



COMMERCIAL LAW

BUSINESS LAW FOR ENTREPRENEURS

GUIDE Block 2.- Protecting Your Business Model and Preserving Your Competitive Advantages

3. COMPETING IN THE MARKETPLACE, AND PROTECTING YOUR COMPETITIVE ADVANTAGES AND BUSINESS MODEL

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3.3. Competing in the market: rules, limits and extent. The basics of Antitrust Law

3.4. Advertisement Law: building an image in the market (NOTE: only a presentation will be provided to prepare this section)

BLOCK 2

READING MATERIALS, CASES AND PROBLEMS

3. COMPETING IN THE MARKETPLACE, AND PROTECTING YOUR COMPETITIVE ADVANTAGES AND BUSINESS MODEL

3.1. Rationale and characterization of intangibles

3.1.1. *Business and legal rationale of intellectual property law*

Reading materials and other additional references:

- (An abridged overview of the whole Block 2) RODRÍGUEZ DE LAS HERAS BALLELL, Teresa, *Introduction to Spanish Private Law: Facing Social and Economic Challenges*, London: Routledge, 2009, pp. 144-161

NOTE: Please note that the Book is published in 2009, therefore do always double check with rules in force.



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- A selection of practical Guides for Small and Medium-sized Enterprises produced by the *World Intellectual Property Organization* (WIPO) are readily accessible at the following links. The Guides can be used as reference materials to gain a full insight into the working and the scope of intellectual property law at international level.

a.- Patents

http://www.wipo.int/freepublications/en/sme/917/wipo_pub_917.pdf

b.- Trademarks

http://www.wipo.int/edocs/pubdocs/en/wipo_pub_900_1.pdf

c.- Copyrights

http://www.wipo.int/freepublications/en/sme/918/wipo_pub_918.pdf

d.- Industrial Designs

http://www.wipo.int/freepublications/en/sme/498/wipo_pub_498.pdf

- Translated versions of main Spanish legislation in Intellectual property law are available at:
<http://www.wipo.int/wipolex/en/profile.jsp?code=ES>

Main ideas, aims and questions:

From a business perspective, a number of competitive advantages of our business models are “intangibles” in legal terminology: innovation and technological advantages (patent and utility models); know-how and organizational advantages (trade secrets); or distinctive features and reputational advantages (trademarks and design). The success of our business depends on how strongly we protect our competitive advantages and how efficiently we can exploit them on a commercial basis in the market. Intellectual property law and other related legislations (such as unfair competition law) assist business in protecting core assets in the competition game, distinguishing own goods/services from rivals, strengthening reputational factors, enabling schemes to fidelize customers/users, deploying monetization strategies, encouraging innovation and exploiting and transferring technology.

The aim of this section is first to understand what means “intangibles” and why and to which extent are relevant for business strategy and determining factors of the competitive potential of our business model. If we compare how work tangibles and intangibles in practice, why are different rules needed to control, exercise our rights, transfer or exploit intangibles? Since physical possession is impracticable in relation to intangibles, a different legal device to show our ownership/authorship/entitlement and exercise our rights and control over intangible goods has to be devised accordingly. We cannot possess “intangibles”, how can third parties know then that we are the owner/author/creator? Hence most intellectual property rights, aimed to protect intangibles, are based on Registry systems (patents, trademarks, registered industrial designs). Others operate however on a disclosure basis: for instance, as soon as we make our design available to the public (under certain conditions and if protection requirement are fulfilled), the design shall be protected.



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Once we have corroborated that intangibles are crucial in our business and identified which categories of intangibles need to be protected (innovation, know-how, product design, trademarks), we are going to study how those intangibles are fully protected.

To devise a comprehensive strategy to protect our competitive advantages we have to:

- Firstly, manage a set of legal rules that we are going to trace along sections of this Block: intellectual property law and other related legislation. Intellectual Property Law comprises rules governing, on the one hand, patents, utility models, trademarks, and industrial designs (named in Spanish, Propiedad Industrial/Industrial Property); and, on the other hand, copyright (named in Spanish Propiedad Intelectual/strictly Intellectual Property). We have to add other relevant rules providing an *ex post* protection of certain elements of our business, such as rules banning unfair competition. If our competitive advantage is based indeed on certain technical know-how that can be neither patented nor protected as a trademark (this protection would be deemed *ex ante*), must we bear any use or exploitative or parasitic behaviour of third parties in relation to our know-how? Rules banning unfair competition provide us with *ex post* protection in such cases.

- Secondly, assess whether the competitive advantages that we have identified in our business are likely to be protected under any of the IP rights or other related legal instruments. For such a purpose, we have to verify first if legal requirements for protection are met in each case and none of conditions for excluding protection (i.e., against public policy) concurs. To adopt the final decision, conditions, scope and duration of protection should be evaluated, costs and expenses should be estimated, and risks and benefits should be duly balanced. To apply for protection under IP Law is not always and necessarily the wisest decision, even if our competitive advantage can (and should) be protected. A patent, an industrial design or a trademark may be expensive, difficult to obtain, to maintain and to enforce. Pros and cons have to be weighted to adopt a wise business decision.

Which factors should be taken into consideration in deciding whether to protect or not to protect? Among others, if the duration of the protection is indefinite or limited and, accordingly, if the assets to be protected are permanent key assets of the business or are seasonable or temporal; if the protection we are applying for can be considered “strong” or “weak”; how costly the filing procedure is; how long the filing procedure is; if the invention can be easily copied by competitors.

3.1.2. Protecting Innovation and Creativity: patents, designs and copyright

Reading materials and other additional references:

- (abrogated) Spanish Law 11/1986, of March 20, on Patents: Articles 4, 5, 6, 7, 8, and 9 (recently, new Patent Act has been enacted, Law 24/2015, of July 24, and entered into force on 1 April 2017). When modifications are relevant in the new Law, a mention will be expressly



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made. Otherwise, any reference to Patent Law will be considered to refer to the law in force at any time.

- Spanish Law 20 /2003, of July 7, on Industrial Designs: Articles 5, 6, 7, 9, 10, 11, and 12
- Spanish Law 1/1996, of April 12, on Intellectual Property: Articles 1, 2, 5 and 10

Main ideas, aims and questions:

The first set of rules we are going to study share the ultimate aim of stimulating innovation and creativity and protecting their outcomes. However, Patent Law, Industrial Design Law and Copyright Law diverge from each other in many issues what reveals that rationale behind them is different.

- Patents protect invention, industrial designs protect the appearance or ornamental features of a product, and copyright protects creative works.

Does original mean new? No, a creative work is considered original when it reveals a unique style, a personal approach of the author to the reality, even if it is not new. Therefore, a creative work is original provided that it is not the result of plagiarism of other work.

Why is novelty, instead of originality, one of the requirements for protection in Patent Law? Because, unlike copyright, the ultimate aim of Patent Law is to promote innovation and stimulate investment in research and development. An exclusive right to exploit invention (a monopoly in economic terms) will be granted to inventors (or more accurately to patent holders) provided that their efforts will revert to state of knowledge upon the termination of the patent. Therefore, only novel inventions deserve protection. If the invention were not new, the granting of a patent would entail to deprive public of a part of common knowledge.

How is an invention considered new? An invention is deemed new if it is not included in the “state of art” until the date of application.

What does the “state of art” or the “prior art” mean in Patent Law? State of art comprises all what has been published or disseminated in the world until that date. Accordingly, state of art includes papers, articles, conferences, talks, presentations, showings or demo.

Why does copyright only protect original works? Copyright does not protect ideas but the expression of an idea. Not surprisingly, we can read two books with same storyline but each author narrates it in a different personal way. Idea is not protected but expression does. As a matter of law, copy is forbidden.

What do rules on industrial designs aim to protect original designs or novel designs? Why? Industrial design protection rules are hybrid. For protection purposes, designs have to be novel but at the same time it has to be “singular” what resembles the idea of originality. The diverging



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evolution of industrial design in Europe and in United States may explain such a mixed model. Designs are creative works but strategic and commercial tools as well.

- Can biological material be patented? Yes, biological material (i.e. isolated gene) or a product containing biological material can be patented provided that patentability requirements are met.

- Under Patent Law, Industrial Design Law and Copyright Law, inventor/designer/creator/author are entitled to exercise a bundle of exclusive rights over their invention/creation/work for a limited period of time that enables them mainly to control the economic use of their works.

Why is protection subject to a time limit? Because the ultimate aim is to enhance common knowledge. Therefore, once protection expires, invention/creation become public domain.

- Whereas inventions have to be registered in a public Registry to be protected, copyright does not need any registration. Why? Since an original work is the result of an act of creation, copyright protection starts at the time of the creation. No public recognition is needed.

- How can designs be protected? Do they always need to be registered? Designs can be protected under two models: registered design and non-registered designs. When the design is registered protection is granted for a maximum period of 25 years (5 years renewable up to 25 years). In some sectors (among others, fashion sectors), designs are seasonal and immediate protection is needed. Registering may take long and protection period is unnecessarily long. Hence, protection for non-registered designs has been provided for. Once the design is made public in Europe, it is protected against copy (plagiarism) just for 3 years.

3.1.3. Identifying your goods/services and distinguishing from competitors: trademarks and business names. Scope and functions of domain names

Reading materials and other additional references:

- Spanish Law 17/2001, of December 7, on Trademarks: Articles 1, and 2 (scope), 4 and 87 (concept), from 5 to 10 (prohibitions and limits)

- Information about the registering of generic top-level domain names (gTLDs) and resolution of disputes at the Internet Corporation for Assigned Names and Numbers (ICANN): <http://www.icann.org/en/help>

- Domain name dispute resolution at WIPO: <http://www.wipo.int/amc/en/domains/>

Main ideas, aims and questions:

In a competitive market, companies strive to catch and captivate potential customers' attention and accordingly to distinguish their products and services from competitors. Therefore, the main



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function of trademarks (products and services) and business names (business activities) is to enable consumers/users to identify a product/service of a company (or the company itself) and to differentiate it from the competition. At the same time, companies use trademarks to define their image in the market, build reputation, create trust and enhance goodwill, captivate clients, and develop branding and marketing strategies.

Considering the functions that trademarks perform, what kind of distinctive signs might be registered as a trademark? Popular trademarks in the market are combinations of letters, words, pictures or logotypes.

Could a sound be registered as a trademark? Might an advertising slogan be considered a distinctive sign? Yes, sounds, slogan or the chorus of a song can be registered as a mark.

And might a smell, the own shape of the product, the Spanish flag or the simple colour? Why? Some prohibitions are provided for by legislation to avoid confusion, exploitation of rivals' reputation or consumers' deception. Accordingly, Spanish flag cannot be registered as a mark because it would transmit a misleading official support. A simple colour (see Case Orange) is not distinctive enough. Should a company register a colour as a trademark, it would entail that no other competitor may use it in its products or advertisement. The own shape of a product or its wrapper can be registered as a mark provided it is distinctive enough. Registering smells as trademarks is controversial. Smell can be distinctive and they are indeed strongly evocative. However, a trademark as a sign has to be clearly and univocally described in the registration. Can a smell be described in a univocal way and be identifiable as the same time? Think about the following example: "smell of freshly cut grass of a tennis court" as a trademark for tennis balls.

Enquire the rationale behind rules governing the protection of distinctive signs: requirements for protection and prohibitions.

Domain names are valuable business assets that enable companies (but also organizations, individuals, cities, countries) to identify themselves in the electronic market. Following a functional reasoning, are domain names distinctive signs then? How can domain names be protected? Top-level domain names (.com, .info, .net, etc) are generic, internationally managed and granted on a first-come-first-served basis. Exclusive rights on distinctive signs (trademarks and business names) are registered at national or regional (European Union) level and are linked to a category or categories of goods or services. What kind of conflicts can then arise and how to solve them? Conflicts between domain names and trademarks or even domain names and other signs (given names, company's names) may arise. If an agreement between parties is not reached, WIPO (World Intellectual Property Organization) provides a domain name dispute resolution.



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3.1.4. Protecting know-how and our business models as a whole: trade secrets, unfair competition and other rights

Reading materials and other additional references:

- Spanish Law 3/1991, of January 3, on Unfair competition: in particular, Articles 1, 2 and 3 (scope), 4 (unfair act) and 32 (remedies)

Main ideas, aims and questions:

Successful business can be based on technical, organizational or strategic factors that although they entail competitive advantages against rivals in the market, however, cannot be protected through exclusive rights (patents, industrial designs, utility models, etc.) or simply are unprotected due to different reasons. As a premise, if the attacked asset is not protected, no exclusive right can be infringed. Nevertheless, other legal instruments may assist companies in preventing and combating illegitimate interferences, unfair imitation or deceptive business practices of competitors that hinder the ability of market participants to compete on equal and fair terms, are meant to confuse consumers or attempt to unjustly exploit rivals' reputation, even when no exclusive right can be exercised.

When is trade secret a feasible and advisable instrument to protect business assets?

Competitive markets are presumed to be efficient markets. Then, when does competition become unfair? Does unfair mean inefficient? Which interests does Unfair competition law aim to protect: consumers' interests, competitors' ones or general interests? All of them are protected to a certain extent. Is that relevant to any extent in the drafting and the application of the law? Yes, depending on which interest law aims to protect, we can decide who (consumers, attorney general, institutions, competitors) is entitled to initiate a legal action against the wrongdoer.

Market development is to a great extent based on imitating rivals' products, services or business models. When is imitation deemed an unfair business practice? To the extent that it implies an unfair exploitation of a competitor's reputation, is likely to mislead consumers or hamper a competitor's consolidation in the market.

When might comparative advertising be considered unfair? Comparative advertising is considered unfair if products are not similar or intended to meet same needs, compared features are not verifiable, essential and objective or is based on deception, denigration or abuse.



3.2. The scope of protection. Legitimate uses and illegitimate interferences

3.2.1. *Rights of patent holders: right to a patent, indication of the inventor and employees' inventions*

Reading materials and other additional references:

- Spanish Law 11/1986, of March 20, on Patents: Articles 15-18 (employees' patents); Articles 49, 50, 52, 57, and 59 (effects of patents and rights of patent holders). Corresponding provisions in the New Patent Law.

Main ideas, aims and questions:

Unlike literary or artistic works that can traditionally be individual creations, innovation does usually require a committed level of resources (time, people, money). So, innovation does frequently emerge within organizations as a result of joint efforts. Companies or, in general, organizations need incentives to decide to invest money and devote their human, technical and organizational resources to research and innovation. Patents and utility models aim to provide them with such incentives by granting exclusive rights to control the economic use of the patented invention within a territory and along a period of time (in most legislations, 20 years). Does this average period of 20 years fit properly all industries' demands? May it be too short in certain sector? Pharmaceutical companies have long complained to authorities about the fact that protection is too short for them, considering all previous authorizations and permissions they need to get before commercializing the new medicine (Supplementary Protection Certificate). Or may it be too long in highly innovative industries? Technological industries' innovation rate is faster.

But, at the same time, the innovation process is triggered by ideas and fuelled by creativity, that are both essentially individual powers. In complex organizations, innovation results from an interwoven set of individual efforts, company's means and common experiences. Who should be entitled to file the patent: the employee as an inventor or the company as the employer? If invention is the expected result of the labour contract or the services agreement whose provision the employee has been hired for, the employer is entitled to file the patent. If invention is not related to the job, the inventor is the envisaged owner. How does the incentive game play then?

How should labour or services contract be drafted in a company whose growth strategy is essentially based on innovation? Which are the limits?

Patent holders are entitled to exercise their rights against breaching parties provided that the patent is granted. But the registering process might be long (between 12 and 24 months, even longer certain sectors). Is the applicant protected against third parties' interferences before the granting of the filed patent? To a limited extent, only compensation can be claimed.

Patent holders have exclusive rights to manufacture, commercialize, offer, use or introduce in the market the patented invention for a limited period of time. What does the "exhaustion of patent right" mean and which are its legal effects and its practical consequences? Exclusive



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rights expire upon the first commercialization of the patented product by the holder or with its approval with the European market.

3.2.2. Protecting against illegitimate uses: the owner's legal rights, and the breaching party's defences

Reading materials and other additional references:

- Spanish Law 11/1986, of March 20, on Patents: Articles 62-71 / corresponding provisions in the New Patent Law

Main ideas, aims and questions:

The drafting of patent's specifications and claims is crucial to delimit the scope of protection and to allege therefore a possible patent infringement.

In case of patent infringement, how can the patent holder defend his/her exclusive rights over the invention? Remedies are provided for by law to impede, prevent, cease and claim for compensation.

According to which criteria should damages be quantified to compensate the patent holder for losses caused by the infringement? Damages that have been caused but also benefits that the infringer received from the non-authorized exploitation.

A claim of patent infringement requires logically that the patent allegedly breached is valid and still in force. Accordingly, if the patent is null or has expired or the patent holder has presumably breached any of the patent holder's obligations, the alleged infringement might be baseless. Can the alleged infringer assert any defence in response to a patent infringement claim then?

3.2.3. Exploiting innovation: licences, technology transfer and other agreements

Reading materials and other additional references:

- Spanish Law 11/1986, of March 20, on Patents: Articles 74 and 75 (licences) / corresponding provisions in the New Patent Law

- An overview of main agreements for the transfer of technology at http://www.wipo.int/sme/en/documents/pdf/technology_transfer.pdf

Main ideas, aims and questions:



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Transfer and licence (or license) agreements enable companies holding IP exclusive rights to exploit the commercial use of innovation and make R&D profitable. From the perspective of common public interests, licences reinforce collaboration among companies and escalate the innovating process. By virtue of a licence, the licensor (the right holder) authorize another party (the licensee) to use (under the agreed conditions and within the fixed period) the licensed materials (technology, trademark, designs, patents).

If the patent holder does at any time desire to transfer its protected inventions to other companies or entities through commercialization licenses to facilitate the commercial development of products and processes and in exchange of royalties, which are the main issues to be discussed in the negotiation? Which is the difference between a transfer and a licence of technology? In case of transfer, ownership over the technology is transferred. In case of a licence, the licensee has only a right to use the licensed technology. Licensor is still the owner.

3.3. Competing in the market: rules, limits and extent. The basics of Antitrust Law

Reading materials and other additional references:

- Spanish Law 15/2007, of July 3, on Competition Defence (Antitrust Law)
- Legislation, publications and cases on competition law and policy in European Union available at http://ec.europa.eu/competition/index_en.html

Main ideas, aims and questions:

The ultimate aim of Antitrust Law (US) or Competition Law (i.e. Europe) is to promote or maintain competition in the market by regulating anticompetitive conducts and by supervising those business transactions likely to distort or damage the competitive structure of markets.

Competition law is mainly focused on three areas:

a.- agreements or collusive practices likely to restrict free trading and competition between enterprises. Which kind of agreements could be considered anticompetitive? Companies can distort competition by cooperating with competitors, fixing prices or dividing the market up so that each one has a monopoly in part of the market. Anti-competitive agreements can be open or secret (e.g. cartels). They may be written down (either as an “agreement between companies” or in the decisions or rules of professional associations) or be less formal arrangements. Companies in cartels that control prices or divide up markets are protected from competitive pressure to launch new products, improve quality and keep prices down. Consumers end up paying more for lower quality. Cartels are illegal under EU competition law, and the European Commission imposes heavy fines on the companies involved. The Commission’s ‘leniency policy’ encourages companies to provide inside evidence of cartels. The first company in a cartel to do so will not have to pay a fine.



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Can a company fix prices with its distributors? Can they agree on other sale conditions in the distribution agreement?

Agreements are almost always illegal if the participants agree to fix prices, limit production, share markets or customers or fix resale prices (between a producer and its distributors).

But an agreement may be allowed if it has more positive than negative effect, is not concluded between competitors, involves companies with only a small combined share of the market or is necessary to improve products or services, develop new products or find new and better ways of making products available to consumers.

Examples

Research and development agreements and technology transfer agreements are often compatible with competition law, because some new products require expensive research that would be too costly for one company working alone. Agreements on joint production, purchasing or sales, or on standardisation, may also be legal.

Distribution agreements may be illegal, for example, if producers force retailers to decorate the shop or train staff in a particular way. But they may be allowed if the aim is to provide a suitable environment for storing or selling the product, to provide customers with personalised advice, or to prevent one distributor from 'free riding' on a competitor's promotional efforts. Each case must be assessed individually – taking account of the market position of the companies involved and the amounts involved

b.- abusive behaviour of a firm dominating the market or anticompetitive practices tending to gain market power.

How is a dominating position calculated? Does a company need to have a market share higher than 50% to be deemed dominant? What is the relevant market?

Defining the relevant market is essential for assessing dominance, because a dominant position can only exist on a particular market. Before assessing dominance, the European Commission defines the product market and the geographic market.

a). Product market: the relevant product market is made of all products/services which the consumer considers to be a substitute for each other due to their characteristics, their prices and their intended use.

b). Geographic market: the relevant geographic market is an area in which the conditions of competition for a given product are homogenous.

Market shares are a useful first indication of the importance of each firm on the market in comparison to the others. The Commission's view is that the higher the market share, and the longer the period of time over which it is held, the more likely it is to be a preliminary indication of dominance. If a company has a market share of less than 40%, it is unlikely to be dominant.

The Commission also takes other factors into account in its assessment of dominance, including the ease with which other companies can enter the market – whether there are any barriers to



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this; the existence of countervailing buyer power; the overall size and strength of the company and its resources and the extent to which it is present at several levels of the supply chain (vertical integration).

Which practices can be considered abusive when carried out by dominating companies?

A company can restrict competition if it is in a position of strength on a given market. A dominant position is not in itself anti-competitive, but if the company exploits this position to eliminate competition, it is considered to have abused it.

Examples include charging unreasonably high prices, depriving smaller competitors of customers by selling at artificially low prices they can't compete with, obstructing competitors in the market (or in another related market) by forcing consumers to buy a product which is artificially related to a more popular, in-demand product, refusing to deal with certain customers or offering special discounts to customers who buy all or most of their supplies from the dominant company or making the sale of one product conditional on the sale of another product.

c.- mergers and acquisitions and other collaboration strategies likely to reduce the number of economic agents competing in the relevant market

Are then all mergers and acquisitions forbidden? Does any merger have to be notified prior to completion? In such a case, who is competent to supervise the business transaction? Which are the thresholds that trigger the supervision system? Should joint ventures and strategic alliances be notified as well?