

IP Rights under the FCPA

For many US companies conducting business internationally, Intellectual Property (IP) is a key business component. Not only is the development of new IP critical to many businesses, for continued growth strategies, but IP protection is now a central business interest. This significance was recognized as far back as 2002 by the US Congress in the passage of the Sarbanes-Oxley Act (SOX), which required, among other things, that companies must incorporate systematic programs for protecting and monitoring IP assets as a part of an overall SOX compliance program.

IP in relation to anti-bribery and anti-corruption programs under the Foreign Corrupt Practices Act (FCPA) were recently explored in an article by authors Doug Sawyer and T. Markus Funk, in an article entitled "*The IP Practitioner's 'Cheat Sheet' to the FCPA and Travel Act: Introducing the IP FCPA Decision Tree*" published in the BNA Bloomberg Patent, Trademark & Copyright Journal (January 27, 2012). The thesis, as presented by the authors, is that with so many companies going global, IP is routinely and simultaneously "owned and litigated in multiple jurisdictions." As such it poses significant risk for anti-bribery and anti-corruption program scrutiny as "the tactics used to register, challenge or enforce those IP rights in foreign jurisdictions must be carefully viewed" under the FCPA.

IP Anti-Corruption Red Flags

IP rights by their nature are created by a government. Within this context, the authors note that there are several IP Red Flags which should be noted and followed up on if they appear. IP Red Flags include some of the following: a patent being allowed unusually quickly; an opposition to a trademark being granted before the entire process has been completed; and a foreign customs official robustly enforcing company A's anti-counterfeiting agenda, while ignoring company B's agenda. Compounding these Red Flags is the knowledge of the company, whether it is a US public or a private equity owner. Under the FCPA, both the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) interpret a principal's "knowledge" constructively to include circumstances where the company fails to exercise due diligence by, for example, following up on Red Flags. More ominously, the UK Serious Fraud Office (SFO), in its Press Release announcing the Mabey and Johnson enforcement resolution under the Proceeds of Crime Act, said the following:

The second, broader point is that shareholders and investors in companies are obliged to satisfy themselves with the business practices of the companies they invest in. This is very important and we cannot emphasise it enough. It is particularly so for institutional investors who have the knowledge and expertise to do it. The SFO intends to use the civil recovery process to pursue investors who have benefitted from illegal activity. Where issues arise, we will be much less sympathetic to institutional investors whose due diligence has clearly been lax in this respect."

Anti-corruption Pitfalls in the IP Context

The authors detail some of the specific pitfalls a company may face in registering or in otherwise protecting their IP rights in the international context. While noting that the FCPA prohibits payments of ‘anything of value’ such as “gifts, cash, unreasonably high commissions,” paid directly a company or through foreign business partners, “to foreign officials in order to ensure IP registration, or to oppose registration or enforcement of other companies’ IP.”; the authors caution that often times IP investments which are made abroad “frequently go through foreign transaction partners who ‘know the local system’.” Compounding this problem is the fact that many foreign countries “require the retention of one or more foreign associates, facilitators, and intermediaries to effectively register and enforce a robust IP program.” Lastly, the authors write that even when “accommodating seemingly simple requests from a customs official to pay for costs, such as transportation required in sending officers on an anti-counterfeiting operation, requires a determination of whether the payment is a legal facilitating payment under the FCPA.” Of course facilitation payments are not legal under the Bribery Act so the issue is even more problematic.

Prevention

The authors correctly note that having an anti-bribery and anti-corruption program which meets both the DOJ’s 13 point minimum *best practices* is critical. The pitfalls listed out above, which certainly point towards training of your own employees on what is and is not permissible, is key for protection. Under the FCPA, the question of who is a foreign governmental official can be vexing. However, in the IP context, such an analysis should be straightforward as such rights are only granted by a government, any dealing around IP rights creation and enforcement should be assumed to involve a foreign governmental official. Clearly the FCPA requires training on what actions are not permissible.

In addition to a thorough vetting, contracting with and management of any foreign business partners your company might utilize in the IP context, companies “must be ever vigilant when hiring third parties or local counsel to help to register, or oppose the registration of, their IP.” Likewise, IP owners should be equally aware that any actions in relation to government officials or third parties to aid the granting process, or “motivating police and prosecutors, must do so in a manner that does not violate the FCPA” or local laws.

As companies move towards IP as much of the basis of their business values, increasing pressure will build for registration and protection of these rights. Anti-corruption laws such as the FCPA make clear that there can be no corruption when obtaining or enforcing these rights. Your company would do well to perform an anti-corruption risk assessment on your IP program to ensure it is not caught with any of the problems detailed by the authors.

Decision Tree

I would also commend you to this article for another reason. They have included a most excellent, decision making tree which you can use in analyzing anti-corruption issues in the IP context. I could not cut and paste it into this article and post on the WordPress.com site so you will have to download the article to review and use it. However I would suggest that you take the time to do so as it presents a visual manner to think through and analyze the issues raised in their article.

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