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Intellectual Property in Global Sourcing: the Art of the Transfer

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INTELLECTUAL PROPERTY IN GLOBAL SOURCING: THE ART OF THE TRANSFER

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I. INTRODUCTION

As globalization continues its explosive growth, companies from across industry sectors continue to adopt a globalized strategy of sourcing products, services, and domain expertise from lower-cost countries such as India and China.¹ Sourcing now expands well beyond traditional information technology and business process outsourcing models that improve cost advantages relative to home markets to include knowledge-based sourcing. This knowledge-based sourcing not only arbitrag.es cost differentials but also leverages deep pools of educated and skilled workers who make up an eager knowledge class and who can provide competitive, judgment-based qualitative expertise and value. Today, communications technology and greatly improved infrastructure and logistics networks allow companies to move data and tangibles across borders seamlessly, quickly, and inexpensively.² Advances in technology combined with increasingly stable foreign political climates and reduced trade barriers make it more compelling than ever for companies to aspire to leverage the cost savings and knowledge class of workers available in offshore locations. A well executed global sourcing strategy can reduce costs, increase efficiencies and improve time to market without sacrificing, and perhaps even enhancing, quality of service, making such a strategy an essential consideration, and potentially key element, in virtually every enterprise-size company’s business plan.

Global sourcing typically involves the sourcing customer either creat-

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² Id.
ing an international network of its own operations through affiliated entities or enlisting by contract a broad base of foreign suppliers in offshore locations. In either case, these sourcing models offer the combined benefit of a skilled or trainable workforce, available at wages significantly lower than those demanded by their U.S. or European counterparts. But in either case, along with the great potential reward of substantial economic benefits and competitive flexibility, comes the proverbial heightened operational and legal risks inherent in a global sourcing transaction. Potential global sourcing customers accordingly face serious, business-affecting decisions involving security, quality assurance, intellectual property ("IP") protection, operational support, regulatory compliance, dispute resolution, and realization risk as to predicted cost savings.

This Article highlights and analyzes one of the major components of risk a global sourcing customer faces as a result of the transfer overseas of proprietary information that qualifies as the customer's IP under applicable law. IP assets are mission critical in today's knowledge-based economy; the risks and challenges associated with their ownership and protection are significantly compounded in a global sourcing transaction in which a customer's IP must be shared or created in or among foreign jurisdictions. Indeed, IP ownership and protection against infringement are two of the most critical concerns in every global sourcing transaction. The increased risks inherent in transferring and protecting existing, and to-be-developed, customer IP demand a complex, robust, and vigilant risk assessment and management plan. This plan absolutely must be developed upfront in any and every global sourcing deal and then executed effectively so as to maximize the benefits of global sourcing.

This Article delineates the specific IP transfer routes in a global sourcing transaction, analyzes critical IP issues for consideration from a sourcing customer's perspective, and recommends strategies to bound and mitigate IP risk in global sourcing transactions.

II. HEIGHTENED RISKS TO IP IN GLOBAL SOURCING

As global sourcing penetrates more core business functionalities, companies increasingly source more "high value" products and services involving IP and proprietary technology.¹ In a global sourcing arrange-

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ment, a customer must almost always necessarily make its IP—which can range from proprietary designs to business processes to chemical formulae—available to the offshore service provider so that the sourced functions can be performed effectively. New IP might also be created by the offshore service provider on behalf of the customer. The offshore provider may be a third party vendor, a business partner, or local workforce at a corporate affiliate. Regardless of the sourcing structure, the sharing and creation of IP across multiple jurisdictions creates, for the sourcing customer, very real potential vulnerabilities because of the “territorial” or “national” legal nature of IP rights and the vast differences in IP regimes that exist worldwide.  

Globalization poses a strong challenge to the traditional notions of IP. In a global market, the incentives are compelling for companies to secure IP protection for their assets in multiple jurisdictions rather than just domestically. Due to the lack of IP harmonization worldwide, however, there is no single “universal” or “global” grant of an IP right that can be obtained. Instead, a company must piece together a collage of territorial IP rights created under the respective IP laws of different countries. Not only does this make for an unpredictable legal environment for IP owners to adequately protect and effectively enforce their IP rights in the global market, but it also imposes a significant impediment to global trade. A number of multilateral international IP conventions have been promulgated to date in an effort to provide some predictability with respect to IP rights worldwide. But the role of these

4. The “territorial” nature of IP refers to the fact that countries enact their own idiosyncratic IP laws, typically by statute, and these IP laws have no application or force outside the country in which they are enacted. For example, a U.S. patent grants enforceable exclusionary rights in the U.S. but not outside the U.S. and its territories. Similarly, an Indian patent grants enforceable rights only in India.


conventions has been generally limited to establishing minimum standards for IP protection and enforcement in member countries, rather than requiring uniformity of IP laws in those countries.\footnote{The minimum standards only set the floor of protection, leaving countries the discretion to provide greater levels of protection and even, in some cases, to provide exceptions going below the floor. The other two basic principles established by these conventions are: (i) national treatment, which requires each member country to grant IP protection to the works of foreign nationals that is no less favorable than its accords its own nationals; and (ii) most favored nation protection, which obligates a member country to extend to the nationals of all member countries any favorable treatment with respect to IP it has extended to the nationals of another member country. See J.H. Reichman, \textit{Universal Minimum Standards of Intellectual Property Protection under the TRIPS Component of the WTO Agreement}, 29 Int'l L. & Pol. 235, 347-48 (1995).}

Further complicating this issue, because of the vagaries of offshore jurisdictions' property laws, including IP, the IP laws of the sourcing customer's home country cannot, and should not, be assumed to apply in the offshore jurisdiction regarding IP ownership disputes, even if the operative contract between the customer and the offshore service provider has an unambiguous governing law provision calling for the customer's home country IP laws to govern. Indeed, it is also the case that a court in the customer's home country, even the U.S., may not apply that home country's IP laws, but rather might apply the foreign IP law to decide issues involving the ownership of IP created abroad, notwithstanding the operative contract's governing law and venue provisions.

For example, in 1998, in \textit{Itar-Tass Russian News Agency v. Russian Kurier, Inc.}, a case involving copyrighted work created in Russia, the U.S. Court of Appeals for the Second Circuit applied the "work made for hire" doctrine under Russian law to determine the initial ownership of the copyright of the works in suit. The court based its analysis in determining the question of ownership on the standard Second Restatement rule regarding conflicts of laws that the interests of the parties in property are determined by the law of the state with "the most significant relationship" to the property and the parties.\footnote{153 F.3d 82 (2d Cir. 1998).} The court concluded that Russia had the most significant relationship with the copyrighted works in suit because the works had been created and first
published in Russia. Since that decision, three additional federal decisions within the Second Circuit have followed the Itar-Tass approach. These decisions have significant implications for a U.S. company contemplating a global sourcing transaction involving the creation of IP in an offshore location; the Second Circuit’s Itar-Tass analysis might suggest the IP law of an offshore jurisdiction could determine the ownership in a disputed copyright work created in the offshore location, notwithstanding the operative contract’s adoption of U.S.-based governing law.

IP protection and enforcement mechanisms for IP rights are not harmonized around the world; they differ in material respects on a country-by-country basis. This can affect a customer’s expectations in a global sourcing arrangement and can, in the absence of appropriate contractual safeguards, potentially jeopardize a customer’s rights to its own IP or critical third party technology. Therefore, in any global sourcing transaction a customer must (i) thoroughly and carefully perform legal due diligence on national and local IP laws and customs; (ii) assess the possible impact of those laws and customs on the contemplated global sourcing transaction; and (iii) structure the global sourcing transaction in a way that will adequately protect against the potential risk of losing control of valuable IP.

III. THE STRUCTURE OF THE GLOBAL SOURCING TRANSACTION

When it comes to the structure of a global sourcing transaction, one size does not fit all. There are three key structures: (i) sourcing through affiliated legal entities (wholly-owned or majority ownership) in off-shore locations, which can be thought of as “captive sourcing,” (ii) contracting with unaffiliated offshore suppliers, or “third party sourcing,” and (iii) partnering with local entities to share control of local operations used for delivery of sourced products or services, or “joint

11. *See* Bridgeman Art Library, Ltd. v. Corel Corp., 25 F. Supp. 2d 421, 426 (S.D.N.Y. 1998) (finding that United Kingdom law determines ownership of photographs produced by British museums owning the original works of art and by freelance photographers employed by a British firm); Shaw v. Rizzoli Int’l Publ’ns., Inc., 51 U.S.P.Q.2d 1097, 1102 (S.D.N.Y. 1999) (holding that the U.S. has the “most significant relationship” to the Marilyn Monroe photographs in a book sold in the U.S. and Italy); Films by Jove, Inc. v. Berov, 154 F. Supp. 2d 432 (E.D.N.Y. 2001) (finding that Russian law should be used to determine ownership of over 1500 animated films produced or restored by Soyuzmultfilm Studio, a former Soviet Union state enterprise).
12. *See* ALAN GUTTERMAN, 1 CORPORATE COUNSEL’S GUIDE TO TECHNOLOGY TRANSACTIONS, chs. 3 & 4 (2003).
venture sourcing."\textsuperscript{13}

Captive sourcing involves a "do-it-yourself" approach where a sourcing customer builds or acquires its own operations offshore.\textsuperscript{14} This sourcing strategy involves longer time to implement, greater involvement in the legal and regulatory environment of the local jurisdiction, and higher startup costs through upfront investment in infrastructure and human resources. On the other hand, this strategy offers a customer greater control over all aspects of its day-to-day operations, including quality, transparency, timeliness, and security, greater control over IP underlying the service or product in question, and cost efficiencies and savings in the long run.\textsuperscript{15} Not surprisingly, this is a popular sourcing strategy with companies desiring to maintain greater control over their offshore operations generally or over critical IP that will or might be developed offshore.

At the other end of the spectrum is third party sourcing, in which a sourcing customer contracts with a third party supplier in an offshore location for services and products rather than establishing its own operations offshore.\textsuperscript{16} This approach is particularly popular with companies desiring to outsource "non-core" functions to specialized suppliers who can perform these functions more efficiently and cost effectively, thereby enabling the customer to focus its resources on its core business. Because this approach involves low startup costs for a customer as the infrastructure and human resources are usually provided by the supplier, it can be implemented rather quickly and the customer can leverage the economies of scale realized by the supplier with multiple customers. Third party sourcing also offers greater flexibility in access to "best of breed" and service scalability. This approach, however, requires the customer to relinquish greater control to the supplier over customer day-to-day operations, including control over customer IP involved in the transaction. Further, over the long run, the average cost of using a supplier might be higher than establishing and

\begin{quote}
15. Some foreign jurisdictions may prohibit the establishment of a captive sourcing model in a particular industry sector so as to compel the formation of a joint venture to involve a local enterprise. For example, state regulation in China permits foreign investment in certain industries, such as telecommunications, insurance, and retailing, through joint ventures only. See Michael Burke, \textit{International Joint Ventures: Practical Issues and Helpful Hints, People's Republic of China}, in \textbf{Joint Ventures in the International Arena} 145 (Darrell Prescott & Salli A. Swartz eds., 2003).
\end{quote}
running an offshore captive operation.

The joint venture sourcing model involves a middle approach in which a sourcing customer forms a partnership-type entity without ownership interest or a new legal entity (such as a limited liability company) in the offshore location as a joint venture with a local partner in which each party owns a percentage stake of the entity.\textsuperscript{17} This approach with multiple stakeholders permits each party to reduce its startup costs and operating risks and to share in the risk and reward of the joint venture. Because this approach can involve higher startup costs than other structures, more complicated structural and operational issues, and potential conflicts of interests between or among multiple owners, it generally tends to be a less popular mode of global sourcing in offshore locations. However, the benefits and risks of a joint venture model cannot be evaluated in a vacuum; the particular laws of the offshore jurisdiction must be considered, which may argue in favor or against the joint venture. For example, in China a joint venture relationship can present unique benefits to the foreign IP owner, such as better protection against piracy due to the stake of a local partner.\textsuperscript{18}

Each sourcing structure can be tailored to meet the objectives and goals of a customer’s specific global sourcing strategy. For example, a variation of the third party sourcing structure involves an arrangement whereby the sourcing customer engages a third party supplier to establish a “dedicated center” or a “virtual captive” to be operated by the supplier, but specifies that all required facilities, equipment, and personnel be exclusively dedicated to the customer.\textsuperscript{19} This approach might be deployed by a customer that has significant quality control and security concerns and thus, while not ready to make the leap to build its own captive operations offshore, is willing to absorb the increased costs relative to the costs of traditional third party sourcing, which typically reduces costs by leveraging the supplier’s economies of scale through servicing multiple customers from the same facilities.

There also exists a hybrid structure, known as the “build-operate-transfer” ("BOT") structure.\textsuperscript{20} In this structure, an offshore supplier builds an offshore center for the customer, offering its skills, infrastructure, and knowledge of the local market. The supplier operates it for a certain time period to meet the operational performance require-

\textsuperscript{17} Id. at 113.
\textsuperscript{19} See VASHISTHA \& VASHISTHA, supra note 13, at 112.
\textsuperscript{20} Id. at 115.
ments, and then, pursuant to a previously negotiated contractual buy-out option, transfers to the customer the ownership and control of the offshore center, including personnel, facilities and equipment. This approach can be attractive to a customer that lacks the expertise, time, or resources to establish its own offshore captive operation and it allows for a shorter start up time because it leverages the existing expertise of the local supplier. The costs associated with the exercise of the buy-out option, however, can be significantly higher in the end as compared to the long run costs of other structures.21

Each sourcing structure has its own advantages and risks, and should be evaluated carefully to identify and assess the relative pros and cons for a particular global sourcing strategy. Companies should adopt different sourcing structures taking into account numerous variables, including the nature and scope of the activities to be globally sourced, previous sourcing experience, concerns about security and control of IP, risk tolerance, tax considerations, and budgetary constraints. “Third party sourcing” can be more quickly implemented and often can offer greater flexibility in access to talent, economies of scale and cost structure. But it also yields to the third party more control over day-to-day operations and the handling of sensitive data and IP, and it creates more reliance on the foreign host country’s legal regime and the timely enforcement of contracts. “Captive sourcing” usually requires more time to implement and provides less flexibility to ramp up or down quickly, but provides substantially more control over the management of the sourced operations and the customer’s sensitive data and IP, with usually less risk of dependence on foreign enforcement of contract rights.

Control over IP rights is, and should be, a major factor in determining the appropriate structure for the global sourcing transaction. A customer should seriously consider a “captive sourcing” strategy if the sourcing scope involves a substantial transfer to an offshore location of the customer’s IP “crown jewels” or other mission critical proprietary technology or data and if the enterprise cost of possibly losing control over some meaningful component of any of those assets is high.22

21. An interesting, but rarely used, permutation of the BOT model involves a company first establishing its own offshore centers and then transferring such centers to offshore suppliers after successfully operating them for several years.

22. A large number of “IP-intensive” companies are choosing the “wholly-owned subsidiary” structure for their China and India operations to maintain greater control over IP, among other considerations. See David Hindman, The Effect of Intellectual Property Regimes on Foreign Investments in Developing Economies, 23 ARIZ. J. INT’L & COMP. L. 467, 474 (2006); Mikhaelle Schiappacasse,
IV. THE ART OF THE IP TRANSFER

Regardless of the sourcing structure employed, every global sourcing transaction involves a master contract that both memorializes all underlying business and legal terms and includes the terms governing the transfer of IP, contractual IP protections, and related enforcement rights and mechanisms. The purpose and goal of the contract with respect to IP should be to fully assess and appropriately address the complexities and risks of owning, developing, and protecting the customer’s IP. In a global sourcing transaction these complexities and risks are quite significant and can be materially and adversely affected by the IP laws peculiar to the laws of the offshore jurisdiction. This Article examines these complexities and risks arising from the international transfer of IP from the perspective of three basic “transfer streams” corresponding to the direction of the flow of IP assets between or among the parties to a typical global sourcing transaction and proposes strategies for safer and more effective international IP transfers.

A. **Home to Host IP Transfer Stream:** This transfer stream involves the transfer from the sourcing customer to the offshore service provider of IP either owned or licensed by the sourcing customer (“Customer IP”). This transfer is typically effected by a license to use granted by the sourcing customer to the offshore service provider during the term of the sourcing relationship.

B. **Host to Home New IP Transfer Stream:** This transfer stream involves the transfer from the service provider to the sourcing customer of IP that is newly created or developed by the service provider for, or on behalf of, the sourcing customer (“New IP”). This transfer should be required by, and particularly agreed to in, the parties’ contract and is typically effected by irrevocable assignment.

C. **Host to Home Service Provider IP Transfer Stream:** This transfer stream involves the transfer from the service provider to the sourcing customer of the service provider’s pre-existing IP, whether owned or licensed by the service provider (“Service Provider IP”). The transfer of Service Provider IP is typically effected through a “license to use” granted by the service provider to the sourcing customer covering the term of the

relationship as well as after termination and it typically pertains to Service Provider IP that the customer will continue to require for use in its business or operations after the sourcing relationship is terminated.

In any global sourcing transaction, it is imperative that the operative contract underlying the transaction provide a full and robust treatment of certain basic issues. More specifically, from the customer’s perspective, the contract should clearly address, among other things: (i) the specific allocation of relative ownership and access rights to IP between the customer and the service provider not only for the duration of the transaction but also after the relationship is terminated; (ii) all desired non-disclosure and non-compete obligations of the service provider; (iii) any measures that the service provider will be required to implement to minimize risk to the customer’s IP; (iv) all rights and remedies available to the customer to enforce its rights and protect against infringement or misuse of the customer’s IP, including adequate warranties, indemnities, immediate termination rights and uncapped liability for service provider misconduct; and (v) the governing law that will apply to the transaction, including IP-related disputes, which should typically be the law of the customer’s home country.\footnote{See Gutterman, supra note 12, ch. 4.}

An important issue relating to Home to Host IP transfer that should be addressed at the outset—but is often actually overlooked—is whether any technology previously licensed by the sourcing customer from third parties will need to be transferred to the offshore service provider. If so, due diligence must be performed to determine whether the underlying licenses already permit such transfer or will require third party consents to permit it. While this exercise can add additional complexity and costs to the transaction, it is a critical pre-sourcing issue that must be considered lest a customer learn after having offshored the technology that it has violated a pre-existing licensing arrangement.

Apart from the basic issues listed above that every well-crafted sourcing contract should address, each IP transfer stream can present further complexities and unique IP issues that can adversely impact the outcome of the transaction to the customer’s detriment, notwithstanding the IP provisions expressly included in the operative contract. These issues arise due to the lack of harmonized IP laws around the world. The sections below raise some of the key considerations that must be carefully analyzed and addressed to minimize potential risk to
a sourcing customer's IP and to make sure the customer has access to, and ownership of, any new IP created by the offshore service provider for the customer, as well as access to critical Service Provider IP.

A. Home to Host IP Transfer Stream: Sourcing Customer IP to Offshore Service Provider

The critical query with respect to this transfer stream is to determine the optimum mechanisms to protect the customer IP transferred to the service provider in the offshore location. How can the customer's IP be protected through trade secrets and contractual protections enforceable against the service provider? Can a local patent or other registrations be obtained to obtain statutory protections offered by the offshore location? If so, should such registrations be sought? The answer to these questions depends not only on the customer's business and sourcing strategy, but also on the local IP regime in the offshore location.

In fact, much of the customer IP transferred in a global sourcing transaction (for example, source code, formulae, product designs, client lists, proprietary business processes, specifications, and experimental data, to name a few) is confidential in nature and generally not suitable for local registrations in the host jurisdiction. It therefore becomes critical for the customer to seriously consider—before embarking on a global sourcing transaction—how it will best protect this information to maintain its competitive advantage. A primary concern should be the offshore service provider's ability and willingness to safeguard the customer's trade secrets and other commercially valuable confidential information against misappropriation, misuse, unauthorized disclosure, sabotage or theft. As part of that analysis, the customer must evaluate not only the appropriate contractual protections to prevent unauthorized use or disclosure of such information by the offshore service provider, but also the level of statutory protections, if any, that may be available to protect against third party misappropriation of such information in the host country. This analysis is difficult at best because of the different types and levels of statutory protection afforded to trade secrets worldwide, as demonstrated by the examples

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24. A trade secret is generally defined as any confidential information with commercial value, reasonably protected from disclosure by its rightful holder. No registration or other administrative formality is required in order to be protected by trade secret law. See Margaret Boulware, Jeffrey Pyle & Frank Turner, An Overview of Intellectual Property Rights Abroad, 16 HOUS. J. INT'L L. 441, 451, 491 (1994).
involving India and China below.

Furthermore, if a customer makes its patented technology available to the offshore service provider, the customer must also consider at the outset whether to seek local patent protection for any such invention already patented outside of the host jurisdiction that would be made available in the host jurisdiction. This is a critical consideration because patent rights are territorial in nature and do not extend beyond the territory of the jurisdiction granting the patent rights. Through a well thought out patent strategy upfront, a customer can minimize not only IP infringement risk but also the risk of potential loss of any global patent rights, particularly given the differing standards of patentability worldwide.

1. Preventing Unauthorized Disclosure or Misappropriation of Sourcing Customer’s Trade Secrets and Confidential Information

In the U.S., trade secrets are afforded statutory protection, both at the federal and state levels, with meaningful civil and criminal remedies to counter the misappropriation of trade secrets, including actual and punitive damages, injunctive relief, and attorneys’ fees. A number of other countries, however, such as India, Singapore, Malaysia, and Hong Kong, to name a few, do not provide statutory protection for trade secrets and confidential information. The lack of statutory protection presents a number of challenges concerning trade secret protection and enforcement against infringers and can jeopardize a sourcing customer’s IP unless it is adequately protected through alternative contractual mechanisms that are enforceable in the off-
Assume a U.S. customer is contemplating offshoring a critical business process to India, which involves the customer making its confidential data and IP available to an Indian service provider in a third party sourcing structure. One of the most troubling gaps in India’s IP legal framework is that Indian law does not provide any statutory protection for trade secrets or confidential information. Parties must primarily rely on contracts to protect trade secrets. Indian law does recognize the common law tort of “breach of confidence” irrespective of the existence of a contract. But the tort’s utility is limited in a global sourcing transaction context because the duty of confidence at issue can be enforced only against a party that is either a fiduciary to the customer or in an employer-employee relationship with the complaining party. Also, the duty arguably only extends to the unauthorized disclosure of confidential information to a third party and does not prevent the recipient’s own “misappropriation” of the information.

Consider the following hypothetical involving an Indian service provider that has engaged a subcontractor in India to perform the offshored services for a U.S. customer. If the Indian subcontractor discloses or misappropriates the U.S. customer’s trade secrets or confidential information, the U.S. customer has neither a breach of confidence claim against the subcontractor nor a breach of contract claim, unless the U.S. customer has contracted directly with the subcontractor, which is typically unlikely. The contract between the U.S. customer and the Indian service provider might well hold the service provider liable for damages caused by the subcontractor’s inappropriate disclosure, but that cause of action still does not directly address or foreclose the subcontractor’s past and possibly future misconduct. Essentially, the U.S. customer is left without a direct remedy against the Indian subcontractor and without an immediate legal means to effectively stop the disclosure.

This concern with third party subcontractor misconduct unfortunately also exists with respect to the misconduct of employees and

31. See Baldia, supra note 27, at 456-57.
33. See Baldia, supra note 27, at 456-57.
ex-employees of the Indian service provider. Surveys reveal that a majority of instances of data misconduct arise from employees or ex-employees of a service provider. Recent instances reported in the international media involving the theft of trade secrets of western companies offshoring to India further illustrate the gaps in India's IP law that highlight the vulnerability of IP in global sourcing transactions.\footnote{In 2002, an ex-employee of an Indian software vendor, Geometric Software Solutions Ltd., was attempting to sell proprietary software source code owned by SolidWorks, a U.S. client of the person's ex-employer, to the U.S. client's competitors. Even though the ex-employee was caught red-handed in a sting operation he could not be effectively prosecuted in India because the source code was considered a trade secret and Indian law did not recognize "misappropriation" of trade secrets. Further, the U.S. client did not have any contractual arrangements with the ex-employee whereby it could directly enforce its rights against the ex-employee. See Michael Fitzgerald, Big Savings, Big Risk, CSO MAG., Nov. 2003, available at http://www.csonline.com/read/110103/outourcing.html. Similarly, in 2004 an employee at an India-based software development center of a U.S. customer, Jolly Technologies, misappropriated portions of the customer's source code by allegedly uploading and shipping files that contained source code for a key product to her personal Yahoo e-mail account. The theft was detected in time to prevent the employee from distributing the stolen code but the U.S. customer also could not successfully prosecute the employee because of the same gap in Indian IP law. These cases have drawn close scrutiny and served as a wake up call to the global sourcing community as well as the Indian outsourcing industry, prompting Indian industry to aggressively lobby the Indian government to strengthen India's IP regime and demonstrate to the foreign investor community that India takes foreign IP more seriously. E.g., Dinesh C. Sharma, India to Tighten Data Protection Laws, CNET NEWS.COM, June 29, 2005, http://news.com.com/India+to+tighten+data+protection+laws/2100-1029_3-5768412.html.}

The perils of subcontractor and employee misconduct as to IP in India are very real. It is critical, therefore, for a sourcing customer to be aware of this enforcement gap and address it in the contract with the Indian service provider, as well as in the contracts between the Indian service provider and its subcontractors. The contract provisions should, as clearly and as effectively as possible, prohibit the wrongful disclosure and misappropriation of trade secrets and proprietary data by the service provider and the subcontractor(s); the contracts should make equally clear the customer's right to enforce violation of these provisions for damages and the customer's right to seek to enjoin such wrongful acts locally.

does not, however, provide a clear, comprehensive and robust treatment of trade secrets, particularly with respect to trade secrets disclosed to employees.\textsuperscript{37} Therefore, a sourcing customer should protect its trade secrets in China through confidentiality and non-disclosure agreements, which are enforceable in China.

In fact, confidentiality and non-disclosure covenants are enforceable in many jurisdictions, including India and China, and offer a line of defense in the customer’s effort to protect trade secrets and confidential information in offshore jurisdictions.\textsuperscript{38} In such jurisdictions, a customer must insist upon unambiguous provisions in the operative contract that require the offshore service provider to: (i) maintain the customer’s trade secrets and confidential information in strict confidence not only during the term of the contract but also after termination; (ii) permit controlled access on a “need to know” basis only, including the customer’s right to enforce such obligations directly against service provider personnel having access to the customer’s information; and (iii) be contractually responsible and liable for any breach of confidentiality obligation or misuse of such information by itself, its subcontractors, employees or former employees. A service provider’s failure to comply with the confidentiality obligations should not only permit the customer to immediately terminate the contract but also optimally result in uncapped financial consequences to the service provider.

In addition, prior to entering into any final contractual arrangement, the customer should perform due diligence as thoroughly as possible, to make sure that the offshore service provider has written employment and non-disclosure agreements in place with its employees and consultants, and should closely scrutinize such agreements to make sure that they are sufficiently protective of the customer’s rights and interests and that they are valid and enforceable under the laws of the host country. To the extent practicable, a customer should consider entering into non-disclosure agreements directly with the offshore service provider’s employees and consultants assigned to the project. By doing so, the confidentiality obligations should remain in force even after the employee or consultant is no longer employed or engaged by the offshore service provider; the customer would thus likely have, and retain, contractual privity with such employees and consultants and

\textsuperscript{37} See Patlloch, supra note 36, at 61.

\textsuperscript{38} See Baldia, supra note 27, at 456; Greene, supra note 26, at 464.
standing to sue in the host country, as well presumably in other venues, in the event of a breach of their obligations.

The operative sourcing contract should also include non-competition covenants that restrict the offshore service provider from using competitive technology or personnel in connection with the customer’s competitors. The customer must bear in mind, however, that many jurisdictions have stringent laws against overly restrictive trade practices and therefore the enforceability of a non-compete covenant is subject to a case-by-case determination and the precise terms cannot be assumed to be enforceable. In India, for example, the Indian Contract Act provides that a non-compete agreement will not be enforced to the extent that it restrains a person from exercising a lawful profession, trade or business. 39

Judicial precedent indicates, however, that an Indian court will enforce a restrictive covenant if it meets the “reasonableness” test. For example, a restrictive covenant imposed during the period of the subject’s employment is more likely to be upheld than a covenant operating after the termination of employment. In Niranjan Shankar Golikari v. The Century Spinning & Manufacturing Co. Ltd., 40 the Supreme Court of India upheld a restrictive clause in an employment contract that imposed constraints on the employee not to reveal or misuse, during the period of the employment, any trade secrets that the employee learned while employed. Another example of the application of the “reasonableness” test is that Indian courts typically apply a stricter level of scrutiny to non-competition provisions in contracts for the provision of services than to contracts solely for the sale of a business or franchise agreements, 41 thus making the drafting of these provisions in sourcing contracts a critical and sensitive task.

Subcontracting by the offshore service provider can dramatically increase the IP risk profile. Therefore, proper checks and balances should be placed on the offshore service provider’s ability to subcontract any portion of the offshored services. To the extent possible the customer should require that subcontractors enter into contractual commitments that are directly enforceable by the customer. At the very least, the customer should: (i) require prior approval rights with respect to all subcontractors and retain the right to review the terms of all subcontracts; (ii) require the flow downstream of certain mandatory

41. See Baldia, supra note 27, at 456.
provisions to safeguard the customer’s rights and interests, such as data privacy, IP ownership and assignment provisions, and confidentiality obligations; (iii) perform thorough due diligence with respect to subcontractors; (iv) require the offshore service provider to be contractually responsible for subcontracted functions; and (v) insist upon contractual arrangements, to the extent practicable, that maximize the customer’s chances in the host jurisdiction of being positioned legally to enforce contractual protections regarding data privacy, confidentiality and IP ownership directly against the subcontractor.

The customer should also develop and implement effective information governance strategies and internal security measures to control the access, availability and dissemination of trade secrets and confidential information in offshore locations. Key measures include: (i) requiring meaningful background checks to be performed on employees and consultants engaged by the offshore service provider and assigned to the customer’s account; (ii) permitting controlled access on a “need to know” basis; (iii) managing attrition and turnover rate of employees; (iv) briefing employees on security measures and conducting exit interviews for ex-employees to remind them of continuing confidentiality obligations; (v) performing routine audits to verify the service provider’s compliance; and (vi) to the extent possible, marking hard copy documents and electronic data with “confidential” or “proprietary” legends prior to placing them in circulation.

Finally, in many offshore jurisdictions trade secret litigation can lead to the open disclosure and consequential loss of the trade secrets at issue if the legal proceedings are not closed. 42 Therefore, the operative sourcing contract should require all disputes relating to the customer’s trade secrets and confidential information to be subject to confidential mediation or arbitration rather than litigation, and all IP and information involved in the proceeding to be treated confidentially.

2. Assessing Need for Local Patent Registration

Before embarking on a global sourcing transaction, a sourcing customer should determine its patent strategy with respect to its patents or patentable inventions that might be shared or created in the

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42. For example, in Japan all hearings and proceedings are open to the public and no in-camera proceedings are permitted. L.J. KUTTEN, 3 COMPUTER SOFTWARE § 13:34 (2007).
offshore location. The fundamental questions are whether to seek local patent protection for any invention already patented outside of the offshore host jurisdiction that would be made available in the offshore jurisdiction for any innovation originating in the offshore location, and whether to make any subsequent global filings for any offshore-originated innovation. Through a well thought out patent strategy upfront, a sourcing customer can minimize not only infringement risk but also the risk of the potential loss of any global patent rights, particularly given the differing standards of patentability worldwide.

For example, the standards of patentability under U.S. patent law (such as for claiming priority, disclosure requirements during prosecution of the patent application, and interference practice, to name a few) significantly differ from those under Indian or Chinese patent law. In contrast to the U.S. first-to-invent patent system, both China and India have a first-to-file patent system and therefore neither China nor India provide for an interference process to determine priority of invention if contested. On the other hand, the detailed interference proceedings in the U.S. permit a subsequent applicant to still obtain patent rights through documentary proof of earlier conception and diligent reduction to practice. If a service provider in China or India is unfamiliar with the U.S. patentability standards, which have little relevance to the respective Chinese and Indian patent systems, the service provider may fail to conduct its activities relating to patentable innovations in China and India to preserve the customer’s rights in the U.S. or in other jurisdictions relating to that innovation, for instance,


47. Chinese Patent Act, supra note 44, art. 9; see Patulloch, supra note 36, at 49.

48. See Balda, supra note 27, at 442.

by failing to maintain documentary proof of innovations in accordance with U.S. evidentiary standards. This failure, which is one among many other possible missteps, can potentially jeopardize a U.S. customer's ability to obtain and enforce patent rights in the U.S.

It is therefore critical for the operative sourcing contract to (i) clearly define procedures for maintaining documentation of innovations to serve as proper evidence of the time of conception and reduction to practice, in order to protect the sourcing customer's right to seek possible patent rights in preferred jurisdictions, and (ii) provide for periodic training as well as routine audits to make sure that the offshore service provider is in compliance with item (i) noted above, as well as with other relevant patent law standards that might affect patent registrations in the U.S. or other preferred jurisdictions.

To a large extent, the patent strategy will be driven by the nature of the global sourcing transaction and the degree of critical IP involved. For example, in a transaction involving the offshoring to India of research and development of chemical entities, it may be worthwhile to obtain local patent protection for the chemical entities. Similarly, in a transaction involving the manufacture of drugs in China, the customer may wish to obtain local patent protection for the drug formulations to prevent local generic companies from copying the drug. A key benefit of patent protection is that it provides the patent owner with a bundle of strong statutory rights that may be enforced against any third party in the offshore location to stop any unauthorized use of the patented technology, irrespective of the existence of any contractual or fiduciary relationship. Of course, the customer's ability to effectively enforce a local patent against a third party infringer in an offshore location will also be a key factor in determining whether to obtain a local patent or protect the customer's IP through trade secrets.

Furthermore, unlike the case of trade secrets or copyrights, independent development of a patented technology is not a defense to an infringement claim. While not usually a significant risk, a sourcing customer should generally be aware that patent laws in a number of countries, such as India and China, empower the local government to grant a "compulsory license" to a private party or a government


52. The Patents Act, No. 99 of 1970, § 84. Under this section, a third party may apply for a compulsory license on the grounds that the "reasonable requirements of the public" have not
agency under certain circumstances. Patent laws of many countries also provide for broad "research and experimental use" exceptions whereby a third party's experimental use of a patent, even for commercial purposes, without the patent owner's consent does not constitute infringement. Finally, a sourcing customer must keep in mind that computer programs and business methods continue to be per se not patentable in countries such as China and India, and so must be protected as trade secrets through the contractual approaches discussed above.

3. Navigating Foreign Fair Use Exceptions for Copyrighted Works

The fair use doctrine provides exceptions for the fair use of copyrighted works without the consent of the copyright holder. A number of jurisdictions, such as the U.S., Canada, India, China, and Singapore, provide fair use exceptions, but the scope of such exceptions varies on a country-by-country basis. This variation in scope can jeopardize the sourcing customer's IP in a jurisdiction that endorses broad exceptions unless the operative contract is appropriately drafted to protect the customer IP against exposure to such broad exceptions.

For instance, under Indian copyright law certain uses of computer programs without the copyright owner's permission, including non-commercial personal use, are deemed "fair use" and do not constitute infringement. Furthermore, Indian copyright law does not require that any payment be made to the copyright owner for such use except under very limited circumstances. These so called "fair use excep-

58. Id. at 1642-45.
59. The Copyright Act, No. 14 of 1957; India Code (1957), § 52(1).
60. Id. Under Section 52(1)(j), however, if a person makes sound recordings of any literary, dramatic or musical work, then such person is required to pay the owner of the copyright work royalties in respect of all such sound recordings at the rate fixed by India's Copyright Board.
tions” reflect the historic emphasis of Indian law on public access to knowledge.61 This fair use doctrine has been subject to very limited judicial scrutiny in India and is unfortunately a murky legal concept that leaves a blurred line between lawful and unlawful use. Similarly, Chinese copyright law provides for fairly broad fair use exceptions that, among other things, provide users of copyrighted software a limited right of de-compilation without permission from, and without remuneration to, the copyright owner for purposes of developing new programs to promote incremental innovation and competition.62 The fair use exceptions of India and China significantly exceed those in the U.S., which only permit copying or use of limited portions of copyrighted works without the owner’s consent for limited purposes of commentary, criticism, teaching, research, and similar specific activities.63

To try to address these fair use variations, the operative sourcing contract should expressly prohibit any use, copying, reverse engineering or distribution of the customer software code beyond the purposes expressly authorized by the customer. The ultimate efficacy and protection afforded by such contract prohibitions remains opaque at best because of the extreme paucity of any decisional law in popular offshore jurisdictions addressing the enforceability of contractual fair use restrictions. For example, in India there are no decisions addressing the issue of whether a court in India would enforce these provisions and effectively override India’s fair use exceptions. Nevertheless, prudent sourcing and IP management in international IP transfer arrangements clearly militates in favor of negotiating the inclusion of fair use limiting provisions.

4. Export Control Issues as to Sourcing Customer IP

Another important consideration is whether any of the customer’s IP

61. See Gramophone Co. of India v. Mars Recording Pvt. Ltd., 2000 PTC 117 (Kar). In this case, the Karnataka High Court justified the statutory “fair use” provisions as balance between the rights of authors and interests of society. The court held that copyright in the sound recordings was not infringed by the accused party’s use/sale of the sound recordings without having obtained the copyright owner’s consent, provided such party made the requisite statutory payments for use/sale of the sound recordings per Section 52(j). Id.


that will be transferred offshore (such as encrypted technology or source code) may be subject to any export controls in the customer’s exporting jurisdiction(s), in which case a license to “export” or other approvals may be required from governmental agencies prior to offshoring the IP, such as in the U.S. under the U.S. export control laws.\textsuperscript{64} In addition, the offshore location where the IP is to be transferred may have its own set of import/export regulations that may apply to the customer's IP transferred to such location.\textsuperscript{65} Therefore, prior to transferring IP offshore, a global sourcing customer must understand the export laws applicable to the transfer of IP overseas, including any applicable laws in the offshore location to protect such transfers, as well as whether such laws can be effectively enforced to protect the transferred customer IP.

In the U.S., the U.S. customer bears the responsibility for compliance with U.S. export control laws on behalf of itself and the offshore service provider, at the risk of severe civil and criminal penalties.\textsuperscript{66} Therefore, the operative sourcing contract should unambiguously require the offshore service provider to comply with, and facilitate the customer’s compliance with, all applicable export control laws, and the service provider’s failure to comply should not only permit the customer to immediately terminate the contract but should also result in uncapped financial consequences to the service provider.

B. \textit{Host to Home IP Transfer Stream: The Flow of New IP to Sourcing Customer}

If a global sourcing transaction involves the creation of IP by the offshore service provider for or on behalf of the sourcing customer, it is


\textsuperscript{65} For example, China regulates the import and export of technology into and out of China and imposes some onerous restrictions on the terms on which technology can be transferred to or from China. A foreign transferor must be aware of these restrictions to protect its IP in China because failure to comply with these restrictions can potentially jeopardize the transferor's IP in China. See Fraser Mendel, \textit{Offshore Outsourcing and Offshoring to China}, 844 PLI/Pat 253, 262-65 (2005); Zhu Lee & Bruce Schelkopf, \textit{How to Transfer Technology from the US to China}, July/August 2006, available at \url{http://www.foley.com/publications/articles.aspx}.

\textsuperscript{66} See U.S. export control regulations cited \textit{supra} note 64.
critical that the sourcing contract address the specific allocation of ownership and access rights to such IP between the customer and the service provider—not only for the duration of the transaction but also after the relationship is terminated. Typically, if a customer pays for the development of IP by the service provider, the customer will want sole and exclusive ownership of the work product, including all IP rights therein. In allocating the ownership rights in such IP to the customer, particular consideration should be given to the following key legal concepts of IP ownership as they are applied in the offshore locations where the IP is created to make sure that the customer’s rights to such IP are not compromised. While the same or very similar legal concepts of IP ownership may exist in multiple jurisdictions, the variances can sometimes be quite subtle from jurisdiction to jurisdiction and can potentially undermine the customer’s overall IP rights unless it has previously considered and addressed the less obvious gaps in IP protection through legal due diligence and appropriately-crafted alternative contractual protection provisions.

1. Navigating Work Made for Hire Doctrine as to New IP

The “work made for hire” doctrine governing copyright ownership in deliverables is an important protection in many jurisdictions and it may extend to inventions created by employees and/or independent contractors depending on the jurisdiction in question.67 For instance, under U.S. copyright law the doctrine extends to inventions created by both employees and independent contractors; the ownership in such inventions vests by default in the employer or other person for whom the work was prepared, unless the parties have expressly agreed otherwise in a signed written instrument.68

Indian copyright law recognizes the work made for hire doctrine, but it is not as well developed as in the U.S. and therefore not a fully reliable safeguard in those circumstances in which IP will be developed in India. Under Indian law, the doctrine only extends to employee-created inventions and does not apply with respect to contractor-created inventions.69 Consequently, unless the contractor-created inventions are expressly assigned by written contract to the sourcing customer,

69. India Copyright Act, 1957, supra note 59, § 17(c).
which is permitted under Indian IP law, the legal owner of the inventions under Indian law will be the contractor that developed them.

Chinese copyright law, in contrast to Indian law and U.S. law, grants default authorship rights to an employee, and an employer may be deemed a copyright author only under very limited exceptions, such as with respect to drawings of engineering designs and product designs, maps, and computer software "created in the course of employment mainly with the material and technical resources" of the employer.\textsuperscript{70} Outside these exceptions, under Chinese law the employee is the author of the work made for hire and the employer is statutorily provided a priority right to exclusively exploit the work within the scope of its professional activities for a two year period following the completion of the work, during which period the employee may not permit a third party to exploit the work in the same way as the employer does.\textsuperscript{71} After the two year period, the employer's right to use the work automatically lapses unless the parties have otherwise agreed in writing.\textsuperscript{72} Similarly, with respect to commissioned work, the default rule under Chinese copyright law is that the authorship rights to such work vests with the commissioned party (although the commissioning party may continue to exploit the work within the specific purpose of the commissioned creation), unless otherwise agreed by the parties in writing.\textsuperscript{73} Chinese patent law, however, grants default patent ownership rights to an employer in inventions made by Chinese employees during the course of their employment using materials and technical means of the employer, unless the parties have agreed otherwise in writing.\textsuperscript{74} These default rules in China can have significant implications for a sourcing customer contemplating IP development in China.

The operative sourcing contract with the offshore service provider in a jurisdiction like India or China therefore must include valid assignment provisions transferring the copyright in new inventions to the customer; these provisions should flow down into agreements with the offshore service provider's employees and subcontractors. Because the determination of ownership rights in IP created in an offshore location may hinge on IP laws of such location, employment and contractor agreements should be carefully scrutinized to make sure that the

\textsuperscript{70} Chinese Copyright Act, supra note 62, art. 16.

\textsuperscript{71} Id.

\textsuperscript{72} Id.

\textsuperscript{73} Id., art. 17.

\textsuperscript{74} Chinese Patent Act, supra note 44, art. 6.
ownership rights are appropriately assigned and are valid and enforceable under the laws of such location. Absent a transfer of full legal title or an exclusive license under the relevant copyright law, a customer may not have causes of action for infringement in its home jurisdiction or in the offshore location.

Finally, because each additional tier of relationships complicates the sourcing customer’s management of IP ownership and the chain of title to the IP, the customer’s general and precautionary approach should be to avoid involving offshore subcontractors, to the extent practicable, in those specific offshore projects that may yield new IP.

2. Inalienable Moral Rights

In many jurisdictions, such as India\textsuperscript{75} and China,\textsuperscript{76} copyright laws provide for certain inalienable “moral rights” to attach to authors of copyright work, allowing them to restrain or claim damages for the distortion or modification of work if it could bring them “disrepute.”\textsuperscript{77} These rights generally are retained by the authors even if the copyright work is assigned\textsuperscript{78} but certain jurisdictions permit waiver of such rights under limited circumstances.\textsuperscript{79}

A sourcing customer should therefore seek a waiver of such moral rights by the “author,” which in the sourcing context would likely be the offshore service provider’s employees or subcontractors, upon assignment of all copyrighted materials. Without a waiver of such

\textsuperscript{75} India Copyright Act, 1957, \textit{supra} note 59, § 57(1). In India “moral rights” do not apply with respect to computer software.

\textsuperscript{76} Chinese Copyright Act, \textit{supra} note 62, art. 10.


\textsuperscript{78} Amar Nath Sehgal v. Union of India & Ors, 2005 (30) PTC 253. In this case, the Delhi High Court upheld the plaintiff’s moral rights in the copyrighted work (murals) created by the plaintiff even though the work was assigned to, and owned by, the defendant.

\textsuperscript{79} India permits waiver of such rights albeit under limited circumstances. See Mira T. Sundara Rajan, \textit{Moral Rights in the Public Domain: Copyright Matters in the Works of Indian National Poet C Subramania Bharati}, 2001 SING. J. LEGAL STUD. 161, 175 (2001). Although India’s copyright statute is silent on the ability of authors to waive their moral rights, judicial precedent indicates that an Indian court will likely enforce a waiver if it is in writing and meets the “reasonableness” standard. For example, a waiver is more likely to be upheld if it is revocable and applies to specific alterations or modifications of copyrighted work rather than an irrevocable blanket waiver, particularly if the author had no bargaining power when the waiver was granted.
rights, the assigning author will likely be able to restrain future versions of copyrighted materials, particularly if the author believes such versions may contain defects or errors that might bring the author disrepute. Accordingly, absent agreement to the contrary, an author may object to the modification of a copyrighted work by a U.S. customer who has acquired the right to adapt the work.

3. Joint Ownership of New IP

Global sourcing transactions can involve collaborative efforts that raise issues concerning whether IP generated from these efforts is, or should be, jointly owned and whether joint ownership is a preferable or desirable arrangement.\(^8^0\) Joint ownership of IP in any jurisdiction is fraught with land mines\(^8^1\) and in many jurisdictions, such as India and China, it becomes even more risky and legally opaque. Therefore, as a rule of thumb, joint ownership of new IP should be avoided to the extent possible.

Unless the parties contractually and unambiguously define in detail the treatment of jointly owned IP, and the joint owners’ respective rights therein, at the outset of the transaction, joint ownership will almost certainly cause problems and conflicts. Further complicating the issue, rules governing joint ownership of IP vary both by type of IP right and by country, and therefore can affect a customer’s expectations in the transaction. For example, under U.S. law joint ownership in a patent means that each joint owner owns and controls a 100% interest in the patent and can exploit the patent without the consent of, or an accounting to, the other joint owner.\(^8^2\) In the case of copyrights in the U.S., however, a joint owner of a copyright must share royalties with the other co-owners if the joint owner commercially exploits the jointly-owned copyrighted work.\(^8^3\) This can create particular uncertainty with respect to software-related IP, which is protected both by patent and copyright.\(^8^4\)

In India, a joint owner of a patent cannot commercially exploit the


\(^8^3\) See Oddo v. Ries, 743 F.2d 630, 633 (9th Cir. 1984); Shapiro, Bernstein & Co. v. Jerry Vogel Music Co., 221 F.2d 569, 571 (2d Cir. 1955).

\(^8^4\) See Yang, supra note 81, at 36.
patent without obtaining consent from the co-owner and providing an accounting to the co-owner in connection with any license, assignment, or sale of the patent.\textsuperscript{85} Because under Indian law there is no statutory reasonableness standard with respect to the withholding of consent by a joint owner, the customer is subject to the whims of a joint owner if the customer wishes to exploit a jointly owned patent in India.\textsuperscript{86} Furthermore, joint ownership of a patent or copyright can also affect a joint owner’s ability to enforce its rights in the patent or copyright against a third party, because Indian law requires all owners of a patent or a copyright to be parties in an infringement lawsuit.\textsuperscript{87}

Additional issues to consider, issues that are gray areas under the laws of most popular offshore jurisdictions, include a joint owner’s responsibilities relating to filing, prosecution, maintenance and enforcement of IP rights in jointly-owned inventions in the applicable jurisdictions.\textsuperscript{88} Therefore, if joint ownership of IP is contemplated in a global sourcing transaction, the operative contract must clearly define each joint owner’s responsibility for: (i) determining which inventions will lead to the filing for statutory protection and in which countries these filings will be made; (ii) obtaining any applicable foreign filing licenses and prosecuting the filings; and (iii) on-going use, maintenance and potential enforcement and licensing of any issued statutory IP rights. For the foregoing reasons, very careful consideration should be given to IP that may flow from the results of joint work.

4. Other Unique IP Considerations That Can Adversely Impact Sourcing Customer’s Interests

In some jurisdictions, certain presumptions and conditions apply to the licensing and assignment of patents and copyrights, which, if not adequately addressed through contractual mechanisms, can jeopardize the customer’s rights in IP created in such jurisdictions or licensed from the service provider in such jurisdictions. For example, Indian copyright law provides that unless a copyright license or assignment expressly states that the license or assignment rights are worldwide and perpetual, the license or assignment rights are limited to India and

\textsuperscript{85} India Patents Act, 1970, supra note 52, § 50.

\textsuperscript{86} In this circumstance, limited recourse may, however, be available in India by making an application to the Controller of Patents, which has the statutory power to direct certain actions of joint owners. See id. § 51.

\textsuperscript{87} India Copyright Act, 1957, supra note 59, § 61.

\textsuperscript{88} See Moore, supra note 80; Mugel, supra note 80.
only for a period of five years from the date of the license or assignment, as the case may be.\textsuperscript{89} Similarly, unless a copyright assignment expressly states otherwise, the assignment lapses if the assignee has not "exercised" its rights within one year from the date of assignment.\textsuperscript{90} Under Indian patent law, a patent assignment is invalid unless it is in writing and formally registered in the Indian Patent Office in India.\textsuperscript{91}

These are all important considerations because, in the example involving India, Indian law may be used to determine IP ownership and infringement issues that arise with respect to IP transferred to, created in, or licensed from India, even if the operative contract calls for non-Indian law to apply since there is never a guarantee that choice of law provisions will be enforced in a particular dispute. Therefore, the sourcing customer should carefully consider the laws of the offshore location when drafting IP provisions in the operative contract.

C. Host to Home IP Transfer Stream: Flow of Service Provider IP to Sourcing Customer

In any global sourcing transaction, the sourcing customer often requires access to the offshore service provider’s technology to benefit fully from the sourcing arrangement. The legal vehicle for such access is a "use license" granted by the service provider to the customer. The license can provide access for the term of the relationship or extend beyond the termination of the transaction, depending on both the nature and the scope of the transaction and the need for and role of the service provider’s technology in the transaction. From a sourcing customer’s perspective, the key considerations with respect to this transfer stream are to make sure that the license rights to the offshore service provider’s technology are crafted so that the license permits the customer to timely access and make the contemplated use of such technology, and so that such license is enforceable not only under the laws of the customer’s home country but also under the laws of the applicable offshore jurisdiction of the service provider.

Particular consideration must be given to any unique requirements existing under the laws of the applicable offshore locations that could adversely impact or severely limit a sourcing customer’s access to a service provider’s technology. For example, consider the unique presumption under Indian copyright law providing that unless a copyright

\textsuperscript{89} India Copyright Act, 1957, supra note 50, § 30(A).
\textsuperscript{90} Id. § 19.
\textsuperscript{91} Id. § 68.
license expressly states that a licensee’s rights are worldwide and perpetual, the licensed rights are presumed to be limited to India and for a period of only five years from the date of the license.\textsuperscript{92} With respect to a sourcing arrangement with an Indian service provider in India, the operative contract must expressly state that the license grant to the customer is worldwide and perpetual. Otherwise, the customer may be precluded from using Indian service provider technology outside India and, even with respect to use in India, the license rights will lapse after five years from the date of the license. Accordingly, in every jurisdiction in which the sourcing customer will be operating, it must understand the local IP laws and how those laws affect its ability to access and use Service Provider IP.

V. Conclusion

To manage the risk to IP in a global sourcing transaction, the sourcing customer should evaluate the respective IP transfer streams discussed above involving the transfer of its existing IP, the transfer of new IP that might be developed, and its need for the transfer of use and access rights to the service provider’s technology and IP. The sourcing customer should attempt to protect its rights and interests in these forms of IP by employing broad contract protections and being aware of, and complying with, host jurisdiction IP laws. The sourcing customer should also: (i) perform detailed due diligence of the offshore service provider upfront to evaluate the entity’s track record for protecting IP; (ii) be extremely particular about which IP must truly be offshored and avoid, where possible, offshoring critical technology; (iii) maintain core components of the offshored IP in the home country; and (iv) require frequent disclosure of work-in-progress and periodic delivery of deliverables during the course of the project to avoid being denied access to such technology in the event of a dispute or bankruptcy.

A potential global sourcing customer should further consider adopting a captive sourcing structure when the enterprise cost of losing control over its IP that would be transferred to, or created in, the offshore location is substantial. Not surprisingly, a high percentage of captive offshore transactions are in the IP-intensive sectors such as advanced software, high-tech electronics and pharmaceuticals. While establishing a captive sourcing entity in an offshore location provides the sourcing customer more control over day-to-day operations and IP,

\textsuperscript{92} \emph{Id.} § 19.
a majority of the legal issues discussed above will nonetheless still exist and therefore must be carefully evaluated and addressed irrespective of the global sourcing structure elected by the sourcing customer.

A customer contemplating a global sourcing transaction must carefully assess the offshore locations’ IP legal framework vis-à-vis the business functions that will be offshored and the nature and scope of IP that will be shared or created in the offshore location, and accordingly determine the appropriate safeguards to protect its IP. As discussed above, these safeguards may be a combination of statutory, contractual and practical mechanisms to minimize IP-related risk inherent in the international transfer of IP in global sourcing transactions.