

Protecting your intellectual property (IP) overseas

What you can do to keep
control of your IP in the
global marketplace



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Introduction

At Efic, we deal with a lot of small businesses on a daily basis. Our focus is on providing Australian small business with the export finance they need to take advantage of global opportunities. We help when their banks can't. As we develop relationships with these businesses, we learn about some of the challenges they face when entering new export markets—from developing networks and setting up the right distributor, to currency risks and getting the working capital needed to fulfil an export contract. One of the main issues we've been hearing for some time, and that has been brought up at our SME briefings on a regular basis, is the challenge of intellectual property (IP).

Protecting your IP in the domestic market is a serious undertaking, opening that up to international markets adds layers of complexity. Understanding the risks and knowing what solutions are available for your IP can help you develop an IP strategy that will put you on the best path possible for your business.

We've listened to our customers and have worked closely with IP Australia to develop this specialist paper. Some of the key issues you need to consider about IP when exporting have been addressed, and we've talked to small businesses to understand their experiences when it comes to protecting your IP.

IP is a complex issue but it doesn't have to be difficult. I hope this specialist paper provides you with a more comprehensive understanding of how you can better manage your business' IP.

What is intellectual property (IP)?

IP is the property of your mind, or proprietary knowledge. It can be a totally new concept or invention, an innovative design, a distinctive brand, or a combination of all three.

Whatever form your IP takes, it is one of your most important business assets – it's what differentiates you from your competitors, and while it is an intangible asset, it has a very tangible value. So it makes sense that you should consider protecting this valuable asset from being appropriated by other individuals or businesses.

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The importance of IP for exporters

For Australian businesses, exporting presents an attractive opportunity for growth, providing access to new and potentially bigger or more lucrative markets around the world.

But some SMEs are reluctant to expose their business to the global market, fearing that their products and designs will be quickly copied, and thus undermining their ability to compete. Conversely, others may be so keen to grasp the global opportunity, that they unwittingly expose themselves to significant IP risk.

IP protection: at home and abroad

While a new business may protect its IP in Australia as a matter of course, this provides no protection beyond our shores – potentially providing third parties with the opportunity to copy and sell a product in other jurisdictions. And although international protocols mean it may be possible to protect and enforce your IP rights with many of Australia's trading partners, unless you have protected your IP in that specific country, you could be left without recourse.

Even if you're not intending to export straight away, having overseas IP protection for your invention, design or brand, helps preserve your ability to do so in the future.

The key factor is to understand the IP risks and protections that exist – at home, where you manufacture your goods, and wherever you aspire to sell in the future.

It's all about balance

IP protection is often about striking a balance between achieving maximum protection and managing IP costs. So the solutions you choose to protect your IP in foreign markets will need to reflect your broader commercial business strategy, at home and abroad.

To ensure you get the balance right, it's recommended you work with an IP professional such as a registered patent or trade marks attorney or experienced IP lawyer, who will help develop and implement an IP strategy that is appropriate for your product or business.

Preparing for export: a checklist.

- Is your product or brand eligible to be protected under IP law?
- Is your packaging part of your product's value? Have you protected its design?
- What are your target markets? Are they covered by international conventions?
- What is the value of your brand, design or product features to your business?
- What is your budget for protecting your IP?
- Is your IP already registered by a third party in your target markets?
- Do you have non-disclosure agreements for offshore manufacturers and distributors?
- Have you consulted an IP professional with connections in the countries you want to export to?
- Have you considered registering trade marks for the local language version of your brand?

Understanding the risks

Exporters without formal IP protection in place face two key risks when they enter a new market:

- the risk of having their product copied without permission, and
- the risk of infringing a third party's IP without realising it.

Risk 1: Having your product copied without permission

It's important to understand the IP laws and consumer protection laws in the countries you intend to trade in:

According to Gavin Lovie, Director, International Policy and Cooperation at IP Australia, if you're selling in an offshore market without protection, there's no impediment for third parties wanting to reverse-engineer and copy your product – right down to its packaging and logo.

He says that as soon as you enter a market and your business starts to boom, your competitors might start watching you. If they know you don't have protection, they might start selling a similar product with a similar brand.

"In some cases this may be an intentional attempt to counterfeit your product. Or they may be doing it because they think that your brand name is the descriptive name of the product."

What they might also do is "package something so that it looks very similar to yours – one that's not quite close enough to be considered as passing as your product or trade marks, but close enough to damage your reputation."

Risk 2: Unknowingly infringing a third party's IP

Lovie says that by not doing their IP homework, exporters might be unknowingly infringing another party's IP in the target country. This could not only prevent them from manufacturing and/or selling their product in that country, but also open them up to legal challenges if they try.

"You might have all your protections sorted out in Australia," Lovie says, "but as soon as you start to go into other territories, you may not be aware if someone else has already protected that IP in that country."

"You might not know that you're actually infringing on someone else's rights until you seek to protect your own IP, and find that you can't get it registered because it conflicts with someone else's registration. Or you may end up getting a nasty letter from a foreign-based law firm, telling you that you're infringing on their clients' rights."

This can be the result of a genuine situation where that IP was already in use in that market – for example, your trade mark may already be used for the same or different purposes in another country. However, it's not unusual for this to be a result of opportunistic IP squatting, where a third party registers their right to the IP with the hope of selling it for financial gain later on.

Parallel importing.

Another trap for new exporters is parallel importing – where a third party sells your (non-counterfeit) product in a market where you have other, formal distribution arrangements in place.

For example, a buyer may purchase your product that's licensed to sell in Korea, and sell it into the US at a price lower than the authorised US distributor price.

While this is often not illegal, it can undermine relationships with distributors, potentially undermine your brand, and give you less control over how and where your product is sold.

IP solutions for export

While there are real IP risks for exporters, the situation isn't hopeless – far from it, in fact. There are a range of solutions you can use to protect and enforce rights to your IP at home and abroad. Some of these are summarised below. Please refer to the IP Australia website (ipaustralia.gov.au) for further information.

1. Patents

What is a patent?

Patents provide protection for new inventions, giving you exclusive, legally-enforceable commercial rights to their use.

Patenting your product for export

Here are two ways you might go about patenting your product if you're planning to export it.

Option 1 – PCT	Option 2 – Apply directly
<p>First make a provisional application through IP Australia, which:</p> <ul style="list-style-type: none">■ establishes that you are the first person to file the invention for your product in Australia■ gives you 12 months to decide whether you want to proceed with the patent. <p>You can then take advantage of the Patent Cooperation Treaty (PCT), which:</p> <ul style="list-style-type: none">■ lets you file a patent application in multiple countries at the same time;■ can be based on an Australian provisional application, if lodged within 12 months of the provisional application or patent filing date;■ allows you 30 months to decide if you want to pursue patent protection, and in which countries.	<p>You can also by-pass the PCT process by seeking patents directly in the countries in which you want protection.</p> <p>If you choose this option, it's best to engage a patent attorney to help make sure your patent is filed following all national procedures in the countries of interest and can be accepted without unnecessary delay.</p>

Be aware of fees and have a budget.

If you choose to seek patent protection, take extreme care to understand the official fees you will be required to pay to IP Offices and when you are required to pay them. You will also need to pay for the legal advice and service charges when you engage an IP professional.

2. Trade marks

What is a trade mark?

A trade mark protects the 'mark' used to identify your product. While logos are the most common example, trade marks can also be words, slogans, letters, numbers, phrases, scents, shapes, pictures, movement, or packaging features.

When protecting a trade mark for export, it's important to consider also protecting its translation in the local language – or any Asian language characters that could represent your brand.

Applying for a trade mark

You can seek to protect your trade mark in a number of ways:

- As with patents, you can file directly in the country or countries to which you wish to export.
- For countries that are part of the Madrid Protocol, you are able to file a single application to seek protection in these countries of interest and pay a single application fee. Note, the application through the Madrid protocol must be based on your prior Australian application or registration (the basic trade mark).
- Another consideration is the Paris Convention which allows you six months to file your identical foreign trade mark from the date you file in Australia which will retain rights back to the initial date of filing in Australia.

The Madrid Protocol

Advantages	Disadvantages
<ul style="list-style-type: none">■ It's easy and cost-effective, with lower fees than applying directly into each country.■ International trade mark registrations last for 10 years.	<ul style="list-style-type: none">■ Fees are due up front.■ It can be difficult to determine the status of the mark in the national offices.■ The international registration depends on the survival of the basic trade mark for five years from the date of application – this can be a problem if your basic mark is unable to be registered.■ A number of significant trading partners, including Canada and Hong Kong, are not members of the Madrid Protocol, and don't offer protection under this system – this can be a problem if you're planning to export to these countries.■ If there are any objections to the registration, applicants will need to appoint local counsel, which increases the cost of this approach.

Use it or lose it.

In some jurisdictions, including Australia and China, if your registered trade mark is unused for a consecutive three year period, you risk having it removed from the register – which means you could lose your exclusive rights to use it.

3. Designs

Design is the shape, configuration, pattern and ornamentation of a product – essentially what it looks like and not what it does.

If your product relies on its design – or the design of its packaging – to differentiate it in the market place, you may consider protecting this design to gain the exclusive right to prevent others from using it commercially, e.g. to licence it or sell it.

- Generally, you'll need to file protection for designs in each of your target countries.
- Note: like trade marks, the Paris Convention will allow you to claim priority to the filing date of your Australian design. Importantly, you need to realise if you file the same design in other countries outside this period, your design in these foreign countries may not be able to be registered as it will no longer be a new design.

Different strokes.

Not all countries have a separate design registration system. For example, in the USA and China to protect a design, you need to do so with a special design patent (sometimes referred to as a utility patent) which has a lower level of examination for registration than a standard patent.

The first rule: silence.

IP Australia's Lovie says that when it comes to protecting your new invention, it is critical that you keep it quiet until you have made a commercial decision whether to protect it through formal patent or design registration. This reduces the risk of whether your product can be protected.

"You really only have one chance to protect it. That is while it is new, and before it is disclosed publicly."

"If you have the world's greatest invention but you go and tell everyone about it – get media articles published or advertise the product for sale – you're very unlikely to get a patent on your invention, or a registered design on how your product looks. That is due to the simple fact that your invention is no longer new."

In Australia, a grace period generally applies to public disclosure of an invention, where the application for a standard or innovation patent is filed within 12 months of the disclosure. However, many other countries may not have this provision in place and may render patent applications in those countries as invalid.

In situations where it's necessary to disclose details of your IP – for example, in discussions with potential manufacturers – it's essential to have a Non-Disclosure Agreement in place. It's recommended to seek legal advice from someone who not only understands IP law, but who can help ensure the agreement is enforceable in the country of interest.

4. Plant breeder's rights

Like patents, trade marks and designs, if you develop a new plant variety, you may want to protect your IP with plant breeder's rights.

Plant breeder's rights (PBR) are exclusive commercial rights for a registered variety of plant. Your protection may also extend in part to plants that others derive from your plant variety.

PBR protects plant breeders and gives them a commercial monopoly for a period of time. This encourages plant breeding and innovation, and means that a large and growing pool of new plant varieties is freely available to anybody when the protection periods lapse.

Advantages

- Up to 25 years of protection.
- Fees are paid as you progress through the various stages of the registration process.

Disadvantages

- The registration process can take just under a year, or up to 10 years, depending on the species you are breeding.
- An annual fee must be paid to maintain your exclusive rights. Non-payment can result in your application being revoked, leaving you without protection.
- You need to appoint a qualified person when you submit your application. This person needs to be an expert in the plant species you are growing and will charge a fee for their service.
- Legislation may prohibit the use of the variety in food or the growing of the variety because it is a noxious weed or because of public health issues. It is the applicant's responsibility to take this into consideration.

Developing your IP strategy

While protecting every element of your IP in every possible potential market may seem the safest bet, it's unlikely to be the most practical. Aside from the cost of filing registrations in multiple countries, your IP rights will also need to be asserted and maintained – which could result in significant legal, administrative and translation costs.

For example, If you're filing applications in multiple countries, all your filing costs may need to be paid upfront, potentially draining capital that you could otherwise use to develop your products and brand. So it's essential to develop a considered IP strategy that maximises protection while minimising costs.

Here are five considerations when developing your IP strategy:

1. Consider your export strategy

Your IP strategy will be driven by your export strategy, so it's important to be clear as early as possible what you want that to be. Ask yourself which markets offer the best potential for your product. The answer may depend on macro factors like population and national wealth – or it may come down to finding the best cultural fit.

Hegs Pegs inventor Scott Boocock says a combination of factors helped him decide which 44 countries to export his innovative 'peg with a hook' to.

Target population and national growth

"Our strategy for export was to choose countries with over 20 million people, and which had a level of GDP where people would go to the supermarket and actually spend money to buy Hegs pegs."

Look for established use of similar products

"We chose countries that are already selling, buying and using pegs, but they have to have a minimum of 20 million people just so we can pick the right volumes over. We didn't want to send boxes or pallets, we wanted to send shipping containers of them."

Research IP arrangements

Once you've defined which countries you're interested in exporting to, look into the IP arrangements that apply in that jurisdiction.

Putting it into practice.

- Define your countries of interest, based on where you see the most potential.
- Decide whether you want to manage distribution yourself, or outsource to local distributors.
- Rather than exporting yourself, you may want to consider selling the rights to your IP to a third party to manufacture and distribute in specific markets.

2. Do your research

While protecting your own IP is your first priority, you'll also need to ensure that by exporting to a new country, you aren't breaching someone else's IP. Your product or brand may be unique in your own market, but you'll need to ensure you're protected from costly legal challenges from potential competitors.

IP specialists, such as IP attorneys, can also provide comprehensive searches for you. But doing your own research first can help to shape your export strategy and ensure there are no nasty surprises.

Once you file applications to protect your IP, like Australia, these foreign IP Offices will send you an examination report if it finds deficiencies in your application and whether your claimed IP right conflicts with those of others.

Another key aspect of researching your market is understanding how your brand will translate on foreign shores. For example, check that your product or brand's name and associated imagery translate well into other languages and cultures – and won't be considered offensive or unlucky.

Putting it into practice.

- Search for products and brands that are similar to yours – and check what IP protections they have in place.
- Check that any brand names and trade marks are appropriate for your export markets, and can be effectively translated in the native languages.
- The IP databases of many IP Offices are freely accessible on the Internet.

3. Choose your solutions

What is the most valuable component of your IP? Is it the design of your product? Its technical features? Your brand? Or a combination of all three?

Most SMEs will need to decide which element (or elements) of their product to cover with IP protection. And the answer is not always straightforward.

When Scott Boocock first came up with the design for the Hogs peg, he protected the hook feature with a patent as this was an inventive element. But he soon realised that his IP extended much further than that.

"When we did a novelty check on the Hog peg," says Boocock, "we discovered it had six patentable elements. We've got a patent on the hook, but also on the design, which means people can't make a peg with bigger or smaller hooks – the whole system is protected."

"We've also protected the brand, and trade marked the stylised 'H'. I find that even more valuable than the patents, personally, because your brand is everything. People buy because of the brand; they buy it because of the products. They don't buy because of the patents. That's just an extra protection to prevent people from copying the Hog peg."

Putting it into practice.

- Consider which element of your IP is most valuable: your design, technical features or brand.
- Choose the matching solution to protect each element: design, patent or trade mark.
- Prioritise the IP elements, and understand how you might want to use them in the future.

4. Understand the costs

Protecting your IP across multiple markets can be an expensive exercise, especially if you're protecting more than one element of your product. While protecting everything upfront may be the best defence, it may prove to be financially out of reach.

This is where you need to be very clear about where the value of your product lies. If it's inherent in the IP, then you need to take appropriate steps to protect it in the markets you care about most. Balance the costs against the potential cost to your business if your product was copied and sold by a competitor with no recourse available.

Monique File, co-owner of b.box baby goods, says that deciding where to protect your IP comes down to a commercial decision. For b.box, even though they invest a lot in IP protection, commercially it didn't make sense for them to register trade marks in every single market around the world. "For a new business starting out with limited funds," she says, "it becomes a question of 'what do you invest in – protecting your IP or developing your products?'"

Expensive – but worth it

"I think if we started again," reflects File, "we probably would have protected more upfront or potentially gone straight to China to register there. If we did that, we may still be in the same position as we are today, but we might have gotten there sooner."

Hegs Pegs founder, Boocock agrees that the cost of the right IP protection is well worth it, "It has cost a lot of money, over \$200,000 so far, but it does give you a lot of protection when you need it. But the money is not just lost – it's an actual asset on the balance sheet that you can sell. Every time I go back to the valuation of the company, it's all based around that patent becoming stronger and stronger, and more valuable as the business grows."

Putting it into practice.

- Prioritise your markets, and decide how much you're prepared to invest upfront.
- Determine what can be deferred until later, while still minimising risk.
- Consider if strategies that focus on enforcement may be more cost effective, and use grace periods for filing to your advantage.
- Don't forget to factor in attorney's costs and translation costs, or the cost of a challenge to your registration.
- If you licence your IP to distributors, consider if they should be responsible for the costs of enforcing your rights in the territories where they will operate.

5. Enlist expert advice

Finding the right IP strategy can be complex, and no matter how much research you do, it's likely that you'll still benefit from professional IP advice.

Professionals who specialise in international IP protection can offer solutions that you haven't yet considered, and can also give you access to the benefit of their experience. As such, it's recommended that SMEs consult the professionals to help ensure that their strategy offers the protection they need.

Putting it into practice.

- International IP protection can be complex, so consider seeking help from a specialist IP professional such as a registered patent or trade marks attorney or a lawyer experienced in IP matters.
- Once engaged, your lawyer is bound by confidentiality, so you can be specific when seeking advice.

Defending your IP

Despite even the best protections, you may still find yourself in a situation where you need to defend your IP – and stop others using it without your permission. Or you may need to resolve a situation where you are infringing on someone else’s IP – whether accidentally or as a result of IP squatting.

Enforcing IP will always be an involved process, but there are a number of different options available, depending on the jurisdiction, and the type of infringement involved. IP Australia’s Gavin Lovie says it’s important to understand the claim that has been made against you – then seek commercial legal advice to determine what steps to take next.

Taking legal action

If you choose to take legal action to defend your IP, you’ll need to be able to prove that:

- your IP protection is still in force and you own the rights
- the infringing product is a full or substantial copy of your product
- the infringing third party made their product without a licence or your authority.
- The evidence you need to prove your rights and infringement may vary depending on which country you are enforcing it in.

Administrative enforcement

There may be alternative options to taking legal action. For example, in China there is an administrative enforcement option that requires lower levels of evidence, and can often be a more affordable option: but only if you have IP protection registered in that country.

The good news is that, if your IP is protected, you have a good chance of successfully defending it. For example, according to a speech by Beijing IP court’s Judge Gang Feng*, the success rate for defending IP in China in 2015 was 100%.

b.box baby products: A case study.

Monique Filer, co-owner of b.box baby products, has had to defend her product from unauthorised copies, as well as parallel imports from a fraudulent distributor.

“In Korea, we’re the number one selling sippy cup. While it’s not illegal to parallel import into Korea, we have an exclusive arrangement with our distributor there. But stock was finding its way into Korea and we didn’t know how.”

“It was a 6-month process to work out what was happening. It turned out we had a distributor in the US who was licenced to sell only in the US. But every single shipment had gone to Korea – and she had forged the shipping documents to hide it from us.”

“Eventually, we settled and recovered all our costs, but it was very time consuming. That’s been a real challenge for us, to protect the brand and our distributors. We expect our distributors to invest in our brand, so we need to protect the markets for them.”

If you don’t have protection in place for your IP, however, your options for recourse for IP infringement can be limited. And in a worst-case scenario, you could have your product seized by customs officials – or be required to destroy it and remanufacture or rebrand.

* IAM: The Beijing IP court gave foreign IP plaintiffs a perfect 65-0 win rate in 2015, reports one of its judges, July 2016.

An opportunity to join forces

To avoid these situations, IP Australia's Gavin Lovie says it can pay to be pragmatic and look for a commercial outcome.

"I think it can be very easy for a small to medium enterprise to be quite attached and emotional about their IP," Lovie says, "but it's really about seeing it from a business perspective."

"For example if someone is claiming that you are infringing on their IP, it could be an opportunity rather than a threat – and you may be able to find a way to work together."

"Perhaps, if someone else owns the trade mark but you have a lot of product, you could come into an arrangement of cross licensing. You get to sell your product into the bigger market where someone else owns the trade mark, which can be a good outcome for both parties."

IP resources for Australian exporters

IP Australia: ipaaustralia.gov.au

World Intellectual Property Organisation (WIPO): wipo.int/

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