish artist Pablo Picasso, have recently stepped up their efforts to raise public awareness about the need to respect the IP rights – economic and moral – of artists in their works.

The works of Alberto Giacometti (1901-1966) and of Pablo Picasso (1881-1973) consistently command top market prices. As such, they regularly fall prey to unscrupulous fraudsters seeking to cash in on their popularity and reputation. In

2009, for example, in one of the most elaborate scams of recent times, the German police recovered some 1,200 sculptures – with a market value in excess of a billion euros – crafted in Giacometti's iconic style. In April 2011, Stuttgart's regional Tribunal charged the defendants not only with commercial fraud and the falsification of original documents but also, thanks to the Foundation's input, with violating copyright, making it the first-ever judgment in which the original artist was recognized as a victim of copyright infringement.

A growing problem

For Véronique Wiesinger, Director and Senior Curator of the Giacometti Foundation, the production of counterfeit art is a growing problem that has reached "industrial" proportions. "Today we are seeing fakes and forgeries infiltrating even museum collections where they are corrupting the way visitors understand the artists' legacies," she noted. "It is urgent that measures be taken to protect the cultural heritage of future generations, [to promote] respect for artists, their works and their IP rights, and to defend the interests of art lovers and collectors," she added. "The prices achieved by authentic art reflect the growing importance of cultural heritage in society and in the cultural economy. The proliferation of counterfeit works that these prices bring about is a stranglehold on the market for authentic works and corrupts the cultural heritage of humanity," she noted. Ms. Wiesinger is convinced that art counterfeiters' sole interest is lucrative. "For them it is simply a case of making easy money on the back of the creative reputation of others," she

1. From an IP law perspective, the term "counterfeit" is usually associated with infringements of trademarked goods while "piracy" often is used in the context of copyright violations – see Article 51 (footnote 14) of the Agreement on Trade-Related Aspects of Intellectual Property Rights of the World Trade Organization (WTO).

The Annette Giacometti Prize

In a drive to raise public awareness about the plight of individual artists and the challenges confronting right holders, the Giacometti Foundation launched the first Annette Giacometti Prize in 2011. The prize, in honor of the untiring efforts of the sculptor's wife to combat counterfeits, was awarded to the Victoria and Albert Museum in London, U.K., for its exhibition entitled "The Metropolitan Police Service's Investigation of Fakes and Forgeries", shown in January and February 2010. The exhibition, which featured confiscated counterfeit art works that, had they been authentic, would have had a value of 4 million pounds sterling, examined the financial and cultural consequences of counterfeit art on contemporary culture.

The Foundation also awarded a cash prize of 10,000 euros to two students, Florian Haribey and Lucas Perrinet, for their short documentary tracing the creation of an art work and its subsequent unauthorized reproduction.

said. "They are vampires and parasites, and their work will slowly but surely suffocate creativity if we do not act."

While fakes and forgeries are not a new phenomenon, a number of factors shaping the global art market over the past 20 years have exacerbated the problem. Today, many more people are buying art than ever before – some commentators estimate as many as 20 times more than in the 1990s. Amid the volatility of financial markets, art has become a place of refuge for those seeking a secure investment. As values have soared, and interest in art has grown, a parallel market in fake art works has emerged.

New technologies

The widespread availability of digital technologies and the low cost of producing traditional art works – painting, drawing, sculpture – have also made it easier for counterfeiters and con artists to enter the art market and to dupe overeager art lovers into buying their fake wares.

"Millions of counterfeit art works are circulating in the online environment", explained Ms. Wiesinger. While the Internet has provided customers "with invaluable tools to locate and buy all kinds of goods ...it has also created ways to sell counterfeits anonymously on a professional and global scale", she noted.

For both the Giacometti Foundation and the Picasso Succession there is little doubt that the notion which took root in the early days of the Internet that content can be downloaded "for free", is undermining the interests of artists and of creativity in general, and poses a significant threat to the cultural sector. They each point to the need to work closely with Internet service providers (ISPs) and online auction sites to identify and develop effective means of stamping out the circulation of illicit copies of art works. Current practices, they note, make it extremely difficult for right holders to effectively monitor the online art market and to track down counterfeit art works.

The absence of organized artists unions means the artistic community is ill-equipped to combat the alarming growth in this illegal trade – a situation further compounded by low levels of IP awareness in relation to visual arts. Ms. Wiesinger explains, "artists rarely mobilize; they are often solitary, concentrated on their creations, whereas counterfeiters are well-organized and typically linked to global criminal networks."

Collective management societies are the closest thing artists have to an organized union, and these typically "operate on a territorial basis less and less adapted to the global marketplace," notes Ms. Andrieu, Head of Legal Affairs of the Picasso Succession. In her view, the scale and complexity of the global counterfeit art scene requires a more comprehensive IP strategy. Collective management societies, she noted, "have a much reduced sphere of intervention, one that is strictly limited to copyright." She said these entities often do not have the resources to take up the time-consuming and costly fight against fake art.

original



fake



Photo: Giacometti Foundation

Alberto Giacometti, [Annette], 1960, oil on canvas

This fake work, bearing a fake signature, dates from the 1970s and was seized at the request of the Giacometti Foundation.

The recent experience of the Picasso Succession, Ms. Andrieu explains, is prompting it to develop a more direct and comprehensive approach to managing and protecting the Picasso Estate. The Succession's overriding aim is to safeguard Picasso's legacy as a great artist. The fame and reputation of the artist's name is such that this involves a multi-pronged IP strategy that also focuses on trademark and personality rights. Not only is the Succession tackling the unauthorized reproduction of Picasso's works, it is also taking concerted action against unauthorized use of the artist's name to brand products.

Picasso's name is synonymous with modernity and inventiveness, values on which society sets great store. Many economic operators, both legitimate and otherwise, have recognized that by associating the artist's name with their goods they can cast their products in a positive light. Some have, therefore, sought to acquire private rights – by registering a trademark – over the name "Picasso", without the authorization of the Picasso Succession. Similarly, Picasso-related domain names, Ms. Andrieu notes, "serve as a motorway leading online users to sites that have nothing to do with Picasso and often involve unauthorized Picasso products".



Photo: Succession Picasso, Paris, 2011

An example of the non-authorized reproduction of Picasso's works on a manufactured product.



In an endeavor to combat this “parasitism”, the Picasso Succession seeks to secure trademark rights where possible and to identify and quash unauthorized use of the artist’s name. But this is an uphill struggle, not least because, in many jurisdictions, it is not possible to oppose a trademark registration without having previously held a trademark in the class of goods for which it is being registered.

Tackling these problems requires a substantial financial investment. Considerable resources are devoted to continuously monitoring the online market and to collecting archival data to establish the authenticity and provenance of art works. The Giacometti Foundation and the Picasso Succession have spent millions of euros in recent years to combat counterfeits. For Ms. Andrieu, these sums are wholly inadequate to pursue each and every instance of infringement.

In a bid to put this issue on the map, these two right holders are joining ranks with other counterparts to share information and mount a coordinated defense of the rights and legacy of the artists whose estates they manage. There is growing support to establish an international association to represent these interests. “Visual arts need to be as well organized as music and cinema to protect their rights.” Ms. Wiesinger asserted.

While the battle to combat the proliferation of counterfeit art is a mammoth task, Ms. Wiesinger is unequivocal about the responsibilities of right owners. “Holders of the rights of an artist also have

obligations. One of them is to enforce the respect of his or her name or heritage. We do not want the reputation of the artist to suffer. We do not want the public to be cheated by looking at second-rate copies and mockeries. We do not want collectors to get swindled, and we want museums to better understand the copyright issues associated with the exhibition, reproduction and conservation of art works” she commented.

Art fraudsters and counterfeiters go to great lengths to give themselves an air of legitimacy. Anyone tempted to enter the art market should remember the well-known caveat, let the buyer beware, because the chance of encountering fake art works has gone up in tandem with the rising value of art.

The scale and complexity of the counterfeit art scene and its destructive impact on individual artists and right holders as well as on our common cultural heritage underline the need to find effective ways to tackle the problem. The visual arts, according to Ms. Andrieu, are particularly hard hit by a widespread lack of awareness on the part of public authorities, the general public and the media, of the damage caused by counterfeit art. She notes, “it is a complex form of counterfeiting which is linked to the intrinsic character of a work. It must be seen not only from the viewpoint of the need to suppress artistic fakes, but from the perspective of copyright protection, a dimension which is often forgotten.”

Forgeries and fakes

What is the difference between a fake and a forgery? When is it possible to copy an art work legally, and when is it a crime? Enter the world of counterfeit art and you soon encounter a plethora of confusing terms. The recent exhibition by the Victoria and Albert Museum in London, U.K. offers some useful insights into these questions.

What is a fake?

... an object that has been tampered with – e.g. a signature has been added or false indications of the object’s history have been introduced with the intention to defraud and increase the item’s value.

What is a copy?

... a direct replica of a pre-existing work or a work that imitates or was created in the style of a given artist. If the work is in the public domain, it is not illegal to make a copy of it provided there is no attempt to deceive or make anyone believe it is an original work. To reproduce a contemporary work protected under copyright law requires the permission of the artist whose work is being copied.

What is misattribution?

... this arises when a mistake is made in determining the original artist of a work and typically occurs when works have been restored and original details masked. This is considered a genuine mistake as there is no intention to deceive.

What is a forgery

... an object that is created from scratch with the intention to deceive – it is a fraudulent imitation of an existing work.

What is fraud?

... “the act of making people believe something is not what it really is for criminal benefit.”

IDEAS NEED INDUSTRY

as industry needs ideas

Ideas are the lifeblood of business. In today's evolving and highly competitive commercial landscape, industry depends on a steady flow of ideas for better ways to develop products and services, present brands and interact with users. These tasks are not rich in research and development (R&D); they are creative in nature and usually generated by highly skilled solution-led innovative individuals and microenterprises from within the creative industries and academia. In this article, **Maxine Horn**, CEO of Creative Barcode,¹ explores the challenges confronting innovative thinkers in an economy increasingly focused on open innovation, and explains how open protection mechanisms, such as Creative Barcode®, can support a more efficient and rewarding open innovation environment.

The source of innovation

Innovation generally starts with an individual – a designer, inventor (independent or otherwise), scientist, engineer or entrepreneur. These individuals, however, rarely have the funds or the skills to single-handedly bring their ideas to market. For this, they rely on the expertise and resources of the business community. Their primary interest is to trade their knowledge, co-creating or collaborating with route-to-market partners rather than commercializing it themselves. This might seem to make for a complementary and natural union. In reality, the relationship is often fraught with problems.

The journey to market is full of twists and turns. For new ideas or knowledge to have any chance of commercial success, the individual behind them has to engage with industry early on in the process. However, disclosing early stage ideas to potential industry partners pre-contract can be a risky business. All too often, creators are unceremoniously cut out of the commercial loop as their concepts, ideas and propositions are taken up and used by business investors without permission or recompense.

This is largely attributable to a widespread belief that “ideas” are bountiful, free, and have no value until they are commercialized. In the era of open innovation, professional creators compete with the crowd for work and are feeling under threat. While open innovation and crowd-sourcing create opportunities for professional creators and business, they also raise important issues about models of remuneration in sectors traditionally engaged on a fee-for-services basis.

For many, the client pitch has given way to a kind of mini-crowd-sourcing, controlled by the client

who sees openness as a mechanism for cost reduction. This creates a trust problem. If open innovation is to thrive, business trading models between these two communities must ensure that professional creators are equitably remunerated.

Safe disclosure at an early stage of innovation is crucial to support collaborative engagement with business partners. Professional creators, however, are extremely vulnerable pre-contract, where disclosure of in-depth proposals is a necessary part of new business activity.

Many in the creative industries and academia are looking for a new, more protective open innovation culture that promotes ethical, trust and permission-based trading of professionally produced ideas. Without commercial respect for knowledge-based ideas, experience and the know-how of professional creators, there is little incentive for them to participate in open innovation activities.

Many companies are reluctant to sign non-disclosure agreements (NDAs), fearing a negative impact on their own intellectual property (IP). However, without such a contract, the ideas and concepts of professional creators are essentially unprotected. This leaves them vulnerable to their ideas being misappropriated and risks creating barriers to innovation in the areas of open innovation and crowd-sourcing.

... and IP protection?

Traditional IP protection mechanisms and laws do not protect ideas as such. When creative firms find that work submitted in response to a genuine business enquiry has been misappropriated by another party, they are often surprised to find themselves in a very weak position with regard to

1. www.creativebarcode.com





CREATIVE[®] BARCODE

Upholding the value of creativity

copyright. Even if the offending party admits they were “influenced” by a proposal submitted by a creative firm, proving copyright infringement can be difficult, time-consuming and expensive. Changing the title of a work and the look and feel of visuals weakens a copyright infringement claim even if the core strategic ideas the visual works represent are used. It is often such core ideas that contain value, and yet they are not protected under copyright law. This is often misunderstood by creative professionals.

As for patents, an estimated 75 percent of all innovation does not qualify for patent protection. An invention must meet the conditions of patentability as defined in national patent laws in order to qualify for such protection. Generally speaking, the claimed invention must be novel, involve an inventive step (be non-obvious) and must have an industrial application (utility). An alternative, however, may be to protect such innovations as trade secrets (see box).

Clearly, ownership of ideas *per se* could act as a brake on innovation and social progress. How then can professional creators protect their interests? They could potentially seek to differentiate their solution-led ideas from the notional ideas

of members of the public. They could also argue that their work is as valuable as any other creative expression or interpretation and make a legal case for enjoying the same economic and moral rights as other creators. But changing IP law is a complex and lengthy process.

A faster and more realistic approach is for the creative industries to unite under a system that denotes fair and non-complex terms of engagement based on agreed principles of trust and permission-based use – in other words, to create an ethical trading standard that becomes the norm by creating a critical mass of users.

If every creative person barcoded their work, it would be possible to record the name of the creator, the date of creation, a description of the creative solution and its visual interpretation as well as when, why and how it was communicated to a third party. If it transpired that another party had indeed presented the very same or a nearly identical solution to a third party, offering a more advantageous deal, that transaction would also be traceable and provable. Such a system promises to help eliminate disputes and eradicate disingenuous misappropriation of works in commercially competitive environments. By reducing

About trade secrets

Trade secrets can be protected for an unlimited period of time. While conditions vary from country to country, generally speaking, to be considered a trade secret, information must:

- be secret (i.e. it is not generally known among, or readily accessible to, circles that normally deal with the kind of information in question);
- have commercial value because it is a secret;
- have been subject to reasonable steps by the rightful holder of the information to keep it secret (e.g., through confidentiality agreements).

Creative Barcode®: how it works

An innovative software application, Creative Barcode® enables users to generate unique digital barcodes that record the date and source of creation, ownership and permission-based usage of a work. These are embedded into proposals, concepts, visuals, films and videos. Underpinned by a Trust Charter agreed between the originator and any third party before disclosure, both parties are protected. The originator guarantees that the barcoded concepts are original, and it is on that basis that the recipient agrees not to disclose or use any of the concepts without permission. The barcode also enables recipients to easily and swiftly deflect any potential challenges from other parties as to the source of a concept. In the event of a dispute, legal action no longer relies on potentially weak copyright infringement claims, but on breach of the trust agreement.

Barcoded files are delivered through the Creative Barcode® file transfer system, which records the date on which a file is sent, and to whom, and the download date. Files are only accessible when the box indicating acceptance of the Trust Charter is checked.

Creative Barcode® also offers its members free access and use of licensing agreements to support deals going forward.

creators' vulnerability, many more opportunities for buying and selling solution-driven creativity are generated.

Creative Barcode®, the world's first digital "open protection" system, offers creators, co-creators and brand owners a digital means of identifying creation date, creation source and ownership and tracking use of conceptual works that are not in the public domain. Designed to reduce the vulnerability of creative professionals, it facilitates safe disclosure of creative concepts, proposals and ideas when pursuing new business, entering open innovation competitions, or developing concepts to present and negotiate a commercialization license with another party pre-contract. Its very simple usage terms mutually protect the creator and the third party. The creator declares to the recipient that the barcoded works are original and theirs to disclose and on that basis the recipient agrees not to disclose or use them in any commercial or non-commercial capacity without the permission of the creator. It is balanced, fair, ethical, and mutually protective.

With over 300,000 freelance operatives and some 30,000 small and medium-sized enterprises (SMEs) operating in the creative industries in the U.K. alone, Creative Barcode® aims to create a critical mass of users operating under safe and

ethical trading terms. This will support the continuous flow of ideas to businesses seeking creative solutions to marketing, new product and service development processes, brands and advertising.

Dispute resolution

In the event of a dispute arising between Creative Barcode® members and file recipients, an adapted dispute resolution service, offered by the World Intellectual Property Organization's (WIPO) Arbitration and Mediation Center is now available.

The Creative Barcode Trust Charter Agreement states:

"Should any dispute arise in relation to an alleged breach of Creative Barcode® terms, we recognise that resolution under the WIPO Mediation Rules would be a more appropriate and cost and time-effective approach than court litigation. We therefore pledge that if a dispute arises, we are prepared to consider resolution through WIPO mediation."

Alternative Dispute Resolution (ADR) procedures, such as mediation or arbitration, allow parties to resolve their disputes in a timely, cost-efficient and confidential manner outside of court. These procedures are consensual, which is why the



The benefits of the Creative Barcode Open Protection System are that it:

- forms a permission-based trust agreement between creators, their clients and co-creation partners;
- enables creators to retain ownership until permission-based usage and terms are agreed;
- identifies all related files and correspondence associated with the proposal from the pitching stage, through to negotiation and development – one barcode per project;
- enables the original source to be identified and corroborated should a challenge or dispute arise;
- provides total security when the file transfer service is used to record the dispatch, receipt and download of files;
- provides a transfer of ownership certificate once the concept has been sold;
- makes available an adapted dispute resolution service by the WIPO Arbitration and Mediation Center.

Project detail showing Creative Barcode.



Photo: Creative Barcode

Parties can also opt for a combination of mediation and expedited arbitration². They thereby first try to settle their dispute through mediation and, if no settlement is reached within a certain time frame, the dispute is submitted to expedited arbitration. Combining procedures increases the chances of settlement. Experience shows that some three out of four WIPO mediation cases are settled and that more than half of WIPO arbitration cases settle, while the remaining arbitration cases conclude with a final award.

Creators, content, knowledge and solution providers are weary of being used to build value for others with no guarantee of remuneration when commercial success leads to revenue shares for all but an idea's originator. By attaching digital barcodes to original concepts, Creative Barcode[®] offers a simple and cost-effective way for creators to claim and retain ownership, and to grant permission-based usage rights for their works. The system enables early and safe disclosure to third parties, reduces the vulnerability of creators and promises to lead to a more efficient and rewarding open innovation environment. It's that simple.

above pledge in the Trust Charter Agreement aims to facilitate submission of disputes to mediation. Mediation is an informal procedure in which a neutral intermediary, the mediator, assists the parties in reaching a settlement of the dispute, based on business interests and commercial solutions.

Parties can also select other ADR procedures under the service, such as WIPO expedited arbitration. This is a more formal procedure in which the dispute is submitted to an arbitrator who issues a decision that is binding on the parties in a short time frame.

How it all began

The founder of Creative Barcode[®], Maxine Horn, has over 20 years' of experience in the design, innovation and knowledge transfer sectors of the creative industries. From 1993 to 2011, Ms. Horn founded and ran British Design Innovation (BDI), a trade association for designers and innovators. Her extensive experience of the creative industries and the challenges professional creators face prompted her to conceive of Creative Barcode[®] which was launched in September 2010.

2. The different ADR options available are explained in detailed Guidance Notes on the Creative Barcode[®] website: www.creativebarcode.com.

CRACKING IDEAS

Aardman, creators of Britain's national treasures, Wallace & Gromit, have learned how to retain, and profit from, their intellectual property (IP). This article was first published in the May 2011 issue of, the e-newsletter, *IP Insight*¹, and has been adapted with the permission of the IP Office of the United Kingdom.

Aard Man began life as a spoof superhero. He was sold to the BBC in a short animation for £25 and the eponymous company was set up to bank the check. In the far-off days of the 1970s, no one imagined how valuable the firm's characters would become.

Today, Aardman is an Oscar-winning animation studio working on three sites in Bristol, U.K. The firm currently employs over 500 people to work on its productions, including a new movie with Sony Pictures, *Arthur Christmas*, due for release later this year.

"Everything we do is underpinned by intellectual property," says Sean Clarke, who joined Aardman from Disney 12 years ago to become the company's Head of Rights. "As a company, we have developed our ability to create IP that goes across all platforms."

"If our characters are going to have any kind of value or make a return, we have to be sure we can take them to market securely. So over the years, the IP Office has been one of our key partners. Our IP is what makes us."

Aardman's first hit was a cheeky clay model called Morph. He was created on the kitchen table of the two founders, David Sproxton and Peter Lord, and stole the show on *Vision On*, a BBC arts program for children.

Morph was followed by Wallace & Gromit, a comical pair of inventors dreamed up at film school by Nick Park. He is now a director at Aardman, which gave him the platform to turn the characters into global movie stars and multiple Oscar winners.

Since then, characters such as Shaun the Sheep and fellow flock member Timmy have spun off into their own TV shows, which now play in 120 different countries around the world.

In parallel with its own creative work, Aardman uses its distinctive capabilities in clay modelling and computer-generated animation to produce advertising campaigns, as well as videos for music stars. About a quarter of its annual sales comes from these commercial commissions. The other

three-quarters are based on projects in which Aardman has a stake in the IP.

In line with the experimental style of its founders, the company is still set up to keep the creative process as fluid as possible. "We like people to move from project to project," says Mr. Clarke. "The challenge is the same whether it's a movie, commercial or TV show: to invent a character in a story with a beginning, middle and end."

"Our creatives always work with a mentor to progress an idea into a story, into a treatment, into a storyboard and into an animation. When they join the company, everyone signs over their copyright in their work to us. We make sure that we strike a balance by giving them an incentive to keep generating ideas."

1. www.ipo.gov.uk/news/newsletters/ipinsight.htm



Photo: Aardman Animations Ltd. 2011

"At various points in a production, we engage freelancers and third parties to help develop scripts, sets, models and the animation process. All the rights in this work done on our behalf have to be clearly transferred to us."

Wallace & Gromit, a comical pair of inventors dreamed up at film school by Nick Park.

Aardman is wary about even looking at unsolicited submissions. For one of its films, *Chicken Run*, someone from outside claimed it had originally been their idea. "In fact, our team dreamed it all up off site in the outer Hebrides," says Mr. Clarke. "We have now adopted a protocol to consider ideas/submissions and state this clearly on our



Morph, a cheeky clay model created on the kitchen table of Aardman's two founders, David Sproxton and Peter Lord. The company's first hit.



Photo: Aardman Animations Ltd 2011

website to help protect our position in the future should anyone claim we have infringed their copyright and that they had sent us a suggestion at some point in the past."

Confidentiality is also important in the creative process. "A lot of people want to know the inside story on our next production. It can be hard to keep quiet when you are expected to share what you are doing every minute of the day on Twitter. We just make sure that our people know what they can say and when. In launching a film or a program, it's best to control the release of information to maximize the impact of your marketing."

The production team has to be equally careful about checking every detail of the film. "We have two people who look over the movies to make sure we have clearance for any music or brands that we use."

In fact, Mr. Clarke seeks to turn such appearances to Aardman's advantage. In *Flushed Away*, the studio's third collaboration with DreamWorks Animation, the boat on which the rats make their escape is called "The Jammy Dodger".

As it is also a brand owned by Burton's Biscuits, an on-pack promotion was agreed. "They were given a better presence in store on the shelf, and had an uplift in sales," says Mr. Clarke. "We were also able to generate more awareness around the release of the film."

"Our IP is what makes us"

In managing these sorts of commercial relationships, trademarks in characters like Wallace & Gromit are essential to Mr. Clarke and his 18 colleagues at Aardman Rights. "We look at any new production idea and the characters involved as they are developed. This enables us to set commercial expectations and understand if something is going to be a multi-platform property like Wallace & Gromit, or if it is going to do the rounds of festivals and only be released digitally."

Usually, Aardman will register a character's name as a trademark, although the use of Wallace is too widespread to qualify. The characters' likenesses are registered by submitting a series of images and any associated logos. Domain names are protected as well. If a new character is shaping up to be a big hit, the trademark will cover all potential categories in which merchandize might be produced: for example, gifts, stationery, computer games, and clothing.

As well as approaching brands like Burton's Biscuits directly, Mr. Clarke meets potential licensing partners at trade shows.

He is open to ideas, but screens all products carefully for quality and consistency. Any proposals must first be cleared, and then prototypes and samples are sent for approval.

Although the whole family can enjoy watching Wallace & Gromit, the associated merchandize tends to appeal to an older, British audience. Mugs and teapots do particularly well.

Shaun the Sheep and Timmy Time, two spin-off TV shows, have the potential to generate further income. They are directly aimed at a younger audience and as there is no dialogue they cross into international markets more easily.

When it was launched in 2007, Shaun the Sheep merchandize was originally aimed at a pre-school audience. However, explains Mr. Clarke, when planning a merchandize campaign “you don’t really know how the audience will react until you have launched the show. It turned out that whilst the show had a pre-school audience there was by far a bigger audience of older children and adults watching. So we had to create a new range of assets and re-launch the brand focusing on this opportunity.”

In negotiating these rights, Mr. Clarke says, you face an ever-changing landscape. As sales of DVDs, in particular, are falling away, he spends a lot of time working out how best to reach audiences through iTunes, IPTV, mobiles and video-on-demand. “The digital space changes so fast; we try to stick to non-exclusive arrangements. There are so many platforms open to us; if anyone wants an exclusive, they are going to have to pay for it substantially.”

Mr. Clarke’s team keeps a central record of where all Aardman’s trademarks are registered, as well as the hundreds of licensing agreements that it concludes. As far as possible, he tries to use a standard set of terms, but there will always be situations which call for tailor-made agreements, for example in relation to new areas of exploitation.

In marketing Aardman’s catalogue, Mr. Clarke’s objective is to make the most of big releases. To leverage the publicity generated by the release of the latest Wallace & Gromit short film, *A Matter of Loaf and Death*, the three previous films were made available on DVD, re-mastered in high definition and promoted on iTunes. A Wallace & Gromit film, however, is released on average only once every five years. So Mr. Clarke is developing other ways to maintain the audience’s interest in the characters. In 2009, in partnership with the U.K. IP Office, Aardman produced a themed exhibition for young innovators which opened at London’s Science Museum. It is currently on display in the U.K., at the Life Science Centre in Newcastle-upon-Tyne.

Even Morph is making a comeback, having lent his name to “make your own Morph” model-making kits, T-shirts, bookends and greeting cards.

“It’s nostalgic, of course,” says Clarke. “These are usually gifts for adults who remember Morph from their childhood, but these rights have powerful associations. Through trademarks, you can retain them forever.”

Lessons from the Aardman experience:

- Search the markets in which you plan to operate for any competing IP.
 - Evaluate each idea and research your IP needs in line with your expectations of how well an idea might perform commercially.
 - Reserve domain names as early as you can.
 - Use IP office resources to identify the form of IP that will give you the best return.
 - Establish ownership in any ideas, while ensuring employees and suppliers have an incentive to keep new ones flowing.
 - Always look at different ways to promote and sell your catalogue of products and be prepared to explore new routes to market. Be sure not to give away exclusive deals too soon.
 - When starting out as an animator, go to a brand licensing trade show and find an agent to arrange licensing deals. Be clear about how you want your name to be used.
 - If you find it tough to enter the market, consider a partnership with someone who can present your idea in a more compelling way. This means sharing the reward, but reaching market more quickly.
 - Keep a register of all your IP rights and all your licensing deals. Once your business has expanded you can hire a specialist to manage the portfolio.
-

SECURING RIGHTS: From Script to Screen¹

This year's Sundance Film Festival, the premiere independent film event, witnessed a resurgence of interest in the indie sector. The return of distributors and a renewed readiness to part with their cash is bringing a fresh breath of optimism to the industry. Of the 118 films selected for screening at the Festival, around 100 entered the event without a distribution deal. By the end of the festival, approximately 70 entries had been picked up by a distributor, doubling 2009 sales figures. With the high-end price tag of approximately US\$7 million for a feature-length film this is promising news for all filmmakers.

The 2011 Sundance Film Festival featured 118 feature-length films from 29 countries and 40 first-time filmmakers, including 25 in competition. These films were selected from 3,812 feature-length film submissions of which 1,943 were made in the United States and 1,869 were made internationally. Ninety-five of the films released at the Festival were world premieres.

Source: Sundance Film Festival 2011
<http://www.sundance.org/festival/article/2011-competition-film-announcement>

1. This article draws on a forthcoming WIPO publication on film distribution entitled, *From Script to Screen: The Importance of Rights Documentation in the Distribution of Films*

A film involves a collection of copyrights that relate to different elements of production, a screenplay (based on a book, for example), music, directing talent and actors' performances. Each of these rights needs to be properly transferred, assigned, and documented for the producer to be able to claim ownership of the film and license distribution rights.

Before engaging in negotiations with a film distributor, be it a major studio, television network or cinema distributor, film producers must ensure that all chain of title protocols are strictly respected and that clear ownership of rights in a film has been secured.

Distributors need to be confident they are licensing rights from the undisputed copyright holder. Securing all of the rights associated with the different parties involved in making a film is key to the successful completion, sale and exploitation of a film.

Securing chain of title documentation

Chain of title documentation that identifies right holders and confirms that all relevant rights agreements have been concluded is the linchpin of distribution deals. Without such documentary evidence no effective transfer, assignment or licensing of rights can occur. While variations in relation to what can or cannot be assigned are determined by national law, the need to demonstrate clear ownership of a protected work is an overriding characteristic of all transactions in the global film industry.

This task falls to the film producer. The types of agreements that need to be signed to secure potential financing, overseas partners and distributors are extensive and often complex.

So, what's involved?

Option agreements: Purchasing an option to acquire film and television rights in a literary work (novel, play or original script) is often the starting point in developing a film or television project. This involves establishing an *option agreement*, which states that the owner of the underlying work – a script, book, article or short story – agrees to grant to the producer, for a specified period, the right to produce a film. If the film is made (and the option is exercised) then the copyright owner is paid an agreed fee for the ongoing right to use the work in the film. Option agreements are scrutinized many times during the life of a film project.

Director agreements: Producers also need to establish agreements with their film directors. *Director agreements* address a range of issues and, depending on the jurisdiction concerned, the director can be identified as an author and joint owner of a film with corresponding rights, as an employee, or as both. If engaged as an employee, the director is paid a salary by the producer during pre-production (development), principal photography (filming) and post-production (editing). In practice, in addition to this salary, directors also often receive royalties from film distribution. The obligation to respect a director's work is often included in these agreements. A true "final cut" provision – granting the director the right to decide on the final version of a film shown

in cinemas – which is integral to the director’s moral right – applies in France and several other European countries, although is rarely found in U.S. and U.K. agreements.

Actor agreements: The artistic contributions of actors can significantly enhance the quality of a film. The choice of celebrity to star in a production can have an enormous impact on audience ratings and box office takings. It can also help the producer secure financing for a picture. Agreements relating to the rights of performers, therefore, require careful attention. These can be quite complex, especially insofar as they touch on issues surrounding the transfer of intellectual property (IP) rights to the producer and working conditions, thus blending IP with labor law. Again, distributors need to be sure these issues have been adequately addressed before concluding a deal.

Photo: iStockphoto © Héliane Vallée



Music clearances: Music is a key element in creating the mood of a film, and one of the biggest challenges facing producers is the need to secure licenses to use all the music featured in a film. Clearance of music rights is one of the first things distributors check when negotiating a deal as it can be very expensive to change music once a film has been completed. These agreements are often extremely detailed and specific in terms of the rights granted. Distributors, including broadcasters, will typically request a music cue sheet listing every piece of music used and its duration – down to the very second – and whether it can be used as a theme song, included in a soundtrack album and in the trailer and so on.

Film clip and photography agreements: Agreements relating to film clips and still photography are also required in several jurisdictions.

These relate to scenes in which other copyright-protected works may appear in the background of the film – on a television, for example, or in a scene in a movie theatre – or the insertion of stock footage in the film. However, in other countries, incidental use of a copyright-protected work, such as a painting in the background of a scene, is covered by a limitation to copyright. These agreements and their associated licenses are similar to those relating to music licenses in that they specify the duration of the clips and their use. Distributors must ensure that the person or entity licensing a clip owns all related underlying rights as well as the right to license that clip.

Product placement: Movie product placement has become an increasingly popular means of advertising branded goods and is a lucrative source of revenue for film producers. In 2010, for example, Apple, the high-tech giant, appeared in more box office hits than any other brand (according to *Brandchannel.com*). Under these associated agreements, producers can secure revenues from trademark owners in return for positively representing a featured product or products in film scenes. Such agreements outline each party’s specific obligations, including permission to use elements of the manufacturer’s IP assets, such as the trademark or logo. These agreements can be of considerable value.

Name and likeness agreements: If the name, phone number or photograph of an individual, business or organization is used in a film, it is always best to obtain permission. Concluding *name and likeness license agreements* is a very complex area, and laws differ across countries.

Insurance: With so many elements to consider and rights to clear, it is no surprise that distributors require producers to purchase errors and omissions (E&O) insurance to safeguard against problems with rights acquisition. It is all but impossible to close a distribution deal without such coverage. Distributors, understandably, are unwilling to assume the liability that comes with potential copyright violations when they start distributing a film. The producer is best placed to confirm that all of the film’s chain of title paperwork is in order, that payments have been made and that proper authorizations have been secured. The distributor will want the producer

A resurgence of interest in the indie sector was evident at this year’s Sundance Film Festival

2. www.brandchannel.com/



Photo: iStockphoto © Viktor Chernobay



to provide the paperwork confirming that he has the chain of title documentation in his possession.

In this connection, distributors may wish to verify the status of copyright ownership or authorship by consulting copyright registries where they exist. While there are no formal requirements for registering copyright, voluntary registration systems do exist in some parts of the world. Registration with guilds, producers' organizations or even through private attorneys also provides proof of authorship and the date on which a work was created.

Distribution agreements: A film producer can begin negotiating with distributors interested in licensing a film as soon as they sign an option agreement for the underlying material. Alternatively, they can wait to present the film at a festival like Sundance. The deal they conclude with the distributor is sealed in the *distribution agreement* which defines the terms of business, the rights included and the way in which expenses are covered and revenues divided.

The film distributor is the legal entity (person or corporation) with the right to market, advertise and generate revenue from the copyright vested in a film by releasing it to the public in a defined territory, language version and medium. A film may be distributed through various media including cinema, television, DVD, video-on-demand

(VOD), non-cinema venues (such as airplanes, ships at sea, army bases), and via online download and streaming formats. Distributors wield significant economic clout and in the world of independent film this is magnified. They therefore play a pivotal role in bringing films to the screen and in determining their commercial success, be it in terms of box office revenue, awards or word-of-mouth popularity.

A passport to the global market

Chain of title documentation is a film's passport to the global marketplace. It is the foundation on which all creative ideas and efforts rest. With this in hand, investors can be confident they will enjoy the fruits of their investment and, if the film is a hit, a solid legal claim to its profits. For producers, securing proof of title is a means of obtaining the necessary funding to get a film project off the ground and onto screens for the entertainment of audiences across the globe. With the proliferation of on-demand Internet, mobile, cable, and satellite services – the fastest growing areas of distribution – chain of title documentation will remain a crucial element in enabling the distribution of films to an expanding variety of viewing platforms and in ensuring the financial viability of the industry.

THE GLOBAL INNOVATION INDEX:

Insights and trends



In June, INSEAD and its knowledge partners, including the World Intellectual Property Organization (WIPO), released jointly The Global Innovation Index 2011. In this interview, **Professor Soumitra Dutta**¹, the Roland Berger Chaired Professor in Business and Technology at INSEAD, explains how The Global Innovation Index (GII) 2011 seeks to generate deeper and more sophisticated insights into the innovation process and emerging innovation trends in different countries around the world. He explains that the GII is “a tool for action” enabling policymakers to overcome innovation bottlenecks by identifying and adopting best national innovation practices.

What is the motivation for the GII project?

The GII project was launched by INSEAD in 2007 with the simple goal of determining metrics and approaches for better capturing the richness of innovation in society, and going beyond such traditional measures of innovation as the number of PhDs, the number of research articles produced, the research centers created, patents issued and research and development (R&D) expenditure.

Several factors motivated the setting of this goal. First, innovation is important for driving economic progress and competitiveness – both for developed and developing economies. Many governments are putting innovation at the center of their growth strategies. Second, there is increasing awareness that the definition of innovation has broadened – it is no longer restricted to R&D laboratories and published scientific papers. Innovation can be, and is, more general and horizontal in nature, and also includes social innovation and business model innovation. Finally, recognizing and celebrating innovation in emerging markets is seen as critical for inspiring people, especially the next generation of entrepreneurs and innovators.

What role do knowledge partners play?

In the 2011 edition of the GII, Alcatel-Lucent, Booz & Company, the Confederation of Indian Industry (CII) and WIPO joined INSEAD as knowledge partners in elaborating the GII. These knowledge partners share a common belief in the growing importance of innovation in enabling economic growth in both developed and emerging nations. They have provided valuable input to the research underlying the GII, contributing ana-

lytical chapters to the GII Report and participating actively in the dissemination of results. For example, WIPO’s input has been useful in refining the choice of variables, in providing data related to intellectual property and in discussing the role of creativity in innovation; Booz & Company have provided knowledge from their corporate surveys of global innovation leaders; and the CII has contributed useful perspectives on innovation in India and other emerging markets.

In addition, for the 2011 edition, the Joint Research Centre (JRC) of the European Commission performed a thorough robustness and sensitivity analysis of the GII. Last but certainly not least, an Advisory Board was set up comprising a select group of international practitioners and experts with unique knowledge and skills in the realm of innovation. The GII project has benefited from the knowledge of these partners, and contributions from other public- and private-sector leaders interested in understanding and improving the innovation process will continue to provide valuable input.

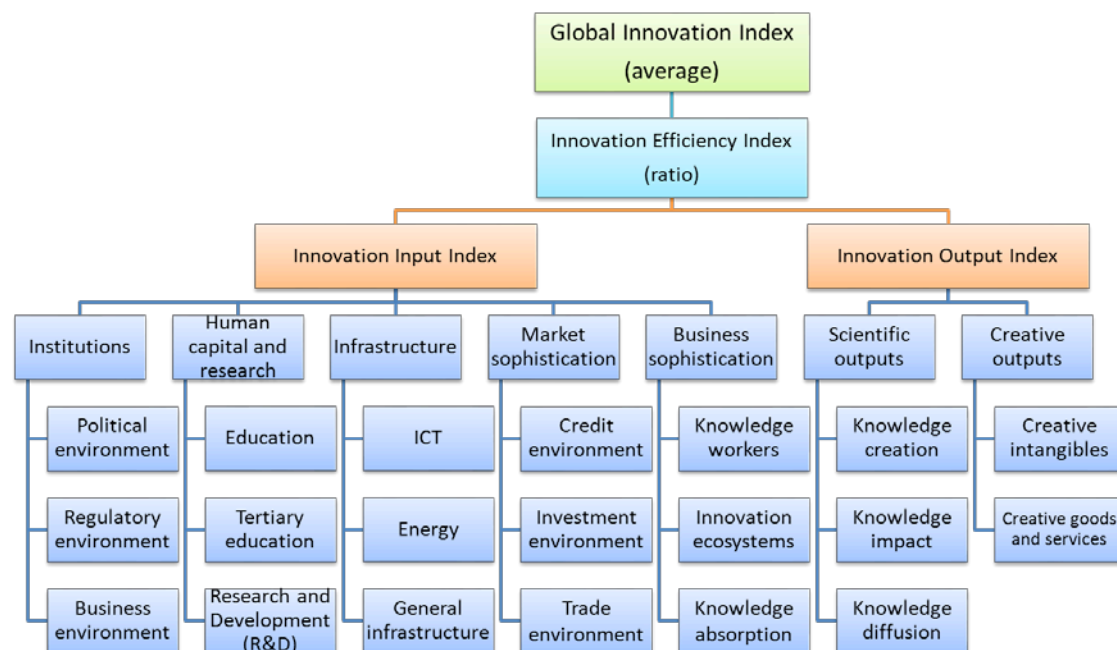
Can you tell us more about the framework of innovation used for the GII?

The GII relies on two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index, each built on several pillars. Five input pillars capture elements of the national economy that enable innovative activities: (1) institutions, (2) human capital and research, (3) infrastructure, (4) market sophistication and (5) business sophistication. Two output pillars capture actual evidence of innovation output: (6) scientific output and (7) creative output. The pillars are divided into sub-pillars, each of which is composed of

1. Professor Dutta is editor of the Global Innovation Index 2011 and co-founder and academic director of INSEAD’s e-lab, a center of excellence in teaching and research on the digital economy.



Figure: Framework of the Global Innovation Index 2011



individual indicators.

Sub-pillar scores are calculated as the weighted average of individual indicators, and pillar scores as the simple average of the sub-pillar scores. Four measures are then determined (see Figure):

- The Innovation Input Sub-Index is the simple average of the first five pillar scores.
- The Innovation Output Sub-Index is the simple average of the last two pillar scores.
- The overall GII is the simple average of the Input and Output Sub-Indices.
- The Innovation Efficiency Index is the ratio of the Output Sub-Index to the Input Sub-Index.

Can you describe some of the top ranked economies in this year's edition of the GII?

The 2011 edition of the GII Report covers 125 economies representing 93.2% of the world's population and 98.0% of the world's gross domestic product (GDP) (in current US dollars). Before I talk about specific economy rankings, it is important to note that the report also includes five chapters contributed by the knowledge partners on specific aspects of global innovation. These include regionally-focused contributions on Latin America and India, and in-depth treatment of specific issues such as the measurement of creativity, innovation in smart cities and the

emerging global footprint of R&D.

The top 10 economies in the overall GII 2011 rankings are dominated by Europe with six economies, and include two Asian economies and two North American economies: Switzerland, Sweden, Singapore, Hong Kong (SAR, China), Finland, Denmark, the United States, Canada, the Netherlands, and the United Kingdom. Leaders in their respective regions are Switzerland (1st), Singapore (3rd), the U.S. (7th), Israel (14th), Chile (38th), Mauritius (53rd) and India (62nd). By income group, from high to low-income economies, the leaders are Switzerland (1st), Malaysia (31st), China (29th) and Ghana (70th). China, at position 29, is the only developing economy to be among the top 30; Malaysia (31st), Chile (38th), the Republic of Moldova (39th) and Lithuania (49th) are among the top 40. Among the high-income economies, three economies lag behind: Greece reached the median score (63rd), followed by Trinidad and Tobago (72nd) and Brunei Darussalam (75th).

The top 10 economies in the Innovation Output Sub-Index are Sweden, Switzerland, the Netherlands, Germany, the U.S., Finland, Denmark, Israel, the U.K. and Canada. The Output Sub-Index, like the overall GII, is dominated by Europe (seven economies) and includes two North American economies and Israel, which has a remarkable showing (8th on Output, 14th on the GII and 1st

at the regional level). The best-ranked economies within each region are Sweden (1st), the U.S. (5th), Israel (8th), the Republic of Korea (11th), Brazil (32nd), India (44th) and Nigeria (62nd). The top 10 economies on the Innovation Input Sub-Index are Singapore, Hong Kong (SAR, China), Switzerland, Ireland, Sweden, Finland, Denmark, Canada, Luxembourg and the U.K. Regional leaders are Singapore (1st), Switzerland (3rd), Canada (8th), Israel (20th), Chile (36th), South Africa (40th) and India (87th).

The top 10 economies in the Innovation Efficiency Index² are Côte d'Ivoire, Nigeria, China, Pakistan, the Republic of Moldova, Sweden, Brazil, Argentina, India and Bangladesh. This list includes some of the most densely inhabited economies in the world: China, India, Brazil, Bangladesh and Nigeria. These countries are among the 10 most populous economies in this year's sample, and (except for Bangladesh) place 1st on Efficiency in their respective regions.

What lessons can be inferred?

The GII project offers a number of insights. First, innovation is a global phenomenon. It is not only OECD³ economies that innovate – innovation leaders are found across the world, as is evident from the presence of European, Asian and North American economies in the GII's top 10. All regions are represented in the upper half of this year's rankings. BRIC⁴ economies and emerging markets in general are significantly improving their innovation capacity: China, Brazil and, to a lesser extent, India have achieved encouraging results, especially in the Output Index. The worldwide relevance of the capacity, consequences and necessity for innovation highlights the need for a global perspective in understanding the process and underlying premises of innovation.

Second, innovation requires a multi-stakeholder effort. Governments must help build institutions, develop human capital and adopt policies that are friendlier towards markets and technological catch-up. In turn, firms in the private sector must do their part by participating more fully in financing and executing R&D projects; making venture capital available; and through increased investment in knowledge-intensive sectors. It is useful to note that the largest gaps between the high and low-income economies occur in the institutions, market sophistication and human capital and research pillars.

Third, it is important – and feasible – to take action that will help accelerate innovation in a particular area or economy. This has been demonstrated by multiple success stories and best practices worldwide. The GII Report offers important avenues for action in this regard. Some “weak pillars” need strengthening: in more than one economy, a relatively poor performance on pillar 2 (human capital and research), goes hand in hand with low levels of scientific output. Economies around the world can use the results of the GII to identify their own strengths and weaknesses, compare themselves against similar economies and build consensus around desired areas of action.

What challenges did you face in measuring innovation?

Over the last several years, a serious body of literature has attempted to outline metrics for innovation. The GII builds on these approaches and attempts to incorporate new perspectives on both traditional and emerging views of innovation. However, thinking about innovation in a broad, holistic manner, such as that captured by the GII, is relatively recent and many aspects of innovation, such as those in the informal economy, remain hard to identify and harder still to measure with objective metrics.

One of the GII's ambitions is to maximize the number of economies evaluated in the study. This continues to be a challenge, because obtaining timely and relevant metrics on a global basis is often not possible. All available official data from international organizations such as the World Bank, the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the International Telecommunication Union (ITU) were considered, although many critical measures of innovation are not covered in the activities of these organizations. Finally, combining various metrics into a simple measure of an economy's innovation is fraught with statistical and other complexities, especially when considering economies that are often vastly different in size, population and stage of economic development.

2. While the GII is calculated as the average of the Input and Output Sub-Indices, the Innovation Efficiency Index is calculated as the ratio of the Output over the Input Sub-Indices.

3. The Organisation for Economic Co-operation and Development

4. Brazil, Russian Federation, India and China

BARBIE AND BRATZ: THE FEUD CONTINUES

Since 1959, Barbie has been the queen of the fashion-doll market. She even has close to two million friends on Facebook. However, in 2001, Bratz fashion-dolls entered the market, and their funky, trendy attitudes led them to quick success. Within five years Barbie had a formidable competitor in Bratz dolls (“The Girls with a Passion for Fashion!”) which had captured about 40 percent of the market. Barbie manufacturer Mattel responded by suing MGA Entertainment (creator of Bratz), and the two California-based companies have been locked in battle ever since. The reason? An employment agreement that was ambiguous about intellectual property (IP) rights.

Background

In 2000, while he was still employed by Mattel as a designer in the “Barbie Collectibles” department, Carter Bryant pitched his idea for Bratz dolls to MGA, providing some preliminary sketches and a crude mock-up of a doll. MGA offered him a consulting agreement and, on the day on which he signed the agreement with MGA, Mr. Bryant informed Mattel that he was going to resign. He gave two weeks’ notice and set to work immediately to create a prototype Bratz doll for MGA. The drawings used to pitch the Bratz idea were the basis for the first generation of Bratz dolls, named Cloe, Yasmin, Sasha and Jade.

With the commercial success of Bratz, Mattel uncovered Mr. Bryant’s involvement. This led to the first lawsuit in 2004, asserting Mr. Bryant’s violation of his employment agreement. Numerous other claims and counterclaims were filed, and all issues concerning ownership of Bratz were consolidated in the United States Federal District Court for the Central District of California.

2004 District Court decision

Mr. Bryant settled with Mattel before trial, but the two companies continued their legal battle. The first phase of the case, decided in July 2008, dealt with claims relating to the ownership of the Bratz concept, and resulted in a victory for Mattel¹. The jury found that Mr. Bryant’s ideas for the names “Bratz” and “Jade” as well as the preliminary sketches and prototype were all generated within the scope of his employment agreement with Mattel, making Mattel the rightful owner of the dolls². The jury issued a general verdict (i.e., without specific findings) that MGA wrongfully acquired the ideas and was liable for infringing Mattel’s copyright. It awarded Mattel US\$100 million.

Given the general verdict, the judge found that it was unclear exactly which Bratz dolls were infringing. Therefore, to determine equitable relief³, he made his own finding that most of the dolls infringed.

The District Court imposed a constructive trust – an equitable remedy directing transfer of property to the rightful owner – over all Bratz trademarks, effectively handing over the entire business to Mattel. The court also issued an injunction prohibiting MGA from marketing or producing not just the four original dolls but all other Bratz dolls.

2010 Ninth Circuit decision

MGA appealed to the United States Court of Appeals for the Ninth Circuit, which on July 22, 2010, reversed the District Court decision, vacating the constructive trust and injunction.

Ideas for “Bratz” and “Jade”

In reaching its decision to vacate the constructive trust, the Ninth Circuit discussed:

- whether Mr. Bryant’s employment agreement assigned his ideas for “Bratz” and “Jade” to Mattel; and
- if so, and Mattel was the rightful owner, whether the constructive trust transferring MGA’s entire trademark portfolio was too broad.

Mr. Bryant’s employment agreement with Mattel stated:

“I agree to communicate to the Company as promptly and fully as practicable all inventions conceived or reduced to practice by me (alone or jointly by others) at any time during my employment by the Company. I hereby assign to the Company . . . all my right, title and interest in such inventions, and all my

1. *Mattel, Inc. v. MGA Entm’t, Inc.*, 2010 U.S. App. LEXIS 24150 (9th Cir. Cal. Oct. 21, 2010)

2. For simplicity, only the most relevant parties and issues will be discussed.

3. Equitable relief involves the granting of nonmonetary judicial remedies where available legal remedies, such as monetary damages, cannot sufficiently repair the injury.

right, title and interest in any patents, copyrights, patent applications or copyright applications based thereon.”

The agreement specified that “the term ‘inventions’ includes, but is not limited to, all discoveries, improvements, processes, developments, designs, know-how, data, computer programs and formulae, whether patentable or unpatentable.”

The language of the contract could have been interpreted to cover *ideas*, as evidence was presented that it was common knowledge in the industry that the term *invention* included *ideas*. On the other hand, in contrast with agreements signed by other Mattel employees, which *expressly* assigned ideas, Mr. Bryant’s agreement did not. Given this ambiguity, the district court erred in holding that the agreement clearly covered ideas.

Notwithstanding the issue of which company owned the ideas for “Bratz” and “Jade,” the Ninth Circuit vacated the constructive trust because there had been significant value added to the line of dolls by MGA’s later efforts and creativity. The opinion by Chief Judge Alex Kozinski explained that “[i]t is not equitable to transfer this billion dollar brand – the value of which is overwhelmingly the result of MGA’s legitimate efforts – because it may have started with two misappropriated names.”

Bratz drawings and prototype

Addressing the copyright injunction, the court considered:

- whether Mr. Bryant’s employment agreement effectively assigned the Bratz drawings and prototype; and
- if Mattel did own the copyright in those works, whether the later-developed Bratz dolls infringed those rights.

The discussion on the first point focused on whether the items were created under the employment agreement which assigned copyrightable works created “at any time during [Mr. Bryant’s] employment by [Mattel].” The Ninth Circuit found that the District Court erred in holding that the employment agreement assigned to Mattel, works made by Mr. Bryant both during working hours and in his own time during evenings and weekends. Evidence at the trial supported both interpretations; there was testimony by employees who thought they owned the rights to projects developed in their own time, while others testified that they thought everything they did belonged to Mattel. Because the language of the agreement was ambiguous, the

Ninth Circuit determined that the issue should have been submitted to the jury and that this error required vacating the copyright injunction.

On the second point, the key question was whether MGA went beyond copying the *idea* in making the dolls and copied the *particular expression* of the Bratz dolls.

Bratz dolls, marketed as “The Girls with a Passion for Fashion!”



Photo: MGA Entertainment

The Ninth Circuit uses a two-part “extrinsic/intrinsic” test to distinguish between permissible appropriation of an idea and impermissible copying of the expression. For the “extrinsic” stage, the court first determined which of the similar elements in the copyrighted works and the challenged works were protectable and which were not. When the unprotectable elements (e.g., ideas and unoriginal elements) were taken away, only the specific and original expressions of an idea, which are protectable under copyright law, remained. Next, the court considered whether the idea could be expressed in many ways (for example, a mystery novel) or few (for example, a computer icon showing where to discard files). Protection of the first type is deemed “broad” and of the second type “thin”. If copyright protection is broad, the challenged work will infringe if it is “substantially similar” to the copyrighted work. If copyright protection is thin, the challenged work will infringe only if it is “virtually identical” to the copyrighted work.

In discussing the scope of copyright protection afforded to the prototype, the Ninth Circuit noted that, although the fashion-doll market includes many small plastic figures representing young females, the Bratz dolls also have exaggerated features, including an oversized head and large feet. It disagreed with the District Court’s conclusion that there are many ways to depict an exaggerated human figure, explaining that the features

4. 2010 U.S. App. LEXIS 24150 at *7-13

5. Id. at *13-32



can be exaggerated only so much before they stop representing an ideal type and the doll becomes odd looking. Because of the narrow range of possible expressions, the scope of copyright protection for the prototype was deemed thin and, thus, the District Court had erred by applying the wrong standard of infringement.

As for the Bratz drawings, the Ninth Circuit agreed with the District Court that the doll sketches should be afforded broad copyright protection, because there are many ways to express the idea of young, hip female fashion-dolls with exaggerated features – using options for face paint, hair color and style, clothing and accessories. However, when applying the “substantially similar” test to the sketches, the Ninth Circuit found that the District Court failed to first filter out all the unprotectable elements (trendy clothing, unique attitudes) in making its determination of infringement. Although some of the first-generation Bratz dolls could be considered “substantially similar” to the sketches, this was not true of the subsequent generations since the clothing and hairstyles were markedly different.

2010 District Court decision

Following the appeal on October 22, 2010, the District Court granted MGA’s motion for a new trial on all claims and issues. In addition, the parties’ claims against each other for trade secret misappropriation, previously severed from copyright and trademark infringement claims, were consolidated for trial. The new trial started on January 11, 2011, and the jury rendered its verdict on April 21, 2011⁶.

Applying the “extrinsic/intrinsic” test, the District Court had determined that no subsequent generation dolls (except for two) were “substantially similar” to the protectable elements of the sketches. The ultimate decision regarding the interpretation of the employment agreement, first-generation dolls, the remaining two subsequent generation dolls, and the sketches and prototype, were all given to the jury, which found in favor of MGA.

On the misappropriation claims, Mattel failed to convince the jury that it had a trade secret in any of the Bratz materials and that its trade secrets in other documents had been misappropriated⁷. MGA, however, prevailed in its claim, based on evidence that Mattel had operated a “market intelligence group” that attended international toy

fairs posing as retailers or reporters to gain access to competitors’ non-public showrooms and to confidential information concerning future products. The jury found that Mattel’s behavior was willful and malicious and awarded US\$3.4 million for each of 26 instances of misappropriation, totaling US\$88.5 million in damages.

However, the jury found that MGA and its CEO had intentionally interfered with Mattel’s contractual relations with Mr. Bryant, and it awarded Mattel US\$10,000.

What’s next?

Barbie apparently intends to fight on, as Mattel has filed a motion for judgment as a matter of law, arguing that MGA failed to prove misappropriation of trade secrets. Meanwhile, the battle also continues on issues of damages and fees. MGA is requesting US\$177 million in punitive damages under the California Trade Secrets Act⁸. In addition, MGA is seeking US\$129.7 million in attorneys’ fees and US\$32.4 million in costs. MGA’s attorney fee request is grounded in part on § 505 of the U.S. Copyright Act. Mattel has opposed the motion by arguing that the Copyright Act’s fee-shifting provision is meant to apply only to frivolous claims. With the case likely headed again to appeal, the only clear winner so far seems to be Mr. Bryant, who was paid over US\$30 million in royalties before his settlement (for an undisclosed amount) with Mattel, before the 2004 trial.

Lesson learned

The dispute holds an important lesson about the significance of well-drafted employment agreements. If Mr. Bryant’s employment contract had been more precise, the case might not have ballooned to such proportions or included claims for trade secret misappropriation. The two obvious problems with the agreement were failures to include 1) an express assignment of ideas; and 2) clear language defining the scope of “at any time during my employment.” Practically speaking, Mattel could have ensured all the employee agreements assigning rights were identical and created and communicated clear guidelines for employees, to reduce confusion as to where Mattel’s ownership rights stopped and where the employees’ began. As illustrated by this case, for businesses that thrive on their IP assets, carefully drafted employment agreements can make the difference between millions gained or lost.

6. *Mattel, Inc. v. MGA Entm’t, Inc. & Consol. Consol. Actions*, 2010 U.S. Dist. LEXIS 136922, (C.D. Cal. Dec. 27, 2010)

7. For simplicity, only the most relevant trade secret claims will be discussed.

8. Mattel’s Notice of Motion and Motion for Judgment as a Matter of Law Re MGA’s Claim for Misappropriation of Trade Secrets Pursuant to Federal Rule of Civil Procedure 50(B); and Alternative Motion for Remittitur and/or New Trial, Case No. CV 04-9049-DOC, May 5, 2011

UNDERWRITING THE RISKS OF INNOVATION

The expense and labor invested in the development and subsequent protection of valuable intellectual property (IP) can be and usually is, significant. Given the high cost of protecting IP assets, what can be done when outside factors, such as a party's ability to pay or geographical location, create unfair advantages over competitors? As many smaller innovators will attest, there is a real fear of losing ownership of IP when they lack the resources to protect their rights. The insurance industry may offer a solution that eliminates unfair advantages created by financial resources, geography or the sophistication of an innovator. **Todd M. Rowe**, Attorney, Tressler LLP in the United States, looks at how, in addition to providing additional resources for establishing rights to IP, insurance can offer the means for innovators to focus on developing their IP assets rather than the distraction of finding the resources to protect them.

A long time coming

The modern insurance industry traces its origins back to 2000 B.C., in Babylonia, when shipping merchants entered into agreements with traders to use their ships as collateral for loans



Photo: iStockphoto © Pekka Nikonen

to fund voyages. The fundamental elements of these agreements continued to govern trade in ancient Greece and Rome and throughout the Middle Ages. Merchants and traders quickly realized they could gain a competitive edge by spreading risk among a number of individuals rather than assuming it entirely on their own. During the 16th and 17th centuries, merchants began securing insurance for their vessels from a syndicate of other merchants which gathered at Lloyd's Coffee House in London. In the Industrial Age, industrialists recognized a similar competitive advantage in spreading the risk of damage to their factories among themselves.

In the Information Age, the risk of high litigation costs related to protecting IP assets is increasingly the prime challenge facing the vast majority of smaller and mid-sized innovators. Surveys conducted by the World Intellectual Property Organization (WIPO) estimate that the average cost of patent litigation in U.S. courts is in the region of US\$4 million, while litigation in other nations can easily reach tens of thousands of dollars. Like the merchants and industrialists before them, a number of innovators in the Information Age have started to see that spreading these costs and risks through insurance increases their competitive advantage.

Insurance policies for IP assets

In general, insurance for IP assets can be offensive, insofar as it provides protection when a third party infringes the policyholder's IP, or defensive, by offering protection in the case of infringement claims against the policyholder. The insurance policies available for IP assets spread the risks associated with innovation in three main ways: by

- paying solely for the policyholder's defense costs;
- reimbursing business costs and losses incurred by a policyholder during litigation; and
- providing coverage to pursue infringers of the policyholder's IP assets.

Defense cost & damages reimbursement coverage

The insurance industry has developed products that provide coverage if a policyholder is sued for infringement. These products reimburse defense costs incurred by a policyholder in infringement

Innovators are realizing that using insurance to spread the costs and risks associated with litigation increases their competitive edge.

1. A Cost-Effective Alternative, WIPO Magazine, February 2010 (www.wipo.int/wipo_magazine/en/2010/01/article_0008.html)



litigation and are commonly known as “defense cost and damages reimbursement” insurance. In addition, they enable policyholders to assert claims of invalidity against a complainant, fund research to re-examine the validity of the policyholder’s IP rights and may pay for any damages awarded against a policyholder. Coverage is provided on a “claims-made” basis, which requires that a lawsuit be filed during the period in which the policy is effective. Typically, coverage is contingent upon the policyholder obtaining an opinion of non-infringement from the United States Patent and Trademark Office or similar government body. Coverage under these policies is typically excluded for willful acts of infringement. Importantly, these policies are defensive in nature and provide no coverage to policyholders in enforcing their IP rights against an infringing party.

Multi-peril coverage

Other insurance products provide coverage for certain additional costs incurred as a result of infringement claims against a policyholder. Known as “multi-peril” policies, these insure against losses sustained from liability for infringement of another’s IP. A typical example would be a homeowner’s insurance policy which provides coverage against “perils” such as fire, theft and other routine household risks. In the case of IP, multi-peril policies cover “perils” commonly seen in IP litigation, for example, business interruption, loss of commercial advantage, loss of trade secret advantage, as well as the cost of redesign, remediation and reparations that may result from protracted litigation.

Offense-based coverage

Policyholders can also obtain coverage for reimbursement of costs associated with enforcing IP rights. Known as “abatement policies,” these extend coverage to policyholders for enforcing their IP rights against potential infringers. These policies also provide reimbursement for the use of expert witnesses as well as other costs incurred in proving infringement. Coverage is provided on a “claims-made” basis, which requires that the infringing conduct take place during the policy

period. To establish coverage, policyholders must typically obtain a legal opinion stating that they hold the rights to the IP. Abatement policies bar coverage for any willful acts by the policyholder that may have given rise to the infringing conduct.

The abatement policy has another feature unique to the insurance industry in that monetary damages awarded for infringement are allocated between the policyholder and the insurance company. The insurance company, however, will not receive amounts exceeding 125 percent of the costs paid toward litigation. While an abatement policy allows a smaller company to enforce its rights against a larger one with more resources, this type of coverage has been criticized in that insurance companies might only pursue litigation for those cases considered to promise a successful outcome. Moreover, any monetary award made against the infringer does not go back into the policyholder’s pocket. Instead, amounts recovered through judgment or settlement are used to replenish the funds available to the policyholder in the event that any future claims are made under the policy.

Leveling the playing field

Unfortunately, the significant litigation costs and effort required to protect IP rights can create an unfair advantage for title holders with larger resources. A number of factors can create an imbalance between the “haves” and the “have-nots.” First, the size of an innovator, or its level of sophistication, can play an overriding role in determining property rights. That is, a smaller entity is inherently at a disadvantage against a larger one. Insurance coverage treats policyholders equally, regardless of size or sophistication. Charles T. Baxter, Vice President for Market Development of Intellectual Property Insurance Services Corporation (IPIISC), an IP risk management firm based in the United States, observes a growing interest in IP insurance on the part of smaller to mid-sized entities, as a way to “level the playing field” with larger corporations.

Mr. Baxter explains that “simply holding an IP insurance policy often enables companies to stand

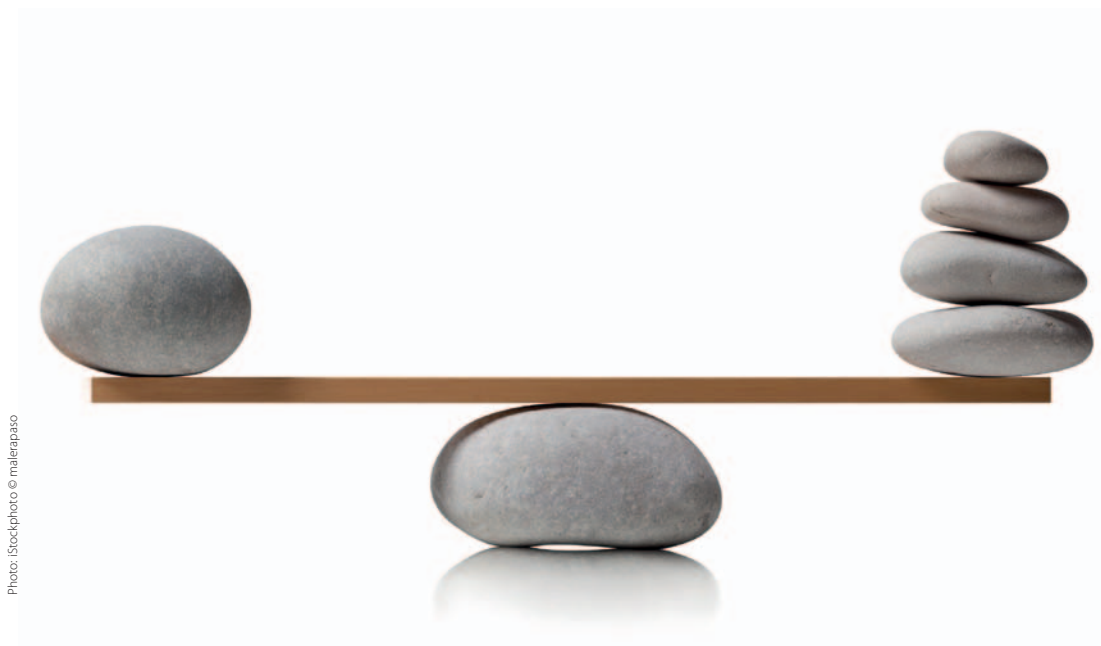


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**IP insurance can help
“level the playing field”
for smaller to mid-sized
entities.**

up to larger competitors that might otherwise have exploited their financial advantage in litigation. Attorneys tell us that IP insurance changes the dynamics of such conflicts. Because the policyholder now has the resources to reach a decision on the merits of a case, larger competitors are often more likely to reach a favorable settlement early in the case.” Consequently, insurance coverage may result in a fairer determination of ownership rights.

Geography may be another factor that separates the “haves” from the “have-nots.” As it stands, an entity based near courts or other readily available resources may have an advantage over one in a more isolated location. Insurance may offer solutions by placing a policyholder with few resources in a developing nation on an equal footing with a larger one in a developed nation. Mr. Baxter indicates that IPISC has policyholders throughout the world: “European companies continue to be interested in IP insurance, and IPISC is seeing significant applications from Pacific Rim entities. Smart companies in this global economy are concerned about enforcing their IP rights, or preserving their ability to sell products wherever they may do business.” Insurance, then, can eliminate disadvantages created by geography.

These, and other such factors, can be taken into consideration by insurers when determining whether to provide coverage and at what cost. From the standpoint of the insurer, the costs associated with insuring a sophisticated, highly-technical patented device for which there are competitors around the world presents higher

risks than would an average homeowner’s insurance policy. This increased level of risk translates into a higher policy premium. In an effort to gauge risk, the specialized application process for IP insurance requires general information from an applicant, such as any previous involvement in lawsuits and the applicant’s closest competitors and principal customers. For example, to cover a patent under an abatement policy, the applicant may be required to provide detailed information such as whether it had designed around any third party patents or received any notices that its conduct may be infringing. Close attention to detail and thorough disclosure of information is required during the application process, because, as with any type of insurance coverage, misstatements can lead to coverage being rescinded.

Conclusion

Insurance provides a distinct advantage in managing risk. While the nature of the risks has changed, the competitive advantage created by using insurance to manage them has not. The costs of enforcing IP rights or defending against infringement claims can be steep. After all, it must be assumed that a competitor will use all available resources in litigating IP rights. In an arena in which not all innovators are equal, insuring IP assets can offset some of these costs and can help level the playing field by allowing litigants to present their case under the best possible conditions.



IN THE NEWS

British Library and Google join ranks to digitize 250,000 titles

In line with its commitment to improve access to its collections, the British Library recently announced a partnership with Google to digitize 250,000 out-of-copyright books from its collections. Under the deal the works selected by the British Library will be digitized by Google. This content will be available for full text search, download and reading and will be delivered free through Google Books (<http://books.google.co.uk>) and the British Library's website (www.bl.uk). Google will bear the costs of digitization.

The project will digitize "a huge range of printed books, pamphlets and periodicals dated 1700 to 1870," according to a British Library press release. It will include material in a range of European languages, and "will focus on books that are not freely available in digital form online." Once digitized, these unique historical items may be accessed "from anywhere in

the world" and will be available to "copy, share and manipulate" for non-commercial purposes.

Dame Lynne Brindly, Chief Executive of the British Library said, "our aim is to provide perpetual access to this historical material, and we hope that our collections, coupled with Google's know-how, will enable us to achieve this [aim]."

Peter Barron, Director of External Relations at Google said, "What's powerful about the technology available to us today isn't just its ability to preserve history and culture for posterity, but also its ability to bring it to life in new ways. The public domain material is an important part of the world's heritage, and we're proud to be working with the British Library to open it up to millions of people in the U.K. and abroad." ■

Canadian telecoms company Nortel sells its patent portfolio

In a deal that underlines the economic value of patents, a consortium of six firms (Apple, Ericsson, EMC, Microsoft, Research in Motion (RIM) and Sony) has won a bid to purchase the remaining patents and patent applications of Canada's beleaguered telecommunications company, Nortel Networks. The company filed for bankruptcy protection in 2009 and has been selling off its assets ever since.

The sale, worth US\$4.5 billion, includes an extensive portfolio of around 6,000 patents and patent applications which touch "nearly every aspect of telecommunications and additional markets..."

including Internet search and social networking", according to a company press release.

"The size and dollar value of this transaction is unprecedented, as was the significant interest in the portfolio among major companies around the world," noted George Riedel, Nortel's Chief Strategy Officer and President of Business Units.

The deal is expected to be finalized in autumn 2011, following approval by the U.S. and Canadian bankruptcy courts. ■

Integrated trans-Tasman patent system promises significant savings

The governments of Australia and New Zealand have agreed to implement a plan to put into place a single patent application and examination process for both countries. The plan, announced in early July by Australia's Innovation Minister, Senator Kim Carr and New Zealand's Commerce Minister, Simon Power, promises inventors a "faster, cheaper and more streamlined trans-Tasman process."

"By moving to align the application processes we will remove duplication and reduce costs. We believe the single pathway to patent protection across Australia and New Zealand will in turn encourage inventors and businesses," Senator Carr said.

This move promises to generate significant cost savings – up to \$5,000 per invention. "By removing potential barriers we're trying to create a seamless trans-Tasman business environment and making it easier to conduct business in both countries," Minister Power noted. "This level of patent cooperation is a world first and will give Australia and New Zealand innovators greater confidence when seeking IP protection overseas," he added. ■

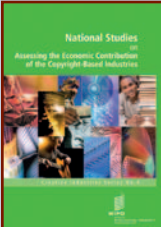
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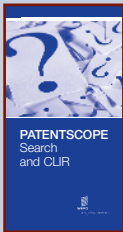
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For more information contact
WIPO at www.wipo.int

Address:
34, chemin des Colombettes
P.O. Box 18
CH-1211 Geneva 20
Switzerland

Telephone:
+4122 338 91 11
Fax:
+4122 733 54 28

The *WIPO Magazine* is published bimonthly by the World Intellectual Property Organization (WIPO), Geneva, Switzerland. It is intended to help broaden public understanding of intellectual property and of WIPO's work, and is not an official document of WIPO. Views expressed in articles and letters by external contributors do not necessarily reflect those of WIPO.

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WIPO
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The Editor, *WIPO Magazine*
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