ADDIS ABABA UNIVERSITY

COLLEGE OF LAW AND GOVERNANCE STUDIES

SCHOOL OF LAW

Valuation and Commercialization of Intellectual Property Rights in Ethiopia

By: Dagnachew Worku

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A Thesis Submitted to Addis Ababa University, the School of Graduate Studies, College of Law and Governance Studies, School of Law in Partial Fulfillment of the Requirements for the Degree of Master of Business Law (LL.M)

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January, 2016

Declaration

I, the undersigned, declare that this thesis is my original work, has not been presented for a degree in any other university and that all sources of materials used have been appropriately acknowledged.

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ABSTRACT

In the contemporary knowledge based economy, the contribution of intellectual property to economic growth and business enterprise value, especially in developed countries is increasing. Though the share of intellectual property rights to the country's economic growth is not paramount as of today, the Ethiopian intellectual property system has prescribed and protected patent, copyright and trademark. Valuation opinion on intellectual property rights is necessary for collecting the appropriate income tax from related party transactions, awarding infringement damages, preparing financial statements, assignment and licensing that appropriate prescriptions are crucial to guarantee certainty. Assignment, securitization and licensing are the usual legal vehicles to commercialize intellectual property. There are rules that meant to govern such vehicles in the existing Ethiopian laws. The thesis examines the adequacy of the existing rules on valuation of intellectual property for taxation, disclosure in financial statements, intellectual property infringement damages determination, assignment and licensing. It also evaluates the sufficiency of the rules on assignment, licensing and securitization of intellectual property rights in Ethiopia. On the basis of the investigations, it concludes that the rules on valuation and commercialization of intellectual property rights in Ethiopia are inadequate in terms of existence, clarity or tenability and recommends specific measures aimed at addressing these insufficiencies.

LISTS OF ABBREVIATIONS

ACIPA- Australian Centre for Intellectual Property in Agriculture

APA- Advance Pricing Arrangement

Art. - Article

Arts. - Articles

Civ. C.- Civil Code of Ethiopia

Civ. Pro. C. - Civil Procedure Code of Ethiopia

Com. C. - Commercial Code of Ethiopia

COR- Cost Of Replacement

CRN- Cost of Reproduction New

CUM- Comparable Uncontrolled price Method

E.C.- Ethiopian Calendar

EIPO- Ethiopian Intellectual Property Office

EO- Economic Obsolences

ERCA- Ethiopian Revenues and Customs Authority

FASB- Financial Accounting Standard Board

FDI- Foreign Direct Investment

FDRE- Federal Democratic Republic of Ethiopia

FMV- Fair Market Value

FO- Functional Obsolesces

FTO- Freedom To Operate

GDP- Gross Domestic Product

IAS- International Accounting Standard

IASB- International Accounting Standard Board

IASC- International Accounting Standard Committee

ICC- International Chamber of Commerce

IFRS-International Financial Reporting Standards

Ind AS- Indian Accounting Standard

IP- Intellectual Property

IPR- Intellectual Property Right

IPRs- Intellectual Property Rights

OECD- Organization for Economic Cooperation and Development

PD- Physical Depreciation

R & D- Research and Development

TOT- Transfer Of Technology

TP- Transfer Pricing

UCC- Uniform Commercial Code

UK- United Kingdom

USA- United States of America

WIPO- World Intellectual Property Organization

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INTRODUCTION

1. Background

Intellectual property (IP) refers "the creation of mind which includes inventions; literary and artistic works; and symbols, names and images that can be used in commerce."[1] Intellectual property rights (IPRs) are rules that enable the owner an exclusive utilization of patents, copyrights and related rights, trademarks, and trade secrets which get a standard recognition and protection in international trade agreements.[2] IP has value when teamed with other business assets or seen in commercial context.

The share of IP in a business enterprise is increasing in major companies.[3] Currently, the ratio of intangible assets in such companies accounts 70%.[4] Intangible assets including IP have no material sensible form and universal usability attribute. These pose problems in their appraising upon staging the supplies and consumers to agreeable terms and conditions. The cost, market and income approaches are common apprising methods of IP for quantifying the amount of infringement damages, income tax from related party transactions, licensing, assigning, etc.[5] The approaches are also applicable for valuation of tangible assets.[6]

Ethiopia started the protection of IPR in the 1960s civil code.[7] It was not comprehensive as it covers only artistic and literary works. The 1960 commercial code of Ethiopia has acknowledged IP as element of business. The laws weren't effective because of absence of institution which oversight implementation, insufficient awareness of the beneficiaries and inattentiveness of the judiciary.[8]

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[1] WIPO, What Is Intellectual Property? (Publication No. 450), P. 3 <http://www.wipo.int/edocs/pubdocs/en/intproperty/450/wipo_pub_450.pdf.> accessed on 27/06/2015.

[2] S. Adams, Intellectual Property Rights, Innovation and Economic Growth in Sub-Saharan Africa, P. 3 < http://regulation.upf.edu/dublin-10-papers/2G3.pdf.> accessed 25/06/2015.

[3] G. Smith & R. Parr, *Intellectual Property: Licensing and Joint Venture Profit Strategies,* (3rd ed., 2004), p 1.

[4] R. Taplin (ed.), *Valuing Intellectual Property in Japan, Britain and the United States, (2004), p ix.*

[5] United Nations**,** Intellectual Property Commercialization: Policy Options and Practical Instruments, (New York and Geneva, UNITED NATIONS, 2011), p 88 <http://www.unece.org/fileadmin/DAM/ceci/publications/ip.pdf.> accessed 23/08/2015.

[6] G. Smith & R. Parr, *Intellectual Property: Valuation, Exploitation, And Infringement Damages,* (2005), p 140.

[7] Civ. C., Title XI book III.

[8] Wondwossen Belete and Tadesse Getachew**, "**Intellectual Property (IP) Rights and University-Industry Partnerships to Generate Value from Publicly Funded Research: A Case Study of Ethiopia," *Working Paper,* (Open Air Africa Innovation Centre and Research, March 5, 2012), p 29 <**www.openair.org.za**> accessed 15/06/2015

After the Derg regime, the FDRE Constitution entitled ownership rights over intangible property[9] and specific legislations enacted which protect IP. Proclamation 123/1995 has prescribed the criteria for IPR protection over inventions and industrial designs. It has no sufficient rule on commercialization and assessment of infringement damages of patent rights. Proclamation 410/2004 (as amended) governs the protection of the exclusive rights over copyrights and neighbouring rights. It prescribed licensing, assignment and determination of infringement damages of exclusive economic rights. Proclamation 501/2006 has governed the requirements for the registration of trademark, transfer, licensing and appraisal of infringement damages of trademark rights. The exclusive rights on new plant variety are protected by proclamation 481/2006. It has prescribed the conditions for protection of ownership rights, licensing, selling and enforcement of the rights. Similarly, proclamation 482/2002 protected access to genetic resources and community knowledge and the right of the concerned community on them.

The exploitation of IPRs isn't free from the impact of tax laws. Tax authorities are interested on related party IP transactions to collect the appropriate income tax. The Ethiopian income tax proclamation 286/2002 and transfer pricing directive No. 43/2015 have rules on transfer pricing in relation to these transactions. The proclamation has also depreciation rules that regulate capital tear and wear for durable items that include IP. The directive governs, among other, transfer pricing principle, methods, and documentation requirements. Bankruptcy law is vital in IP licensing.[10] The treatment of unperformed IP licensing agreements during bankruptcy proceedings saves or exposes the licensee or licensor for opportunistic behaviours. The Ethiopian commercial code has regulated bankruptcy of traders and commercial business organization though silent on the treatment of IP licenses. The disclosure of IP transactions in accounting statements is a source of information for informed business decision. The commercial code provided some standards on keeping of books and accounts though its coverage of IP is uncertain. Security interest in IP is one tool for commoditizing IPRs.

Valuation and exploitation of IP is the interest of specific IP laws which includes patent, copyright and trademark laws (here in after main IP laws); and general laws including income tax law, bankruptcy law, secured transaction law, accounting rules (here in after IP related

[9] The Constitution of the Federal Democratic Republic of Ethiopia, 1995, Art. 40(1) & (2), Fed. Neg. Gaz., Year 1, No. 1.
[10] P. Menell, "Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis," 22 *Berkeley Tech. L.J.* p.733 (2007) < http://scholarship.law.berkeley.edu/facpubs/485> accessed 15/06/2015.

laws). Though the contribution of IP to business in Ethiopia is unstudied and can't par with the share in developed countries, the significance can't be avoided, at least, in the future that studying the rules and practices of valuation and commercialization is essential.

2. Statement of the Problem

Prescribing the valuation of IP is crucial to guarantee certainty for the exploitation of the property. Valuation of IP is essential to collect the appropriate tax, for assignment and licensing and for preparing financial statements. Tax laws are interested in regulating related party IP transaction with using transfer pricing rules. Transfer pricing rules in the Ethiopian income tax laws do not sufficiently address all relevant schedules on valuation of related party IP transactions. Safeguarding the incentive to create and invent are essential on determining IPR infringement damages. The Ethiopian copyright and trademark laws have rules on the calculation of damages though there are ambiguities and deficiencies whereas the patent law has generic and uncertain rule. Despite financial statements of businesses are means of information on and for valuation, the Ethiopian commercial code is imprecise regarding the disclosure of intangibles including IP in financial statements.

Commercialization of IP presupposes IP system that clearly defines ownership and adequate enforcement of IPRs. The transfer and licensing of the rights should be clearly regulated by IP laws and other related laws like bankruptcy and competition law. These afford confidence on the exploitation of IPR. The Ethiopian main IP laws tried to regulate ownership of IPRs but with respect to joint ownership there are ambiguities. The assignabiltiy of IP license and the treatment of IP license in bankruptcy and competition laws are insufficiently addressed by the laws. Provisions on consideration for the licensing and assignment of IPRs, on effect of certain formality conditions, and nature of licenses must be made for palpable exploitation of the rights which boost certainty. The Ethiopian main IP laws are impeded with some vagueness in this respect. Security interest in IP is another mode of exploiting IPR. As such it needs clear governing rules by secured transaction laws on creation, perfection and enforcement and relationship with the relevant IP laws. Our civil code has no sufficient provisions on the creation of security interest in IP, consistent treatment of IPR owners, on the economic utilization of the pledged IP and its relationship with main IP laws. Adequate rules for commercialization are not in place in our main IP laws when the owner fails to maintain the rights or renounces the same. In particular, the thesis addresses the following key questions:

- Are the existing rules on valuation of IP in Ethiopia adequate?
- Do the Ethiopian main IP laws clearly prescribe IPR ownership system and allow the freedom to operate dependent IPR?
- Are the Ethiopian laws on assignment, licensing and security interest in IP sufficient?
- Are the existing laws on valuation and commercialization of IP properly put in practice?

3. Objective of the Research

The general objective of the thesis is to examine the existence and adequacy of rules on IP valuation and commercialization in the Ethiopian main IP and IP related laws. Specifically, it aims to:

- Examine the sufficiency of the laws on valuation of IP.
- Evaluate the lucidity of rules on ownership and exploitation of IPRs in the Ethiopian main IP laws.
- Assess the articulacy of the Ethiopian laws on the meaning, form, scope and other conditions for assignment of IPR; and on the form, scope, nature, assignabiltiy, bankruptcy treatment and competition issues of IP licence.
- Investigate the adequacy of the rules governing security interest in IP and the clarity of their relation with the relevant rules of the Ethiopian main IP laws.
- Examine the practice of the existing rules on valuation and commercialization of IPR.

4. Methodology

To address the questions, the thesis bases on qualitative research methodology that it focuses on describing and evaluating the sufficiency and clarity of the rules on valuation and commercialization in the Ethiopian main IP and IP related laws. However, some quantitative data are used to show the contribution of IP to economic growth and business enterprise value. The following methods are employed to garner the data:

A. Documentary analysis: the relevant rules in the main IP laws and IP related laws are analysed to study and evaluate rules on valuation and commercialization of IPR in Ethiopia. General literatures about valuation and commercialization of IPR and special literatures about these laws are also examined.
B. Interviews and court cases:

Analyses and syntheses of some available court cases are made to understand the practice of the rules on valuation of IPR for infringement damages determination in the main IP laws.

Interviews are conducted by employing structured questions to understand the practice of the rules on valuation and commercialization of IPR in the Ethiopian:

- Income tax law on collecting the appropriate tax from related party IP transactions with one valuation expert at the Ethiopian Revenues and Customs Authority.
- Accounting rules on the recognition criteria, measurement premises, valuation inputs and methods and disclosure of IP in financial statements with two accountants.
- IP and Pledge law on using IPR as collateral with the Commercial Bank of Ethiopia (CBE) and Awash International Bank (AIB).
- IP law on licensing and assignment of patent, copyright and trademark with experts/officers at EIPO.

C. Comparative experiences: to grasp how other countries and international organizations treated issues on valuation and commercialization of IPR similar to those in the above Ethiopian laws, foreign hard and soft laws and court cases are utilized.

5. Literature Review

There are no comprehensive studies on valuation and exploitation of IPR in Ethiopia. A thesis on the topic "the socio-economic impact of IP rights regime of Ethiopia"[11] concluded the lack of IP valuation system in Ethiopia. The conclusion is based only on a discussion of the general approaches of valuation of IP in a handful of pages.[12] It didn't examine the rules and practices of valuation nor commercialization in the relevant laws. The finding suffers weakness with scant discussions. "Intellectual Property (IP) rights and university-industry partnerships to generate value from publicly funded research: a case study of Ethiopia" [13] is the second relevant literature on commercialization of IP. Its main theme is proposing tenable public policy on the protection of innovations and creations in the context of university-industry linkage. It doesn't cover valuation of IP in Ethiopia and from commercialization it treats only university-industry linkage. It isn't also sufficient study on valuation and commercialization of IPRs.[14]

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[11] Teklay Hailemariam, The Socio-Economic Impact Of Intellectual Property Rights Regime Of Ethiopia, (Master Thesis, Addis Ababa University, May 2012) <http://etd.aau.edu.et/dspace/bitstream/123456789/4128/1/teklay%20hailemariam.pdf.> accessed 17/06/2015

[12] *Id*, p. 80-94.

[13] Wondwossen Belete and Tadesse Getachew, cited above at note 8.

[14] One thing to be noted is that the research assumes the absence of policy decision on IP protection of university innovations and creations and other public financed research outcomes. Based on this super assumption, the research by way of finding commented the premature stage and inappropriateness of having a technology management and transfer unit at Addis Ababa University before a national or broad policy decision is taken on institutional IP ownership over public funded innovations. Of course, it is acceptable that the

6. Scope and limitation of the Research

The thesis is limited to examining the rules and practices of valuation and commercialization of IP in the patent, copyright & neighbouring rights, and trademarks laws (main IP laws); and income tax laws, secured transaction law, accounting rules, competition law and bankruptcy law (IP related laws) of Ethiopia. Insufficient amount of literatures and relevant court cases on the rules of valuation and commercialization of IPR in these laws are the limitations of the research.

7. Significance of the Research

The thesis can be an important source of information to students for further research on the subject, to legal researchers in the relevant government organ who surveys to understand or suggest modification on the laws, to judges while assessing damages in IPR infringement suits and to other stakeholders interested in managing IP.

8. Organization of the research

Besides the introduction, the thesis has three chapters. Chapter one describes IP and its contribution to economic growth and business enterprise value. It also discusses the concept, principles and approaches of IP valuation.

Chapter two deals with the valuation of IP in the Ethiopian income tax laws, main IP laws for determining infringement damages of IPRs and commercial code for disclosure of IP value in financial statements.

Chapter three discusses the concept and preconditions of IP commercialization in Ethiopia. It also discusses the rules on assignment, licensing and securitization of IPR. It examines the rules on invalidation and termination of trademarks, patents and copyrights in light of commercialization.

Finally, the thesis culminates with a conclusion and recommendation.

University cannot create IPR protection system for itself or anyone since the power is vividly granted to the House of Peoples Representative by the Federal Constitution of Ethiopia. However, to the best of my understanding, our patent and copyright laws are clear enough that university and public funded research outcomes are not excluded from IP protection. Apart from such misreading of the laws, the research made its position unambiguous that IPR protection of public funded innovations should not be favoured in Ethiopia as it may result proscribing access of the knowledge by the industry. It is for granted that IPR confers a temporary exclusive right to owners which generally oust the others unless their permission. However, it is not stated in the research how an industry dare to engage the risky task of commercializing such innovation if competitors are not prohibited from copying the product or process after its success. *Id*, p 36- 46.

CHAPTER ONE

General Principles and Approaches of Valuation of Intellectual Property: Review of the Literature

1.1. Introduction

Valuation is a monetary estimation of a consideration for IP in any transaction or damages for infringement of IP.[15] This requires description of the IP and understanding the contexts of transaction. Valuation is the crux for commercialization of IP. Commercialization refers "the process of turning an invention or creation into a commercially viable product, service or process."[16] It requires capacity (factor endowment), legal vehicles and effective enforcement of IPRs. Without having value, IP can't be commercialized. The contribution of IP to economic growth and business enterprise value, reasons for valuation of IP, and general approaches of IP valuation are discussed in this chapter.

1.2. Intellectual Property and Economic Growth

The contribution of knowledge and innovation to economic growth is understood across different countries with varying level of development.[17] IP has a key contribution in raising the economies of developed and developing countries via encouraging innovation, giving a competitive drive for firms, and aiding for enhanced well-being[18] despite theoretical and empirical divide among economists on the effect of strengthing IPR protection to developing countries' economies and innovation.[19] Studies acknowledged economic contribution of

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[15] G. Smith & R. Parr, cited above at note 6, p. 140.
[16] United Nation, cited above at note 5, p. 17.
[17] Kamil Idris, IP: A Power Tool for Economic Growth, P. 4 < http://www.wipo.int/edocs/pubdocs/en/intproperty/888/wipo_pub_888_1.pdf.> accessed 24/06/2015 & OECD, Innovation for Development: A Discussion of the Issues and an Overview of Work of the OECD Directorate for Science, Technology and Industry (May 2012), p. 4 < http://pwww.oecd.orginnovationinno50586251.pdf> accessed 24/06/2015.
[18] International Chamber of Commerce, IP: Powerhouse for Innovation and Economic Growth, p. 2 <file:///C:/Users/user/Downloads/IP_Powerhouse%20for%20Innovation%20and%20Economic%20Growth%20(2).pdf.> accessed 25/06/2015.
[19] Those who support the positive role of strengthening IPRs to economic growth asserted the following three reasons. First, IP rights are seen vital to the infrastructure supporting R&D which leads to innovation and subsequent economic growth. Secondly, there are researches that indicate strengthening IPRs promotes transfer of technology from advanced to developing countries through FDI and high technology imports, which in turn results in total factor improvements. Third, IPRs enable economic growth through affording inventors and creators to recoup R&D expenditures by using their exclusive rights that indirectly promotes technological innovation and dissemination of knowledge. Conversely, others proposed that strengthening IPRs negatively affects the economies of developing countries owning to the absence or little R&D and technological innovations, even if the existence of innovation in such countries the prime benefit move to developed countries' firms, and via lowering imitation.

specific IP based industries in different countries measured by GDP and employment. The ensuing discussion tries to demonstrate the contribution of copyrights, patents and trademarks to economic growth separately.

The existing empirical studies are inconclusive on the role of IPRs to economic growth. Some WIPO and ICC sponsored literatures, generally, empirically portrayed IPRs have positive role to economic growth and innovation. The OECD undertaken study, on its part, empirically identified strengthening IPRs on patents enhances transfer of technology through its positive implication to inward FDI, merchandise import and service imports for all country groups even though the hefty quantitative extent skewed towards developed country groups. Nonetheless, Gould and Gruben examined the impact of IPRs to economic growth and found only a marginal effect across all economies. Others affirmed strong IPRs protection enhances economies of high income and low income countries but no effect for middle income economies. Quite to the contrary, Adams found that IPRs protection has negative effect on economic growth in developing countries. He indicated that direct investment, FDI and enabling investment environment are rather determinants for economic growth in these countries. S. Adams, "Intellectual Property Rights, Political Risk and Economic Growth in Developing Countries," *African J. Economics*, Vol. 1(4) (November 2013), p. 155-159 <www.internationalscholarsjournals.org> accessed 25/06/2015; Kamil Edris, cited above at note 17, p. 5&6; International Chamber of Commerce, cited above at note 18, p. 2&5; Park, W. G. and D. C. Lippoldt (2008), "Technology Transfer and the Economic Implications of the Strengthening of Intellectual Property Rights in Developing Countries," *OECD Trade Policy Working Papers*, No.62, OECD Publishing, p. 25; & R. Falvey and N. Foster, "The Role of Intellectual Property Rights in Technology Transfer and Economic Growth: Theory and Evidence," *working papers* (United Nation Industrial Development Organization, 2006), p. 45 & 46.

Table 1.1. The contribution of copyright based industries[20] alone to GDP and employment.[21]

Country	Year the study published	Contribution to GDP	Contribution to Employment
USA	2013	11.25%	8.35%
Russia	2007	6.06%	7.30%
Canada	2004	5.38%	5.55%
Argentina	2013	4.70%	3.00%
Lebanon	2007	4.75%	4.49%
Kenya	2009	5.32%	3.26%
Tanzania	2012	4.56%	5.63%
Malawi	2013	3.46%	3.35%
South Africa	2011	4.11%	4.08%

No extensive study conducted on the contribution of patent and trademark to national economy. A study by Raymond in 1996 on the five patent intensive industries of chemical, pharmaceutical, aerospace, motor vehicles and electrical engineering in UK showed that they contributed 4.23% to GDP and 3.72% to employment.[22] Branded goods industries which

[20] For the purpose of measuring the seize of economic contribution of copyright and related rights by way of share to GDP, employment and trade, WIPO has categorised copyright based industries in to four major groups: core copyright industries, interdependent copyright industries, partial copyright industries, and non-dedicated support industries. Core copyright based industries produces products which are entirely based on copyright protected material. It includes the following nine industries: press and literature; music, theatrical productions, operas; motion picture and video; radio and television; photography; software and databases; visual and graphic arts; advertising services; and copyright collective management societies. Interdependent copyright industries, on the other hand, are industries that are engaged in production, manufacture and sale of equipment whose function is wholly or primarily to facilitate the creation, production or use of works and other protected subject matter. They include: TV sets, Radios, VCRs, CD Players, DVD Players, Cassette Players, Electronic Game equipment, and other similar equipment; computers and equipment; musical instruments; photographic and cinematographic instruments; photocopiers; blank recording material; and paper. Partial copyright industries are industries in which a portion of the activities is related to works and other protected subject matter and may involve creation, production and manufacturing, performance, broadcast, communication and exhibition or distribution and sales which include furniture, jewellery and coins, other crafts, etc. Lastly, non- dedicated industries refers industries related to facilitating broadcast, communication, distribution or sales of works and other protected subject matter, and whose activities have not been included in the core copyright industries. These include general wholesale and retailing; general transportation; and telephony and Internet. WIPO, Guide On Surveying The Economic Contribution Of the Copyright-Based Industries, chapter 4, p. 26-35 < http://www.wipo.int/edocs/pubdocs/en/copyright/893/wipo_pub_893.pdf.> accessed 28/06/2015.

[21] WIPO, WIPO Studies on the Economic Contribution of the Copyright Industries: overview (2014), p. 29 <http://www.wipo.int/export/sites/www/copyright/en/performance/pdf/economic_contribution_analysis_2012.pdf> accessed 28/06/2015.

[22] International Chamber of Commerce, cited above at note 18, p. 4.

relied on trademark accounts 14% of all UK (2009) manufacturing and over £50 billion gross output.[23] In Brazil (2007) and China (2007), resident patent applications reached 15.8% and 62.4%, respectively.[24] In Brazil, trademark applications grew by approximately 2.5% annually and trademark registrations grew by 86.9% between 2003 and 2007.[25]

The Ethiopian IP system isn't contributing substantial role in hastening transfer of technology and spreading local innovative activities.[26] Until the end of 2013, Ethiopia has only conducted preliminary study on the contribution of copyright based industries to economic growth.[27] Currently, the full study noted seems finalized though not made official.[28] In Ethiopia the number of granted trademarks is increasing and as of the writing of the thesis reached 3,995 of which 1,587 are resident trademarks.[29]

1.3. Intellectual Property and Business Enterprise

In a business enterprise, asset comprises of net working capital (monetary assets), tangible assets and intangible assets.[30] Asset refers "future economic benefit controlled by an entity as a result of past transactions or other past events."[31] Monetary assets are expressed in balance sheets as current assets less current liabilities.[32] Tangible assets are usually presented as "plant, property and equipment" that includes among others land, land improvements, buildings, and furniture.[33] Intangible assets and IP don't usually appear on company's balance sheet.[34] This doesn't necessarily mean that the company operates without trademarks,

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[23] *Ibid*.
[24] *Id*, p. 7.
[25] *Id*, p. 8.
[26] The Federal Democratic Republic of Ethiopia Science, Technology and Innovation Policy (February 2012, Addis Ababa), p. 14.
[27] Getachew Mengistie, The Contribution of Creative Industry for Economic Development (October, 2013) <file:///C:/Users/user/Downloads/The%20contibution%20of%20creative%20industry%20for%20economic%20development%20(1).pdf.> accessed 28/06/2015.
[28] Interview with Mastewal Gelaye, Employee of Ethiopian Intellectual Property Office, June 10, 2015.
[29] Ethiopian Intellectual Property Office (EIPO), June 10, 2015.
[30] G. Smith & R. Parr, cited above at note 6, p. 66.
[31] From the definition, assets have the nature of future economic benefits. An economic benefit is present if the item can be used to generate value or can be consumed by the owning entity. Control by an entity that can be a human person, company or sovereign is vital nature of assets. The control must arise out of past transactions or other past events. Hence, anything which meets these features can be included in the sphere of assets. Australian Research Foundation, Definition and Recognition of Financial Statements (1995), p. 3 <http://www.aasb.gov.auadminfilecontent102c3SAC4_3-95.pdf.> accessed 22/06/2015& R. Taplin (ed.), cited above at note 4, p. 181.
[32] G. Smith & R. Parr, cited above at note 6, p. 67. They put that in most cases, the difference between current assets which include cash, short term investments, accounts receivables, inventories, prepayments and that of current liabilities that consists of accounts payable, current positions of long term debt and incomes taxes and accrued items is positive.
[33] *Id*. P. 68.
[34] *Ibid*.

patents, copyrights, trade secrets, assembled work forces, accounting and operating systems and records, designs, and goodwill.[35]

Compared to other assets, the contribution of intangible assets to the value of companies is estimated around 70%.[36] Such a staggering share which include IP to business enterprises value provoked some to say IP is functioning as an 'intellectual currency' which enables firms to value and trade an otherwise intangible invention, creation and brand.[37] The booming of knowledge economy and its ever increased contribution to major companies' business operation caused to say bricks and mortar economy is being replaced with the economy of ideas in which IP has become one of the major currencies.[38] IP is said serve as the basis of commercial power for companies and are critical resource for creating wealth for almost all industries.[39] Firms use it in securing investment, for collaboration, in licensing, producing goods and services.

Table 1.2. The contribution of brands that based on trademark for company earnings.[40]

Brand	IP Value alone in the brand, in US$ millions (inter brand survey, 2010)
Coca-Cola	70,452
IBM	64,727
Microsoft	60,895
Google	43,557
GE	42,808
McDonald's	33,578
Intel	32,015
Nokia	29,495
Disney	28,731
Hewlett-Packard	26,867

[35] *Ibid*.
[36] R. Taplin (ed.), cited above at note 4. However, there are other studies which provide a relatively different amount of the share of these assets in the value of major companies of the world which might have resulted from the year of estimation, the coverage of data of various businesses or for another reason. ICC, for example, provides that in many companies 80% or more of their market value is attributable to intangibles, including IP. International Chamber of Commerce, cited above at note 18, p. 2.
[37] International Chamber of Commerce, cited above at note 18, p. 18.
[38] *Ibid*.
[39] G. Smith & R. Parr, cited above at note 6, p. 7.
[40] International Chamber of Commerce, cited above at note 18, p. 19.

Tangibles like equipment; intangibles including goodwill, patent, copyright and trademark; and net working capital can be the possible elements of business enterprise financial statements in Ethiopia.[41] No concert quantitative empirical data exist on the contribution of IP to business enterprise value in Ethiopia.[42]

1.4. Reasons for Valuation of Intellectual Property

To Smith and Parr, valuation of IP is essential for: transactional support, bankruptcy, licensing, strategic alliance, estate and gift taxes, marital dissolution, infringement damages, intercompany transactions, collateral based financing, attorney malpractice, accounting requirements, and regulatory requirements.[43] Lasinski discussed the reasons for IP valuation in general ways for transactional reasons that include company acquisition planning and due diligence, licensing, acquiring or selling, establishing equity contribution, and corporate spin-offs; tax reasons that comprise of intercompany transfer pricing, IP management subsidiary, charitable donation of IP, purchase price allocation, and in-process R&D; financial reasons which include obtaining financing and reorganization /bankruptcy/ loan work out; and legal reasons which refer for awarding IPR infringement damages or other court decisions.[44]

The reasons can be categorised into two: for legal compliance (rule ordered valuation) and for commercialization. Rule ordered valuation concerns cases when laws require valuation or revaluation of the subject IP. It includes valuation for taxation, infringement damages and accounting disclosure. Valuation for commercialization includes for transactional support, raising and obtaining finance, and strategic management.

1.5. Principles and Approaches of Valuation of Intellectual Property

Though no single formula that automatically applies for valuation of IP exists, Lasinski provided three fundamental principles which should be considered in the valuation process of most IP assets.[45] These are the premises, sources, and approaches of valuation.[46] Martin and Drews, discussed these labelling important determinants for valuation of IP and with assigning partly different terminologies which are the context, standard and suitable approach of valuation.[47] Smith and Parr also discussed them designating as valuation principles and

[41] Com. C., Arts. 73-84, 124 & 127.
[42] There is opinion that the study on the economic contribution of copyright based industries might touch the ratio of IP in the asset portfolio of business enterprises in the country. Mastewal Gelaye, cited above at note 28.
[43] G. Smith & R. Parr, cited above at note 6, p. 7 & 8.
[44] L. Bryer & M. Simensky, *Intellectual Property Assets in Mergers and Acquisitions* (2002), section 4.2-4.7.
[45] *Id*, section, 4.8.
[46] *Ibid*.
[47] D. Martin & D. Drews, Intellectual Property Valuation Techniques (2010)

techniques.[48] They consider defining the property, the premises of valuation and measure of value as the principles while cost, market and income approaches as the methods.[49] In the interest of clarity, I opt to discuss defining of the property, context and measure of valuation as principles while the cost, market and income methods as approaches of valuation.

1.5.1. Principles of valuation

Defining the IP, understanding the context and determining the measure of valuation are vital principles of valuation. Describing IP refers identifying whether the property is patent, trademark, copyright, trade secret, brand-names and fixing the extent of the interest which is the focus of valuation.[50] It is description of the intrinsic nature and feature of the subject property. Hence, defining the IP is a crucial parameter for valuation.

Value of IP should be addressed within the context of place, time, potential uses, purpose of valuation, and potential owner.[51] Owing to differences in complementary factors of production like skilled labour, proven distribution, abundant capital, and effective marketing policy, the same IP will have different values for various companies.[52] The interaction of the IP with other intangibles and tangibles is also an aspect of the context of valuation.[53] The context of valuation determines the external latitudes of an IP.

Measure of value is the amount of benefits from the exploitation of IP.[54] While Smith and Parr consider 'market value' the commonly used standard of valuation of a property, Martin and Drews asserted 'fair market value' as the usually employed measure of value, though both of them discus about the same standard-the purest market value of a property.[55] Irrespective of the difference in terminologies, the contexts of valuation plays central role in setting measurement standard.[56] Market (fair) value of an IP is influenced by the surrounding circumstances of the assumed transaction. Market value in the purest sense has two definitions: the exchange concept and the economic criteria.[57]

< www.ipmetrics.net> accessed 30/06/2015.

[48] G. Smith & R. Parr, cited above at note 6, chapter 7.

[49] *Ibid*.

[50] *Id*, p. 143, D. Martin and D. Drews, cited above at note 47, p. 10, J. Turner, Valuation of Intellectual Property Assets; Valuation Techniques: Parameters, methodologies and limitations (WIPO/INN/DDK/00/5(a), November 2000) , p 6 < http://www.wipo.int/sme/en/documents/valuationdocs/index.htm> accessed 4/07/2015.

[51] G. Smith & R. Parr, cited above at note 6, p. 141.

[52] D. Martin & D. Drews, cited above at note 47, p. 2.

[53] *Ibid*.

[54] *Ibid*.

[55] *Ibid* and G. Smith & R. Parr, cited above at note 6, p. 143

[56] D. Martin & D. Drews, cited above at note 47, p. 3.

[57] G. Smith & R. Parr, cited above at note 6, p. 143.

Within the exchange condition, market value is the amount at which a property would exchange between a willing buyer and willing seller neither being under compulsion, each have full knowledge of all relevant facts and equity to both.[58] Any variance on the defining conditions would result a variance to the extent of the market value.[59] Generally, the market value of IP in forced exchange cannot be the same as the value arising in willed transaction.[60] Based on the economic criteria, "market value is equal to the present value of the future economic benefits of ownership."[61]

1.5.2. Approaches of Valuation of Intellectual Property

The cost, market and income approaches are the three common methods of valuation of IP.[62] They aren't mutually exclusive in application; the available data should be considered by the appraiser in applying one or more of them. The following discussion addresses each of them separately.

1.5.2.1. Cost Approach

According to this approach, the future economic benefit of ownership is measured by quantifying the amount of money needed to replace the future utility of the subject IP.[63] It is inherently assumed that the cost to reproduce or purchase a property is commensurate with the future economic benefit following control of the property and the benefit is in sufficient amount and duration to justify the development cost associated with the property.[64] Putting it differently, IP can't be created unless it has an efficient economic benefit to a controlling entity. The approach accepts development cost as the commensurate value of the property than directly calculating the future earnings. This may cause assigning false value for a property merely based on the existence of development cost. Hence, it must be used carefully and with other approaches since either every invention or creation doesn't necessarily have economic benefit nor the current cost of obtaining the concerning property is always match with its value due to various extraneous factors.

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[58] *Ibid*.
[59] *Ibid*.
[60] *Id*, p. 145 & 146.
[61] *Id*, p. 144.
[62] *Id*, 149, L. Bryer & M. Simensky, cited above at note 44, section, 4.9, D. Martin & D. Drews, cited above at note 47, p. 4, J. Turner, cited above at note 50, p. 6.
[63] G. Smith, Assessment and Valuation of Inventions and Research Results for Their Use and Commercialization (WIPO/INV/MTY/02/4, April 2002), p. 2 <http://www.wipo.int/sme/en/documents/valuationdocs/index.htm> accessed 4/07/2015.
[64] G. Smith & R. Parr, cited above at note 6, p. 156.

To determine value, the approach employs either the current monetary cost of obtaining a new replica; often called cost of reproduction new (CRN) or the cost of obtaining a property of equivalent services capability that is called cost of replacement (COR).[65] To calculate these amounts the historical cost trending method, unit cost method or unit of production method can be utilised.

Historical cost trending applies when there is a detail timely (annual) record of all the expenses associated with the development of IP whose value is under calculation or any other property with similar utility.[66] The restatement of such costs in current value of the currency with the employment of price index brings as the whole amount required for reproducing the property currently.[67] Unit cost method applies to quantify CNR or COR by directly estimating the current amount of all the unit costs and efforts necessary for the development of the property or similar property.[68] The needed information, subject to the IP under consideration, includes among other the salaries and benefits of those proper experts, costs of utilities like light, computer, and research space, and cost of raw materials like paper.[69] On the other hand, the unit of production method employs the industry rules of thumb developed by the actors/users to produce the specific property.[70]

To determine the fair market value of a given used (somehow obsolete) IP, it is necessary to deduct the depreciation amount from the total CNR or COR derived from the application of either of the above specific cost approaches.[71]

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[65] G. Smith, cite above at note 63, p. 2.
[66] G. Smith & R. Parr, cited above at note 6, p. 161.
[67] R. Parr, Pricing Intangible Assets: Methods of Valuation of Intellectual Property (OMPI/VPI/LIM/98/2, October 1998), p. 21 <http://www.wipo.int/sme/en/documents/valuationdocs/index.htm> accessed 4/07/2015.
[68] G. Smith & R. Parr, cited above at note 6, p. 162.
[69] *Ibid*, R. Parr, cited above at note 67, p. 23 & 24.
[70] G. Smith & R. Parr, cited above at note 6, p. 162.
[71] There are three common types of depreciation: physical, functional and economic depreciation. Physical depreciation is a decay resulting from physical wear and tear of a property. It applies to tangibles than intangibles as materiality is a precondition for loss of physical competence. Functional obsolescence is concerned with the reduction of utility of a given property as result of technological sophistication in the area. On the other hand, economic obsolescence refers the reduction of economic utility of a property as a result of lowering or lack of consumer demand or the inability of the property to be used with other business assets. Whereas the first two depreciations are the result of factors intrinsic to the subject property, economic obsolescence arises as a result of extrinsic conditions. Functional and economic depreciation hits more intangibles property unlike that of physical depreciation. The following formula summarises a fair market value of IP using the cost approach provided that the property under valuation is not new:

FMV= CRN – PD – FO – EO, Where: FMV= Fair market value; CRN= Cost of replacement new, which is also alternately expressed as COR (cost of Replacement); PD= Physical depreciation; FO= Functional obsolescence; and EO= Economic obsolescence. G. Smith & R. Parr, cited above at note 6, p. 157 & 164, & R. Parr, cited above at note 67, p. 24.

1.5.2.2. Market Approach

It quantifies the market value of IP by referring the market price parties have assigned to comparable property in contemporaneous transactions with similar terms and conditions.[72] The cost of producing the IP or the profit from using it doesn't matter for calculating the market value of the property but the value of comparable property in a comparable transaction.[73] The assumption is that the parties to the comparable property in comparable transaction are reasonable, profit seeking and risk-averting that the price they set is what can be given to the virtual transaction-the property whose value is under determination. An analysis of the comparability elements between the virtual transaction and the comparable recently conducted transactions should concern similarity of the properties in the transactions, industry, profitability, market share, entry barrier, legal protection and soon.[74] Material mismatch in the elements should be made good by making appropriate adjustment in the value of the subject IP.

IP is unique and independent IP transactions are rear and not usually disclosed for various reasons which make futile the practicality of this approach. The existence of a recent comparable, active and open market transaction is the base of the approach.

1.5.2.3. Income Approach

Fair market value of IP is determined by directly measuring the future earnings from owing and exploiting the property. Quantifying the present value of future economic earnings requires calculating the following variables: the economic benefit reasonably expected from exploitation of the property, the pattern and duration of receiving the economic benefits, and the risk associated with realizing the estimated amount of economic benefit in the expected pattern.[75]

A. Economic Benefits

IP transaction or investment in the context of business cannot be made unless the earning brings, in a consistent basis, a fair rate of return on investment.[76] Determining the future earnings from ownership of IP is one of the knotty issues in applying the income approach.

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[72] L. Bryer & M. Simensky, cited above at note 44, section, 4.9.
[73] M. Lianyuan, Valuation of IP Assets; Valuation Techniques: Parameters, methodologies and limitations (WIPO/INN/DDK/00/5B, November 2000), p. 4 <http://www.wipo.int/sme/en/documents/valuationdocs/index.htm> accessed 4/07/2015.
[74] G. Smith & R. Parr, cited above at note 6, p. 173.
[75] *Id*, p. 184, R. Parr, cited above at note 67, p.31.
[76] G. Smith & R. Parr, cited above at note 6, p. 185 & 186.

Smith and Parr provide direct and indirect techniques of calculating the future cash flows whose application is relied on the available information.[77] Direct techniques apply if the information allows calculating the value of IP, however, in the absence of this; the indirect techniques apply to extract the value of IP from general value of some business activities holding the subject or related property.[78]

Premium pricing and cost saving are direct techniques to calculate the cash flow from utilizing IP. IP like prestigious trademark and patented technology may contribute to the earning of an enterprise through commanding a premium selling price despite challenges from competitors.[79] With due diligence not to commit error, this can be done via comparing the price of IP incorporating product with non incorporating comparable product. IP may also contribute to the earning of business enterprise via cost saving that lends itself to a direct discovery of the gain.[80] For example, a process patent may enable reduced use of electricity which can be easily quantified with aid of electricity price available in the market.

Relief from royalty and analytical methods are common indirect techniques to calculate future earnings form IP.[81] 'Relief from royalty' helps to calculate the earnings from future exploitation of IP on the basis of the amount of rent or royalty saved not by having to pay for the acquisition or licensing of comparable IP.[82] The royalty can be taken from the market or from rules of thumb in the relevant industry, though judgment could be applied in case the subject property is sufficiently different from the existing data.[83] In the absence of such surrogates the utility of this technique is very minimal. One is required to examine the scope of the expected income stream in the virtual transaction with the breadth of royalty from surrogates so as to arrive at an appropriate amount of future earnings from using IP.[84] The analytical technique calculates future economic benefits from IP via apportioning total value in a business, either where it is employed or in comparable business, to tangibles, monetary assets and intangibles.[85]

[77] *Id*, p. 186.
[78] *Ibid*.
[79] *Ibid*.
[80] *Id*, p. 187.
[81] A. Singla, Valuation of Intellectual Property <www.indlaw.com> accessed 30/06/2015.
[82] *Ibid*.
[83] G. Smith & R. Parr, cited above at note 6, p. 194.
[84] *Ibid*.
[85] *Id*, p. 196-211.

B. Duration and Pattern of Receiving Economic Benefits

Estimation of duration and pattern of collecting economic benefits from the exploitation of IP is based on past experiences and present conditions of the property or similar property in relevant industry and should consider legal life, technological sophistication in the area as well as cultural and economic factors which put an effect in the process of utilization.[86] The expected remaining economic life of IP is based on the judgement of an engineer or capable technical estimator.[87]

C. Risk in Receiving the Economic Benefits

Evaluating and factoring the associated risk of receiving economic benefits within the determined time and pattern urges one to apply the discount cash flow method. The risk which can be from inflation, competition, technological progress, infringement and invalidation of IP should be reflected in the discount rate that is applied on the economic benefits to get the discount cash flow from future ownership and exploitation of the subject IP that in effect represents present market value.[88]

[86] A. Singla, cited above at note 81.
[87] *Ibid*.
[88] *Ibid*.

CHAPTER TWO

Valuation of Intellectual Property in Ethiopia

2.1. Introduction

As noted the valuation of IP can be sought on various instances. It is important for the management and commercialization of the property. It is also required by law for collecting the appropriate income tax from related party IP transactions, for determining the value of IP in the IPR infringing product and for disclosing IP in the financial statements of business enterprises. This chapter examines the governing rules on valuation of IP in the Ethiopian income tax laws for collecting tax, main IP laws for determining infringement damages and accounting rules for preparing financial statements. The rules on the valuation of IP for assignment and licensing are discussed in the next chapter with the other points of commercialization.

2.2. Valuation of Intellectual Property for Taxation

IPR protection entitles the owner exclusive right to exploit IP by herself or via assigning and licensing. Tax planning may be undergone by the owner or parties to the transaction in the acts of exploitation. The occasion may appear if the assignor and assignee or licensor and licensee are related parties[89] and taxable in different tax jurisdictions with varying taxable

[89] Defining related parties for the purpose of collecting tax is the mainstay of the relevant tax and customs laws of countries. The Ethiopian income tax law has prescribed detail grounds to determine the relation between two persons. A natural person and his relatives, a business organization and a member, a business organization and the relative of the member of the organization, natural person and a trust of the relatives of the person, and soon are considered as related persons for the purpose of the Ethiopian income tax law. The relatives of a natural person among others include ascendants, descendants, brothers and sisters, uncle, aunt, nephew, nice, etc. The Ethiopian customs law on its part has prescribed the grounds of relationship between two persons, seller and buyer, for determining the proper dutiable value. Employee-employer relationship, consanguinial and affinial relationship up to the second degree, business director or officer relationship, business partnership relationship, directly or indirectly controlling third party, etc, are the grounds of relationship for the purpose of the law. There is a mismatch between the grounds under the Ethiopian income tax and customs laws. For example, employee and employer relationship is a ground for customs law but not for the income tax law. Conversely, income tax law provides extended coverage for relatives of the natural person but it is up to the second degree to the customs proclamation. Whereas the income tax proclamation is applicable only to collect income taxes, the customs proclamation is sometimes relevant to collect income tax apart from its main application, to collect customs. Some provisions of the customs proclamation is relevant on collecting income taxes on importation and exportation of goods prescribed in income tax laws. The question one may raise here is that which laws customs officer should apply to determine existence of relationship on the import or export of goods between employee and employer to collect the appropriate withholding income tax at the customs station? This and related questions arising out of the interplay of the two laws are not well thought by the law maker. However, these problems can't materialize in IP transactions because the customs proclamation is totally inapplicable to them. The definitions of related persons in the income tax proclamation are the governing rules for determining relationship among or between the parties to IP transactions to impose the appropriate income tax. See,
Income Tax Proclamation, 2002, Art. 2(4) & (5), Proc. No. 286, Fed. Neg. Gaz., Year 8, No. 34 & Customs Proclamation, 2014, Arts. 2(1), (3) & (4) and 90(2), Proc. No. 859, Fed. Neg. Gaz., Year 20, No. 82.

income characterizations, deductable polices or tax rates; or in same tax jurisdiction and subject to different tax rates or deductable polices or tax characterizations. The assignment of IP between related parties may be made in return for a price or property (company share) while licensing can be in exchange for a one time lump sum or recurring royalty. Most countries prescribe some type of general provision in their tax legislation to quash tax planning schemes which are regarded unacceptable, or recognize a general abuse of legislation doctrine that can be employed to respond to tax avoidance.[90] In lieu of or apart from such general anti avoidance provision or counter abuse legislation, countries provide specific anti-avoidance provisions in their income tax legislation the typical of which are transfer pricing[91] (TP) rules.[92] The Ethiopian income tax laws have TP rules but not general anti avoidance provision or legislation that apply to all schedules. The typical TP rules provide the principle to govern valuation of related party transactions, the method for valuation and documentation requirements. The following discussion examines TP rules in the Ethiopian income tax laws with the perspective of related parties IP transaction.

2.2.1. Transfer Pricing Principle

The arm's length principle is the most accepted TP rule in contemporary income tax laws and in the OECD model TP convention and guidelines.[93] The principle requires the determination of the income or profit from related party transaction according to an amount unrelated parties would set for a comparable transaction in comparable circumstances.[94] The income from related party IP transaction may be adjusted by the tax authority if conditions mandate that the price is unacceptable relative to comparative uncontrolled IP transactions in comparative circumstances. The value of the assets including IP that each of the related parties brings to the transaction and the investment returns that each of them should reasonably expect is the basis of the principle.[95] It considers related parties as separate entities.[96] This distinguishes it from the formulary apportionment principle that considers

[90] United Nations, Transfer of Technology for Successful Integration into the Global Economy: Taxation and Technology Transfer: Key Issues (2005), p. 12.
[91] For the purpose of the thesis transfer pricing is the price, royalty or other considerations agreed by related parties for the assignment or licensing of IP. Determining whether the transfer price is appropriate and uninfluenced by the relationship between the parties i.e. consistent with commercial and economic reasons are the task of transfer pricing rules.
[92] United Nations, cited above at note 90, p. 13.
[93] PWC, International Transfer Pricing 2013/2014, p. 14, 16 &18 < www.pwc.com/internationaltp> accessed 9/08/2015.
[94] *Id*, p. 18.
[95] G. Smith & R. Parr, cited above at note 6, p. 119.
[96] OECD, Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2010), p. 33.

related entities as single group and apportions the overall profit of the group to each member based on established formula.[97]

The Ethiopian income tax proclamation adopted the arm's length principle in relation to Schedule C taxpayers.[98] When a business enterprise assigns the ownership of IP to its affiliates with imposing conditions that differ from unrelated parties, the Tax Authority may order the income of one or more of the related parties to include profits which she would made but for the conditions.[99] There is no TP principle in the Ethiopian income tax laws that enable the Tax Authority to examine related party IP transactions by Schedule B taxpayer to its affiliates. Similarly, no equivalent TP rule exists in Schedule D that authorizes the Tax Authority to examine IP licensing transaction in light of uncontrolled comparables when the taxpayer licenses its IP to an affiliate either with lump sum or ongoing royalty.[100] The proclamation prescribed capital gain tax for the transfer of an immovable held for business, factory or office and company shares.[101] With respect to the transfer of other assets used in a business like patents, trademarks or copyrights, the law requires the consideration of gain or loss as part of business profit tax.[102] Strikingly, the law denies recognition of loss if such transfer is made between related parties.[103] Such presumption of tax planning may compel them to handover an important business asset to unrelated person. Non-recognition of such loss instead of the parity application of the arm's length principle is difficult to justify. This implies that our income tax laws suffer serious gaps since it doesn't clearly provide TP principle that applies to licensing royalty for using IP, has no TP rule which applies for the transfer of IP used in business to related parties by Schedule B taxpayers, denies recognition of loss on the transfer of IP between related parties used in a business under Schedule C. The principle hasn't been put in practice as of the writing of this thesis though there are companies that use purchased IP and pay royalty taxes in the country.[104]

2.2.2. Transfer Pricing Methods

Valuation methods should be applied to determine the arm's length price or royalty on related party IP transactions. Income tax laws of countries like China and India provide permitted

[97] *Id*, p. 37.
[98] Income Tax Proclamation, Arts. 24 & 29 & Rules on Transfer pricing, 2015, Art. 3 & 4, Directive No. 43.
[99] Income tax proclamation, Art. 29 & Rules on Transfer Pricing, Art. 4 & 14.
[100] Income Tax Proclamation, Art. 31.
[101] *Id*, Art. 37.
[102] *Id*, Art. 24(1).
[103] *Id*, Art. 29(6).
[104] Interview with Daniel Beyene, Valuation Expert at the Head Office of Ethiopian Revenues and Customs Authority, October 9, 2015.

methods to fix the fair market value (arm's length consideration) for any transaction between some legislatively determined related parties.[105] Comparable uncontrolled price method (CUM), resale price method, cost plus method, and profit split method are commonly prescribed TP methods in such countries.[106] The reasonable method according to the facts and circumstances of the case takes the primacy in China, while the appropriate method rule followed in the OECD TP guidelines and the best method rule is adopted in India.[107]

Rules on approved methods and the criteria to select the most appropriate method to set the arm's length price for related party IP transaction are prescribed in the Ethiopian transfer pricing rules.[108] However, as noted above these methods are relevant to schedule C but not Schedules B and D since the scope of the directive is limited for the application of Article 29 of the income tax proclamation.[109] The implication is that whether the Ethiopian Tax Authority has the power to use these methods to determine the arm's length price on related party IP transaction in the latter schedules is unclear. Be this as it may, the subsequent part describes some of TP methods.

i. CUM: it follows the market approach to valuation of property. CUM compares the price charged for IP transferred in a controlled transaction to the price charged for IP transferred in a comparable uncontrolled transaction in comparable circumstances.[110] The comparable uncontrolled price is accepted if none of the differences between transactions compared or the enterprises carrying out the transactions materially affect the price in the open market or appropriate adjustments could be made to avoid the material effect of the differences.[111] The method requires direct uncontrolled comparable prices from the market that is rare for IP.[112] In the absences of such comparable transactions the method is infeasible to set the fair market value of IP transferred or licensed among related parties.
ii. Resale price method: The market value of IP in related party transaction is determined based on the resale price on which the property purchased or licensed from related party is transferred or licensed to none-related parties minus the gross profit margin

[105] PWC, cited above at note 93, p. 334 & 478.
[106] *Ibid*.
[107] *Id*, p. 334 & 478, & OECD, cited above at note 96, P. 59,
[108] Rules on Transfer Pricing, Arts. 6 & 7.
[109] Income Tax Proclamation, Art. 29(1).
[110] OECD, cited above at note 96, P. 63 & Rules on Transfer pricing, Art. 6(a).
[111] *Ibid*.
[112] G. Smith & R. Parr, cited above at note 6, p. 127.

derived from comparable uncontrolled IP transactions.[113] The application of this method is important if the resale of the property conducted without substantial modification or processing.

iii. Cost plus method: after fixing the cost incurred by the supplier of the property in the controlled transaction to the related purchaser an appropriate cost plus mark up is added to get the arm's length price of the controlled transaction.[114] The cost plus mark up of the supplier in the controlled transaction should be fixed by referring comparable cost plus mark up of the same supplier from uncontrolled comparable transactions or cost plus mark up of other uncontrolled comparable suppliers.[115]

iv. Profit split method: the arm's length price is determined by dividing the consolidated profit or loss from the transaction of related parties according to acceptable criteria (e.g. cost incurred, function performed, assets contributed).[116]

2.2.3. Documentation

Maintaining and submitting timely information about related party transactions are conditions to apply the arm's length principle.[117] The documents concern ownership structure of the firm, group profiles, details of the related party transaction, information about the comparability analysis made by the taxpayer, about the TP method selected and so forth.[118] An appropriate examination of related party transactions is hardly possible in the absence of a regulation that set out such documentations.

The Ethiopian rules on transfer pricing compel keeping and recording of such documentations regarding related party transactions.[119] Accordingly, a taxpayer is required to keep documentation on overview of its business operations, its group profile, description of controlled transactions, selection of the appropriate method and soon. Although ERCA has tried to create and organise a database for recording and documenting related parties, related party transactions and TP methods, it isn't effective as of the writing of the thesis owning to

[113] Rules on Transfer pricing, Art. 6(b), OECD, cited above at note 96, p. 65 & C. Devonshire-Ellis *etal* (eds.), *Transfer Pricing in China* (2nd ed., 2011), p. 18.
[114] Rules on Transfer Pricing, Art. 6(c) & OECD, cited above at note 96, p. 71&72.
[115] OECD, cited above at note 96, p. 71&72.
[116] Rules on Transfer Pricing, Art. 6(e), G. Smith & R. Parr, cited above at note 6, p. 128 & OECD, cited above at note 96, p. 93.
[117] OECD, cited above at note 96, p. 182.
[118] PWC, cited above at note 93, p. 479.
[119] Rules on Transfer Pricing, Art. 15 and Income Tax Proclamation, Arts. 48 & 49.

lack of awareness on the side of taxpayers on related parties.[120] The forms for disclosure of related party transactions are being developed by the TP Unit of the authority.[121]

2.2.4. Burden of Proof

Many countries' income tax laws require the taxpayer to demonstrate whether related party transaction meets the arm's length principle while some oblige the tax authority.[122]

The Ethiopian rules on transfer pricing don't clearly regulate the burden of proving whether related party transactions meet the principle. The law requires the Tax Authority to examine related party transactions to determine if the conditions meet the arm's length principle based on the TP method applied by the taxpayer unless the Authority prove the method is not the most appropriate method.[123] From this it seems the burden of proving whether the transfer price meets the arm's length principle lies on the taxpayer while the Authority is required to establish the price set by the taxpayer doesn't meet the principle.

2.2.5. Advance Pricing Arrangement

Advance pricing arrangement (APA) is

> *[a]n arrangement that determines, in advance of controlled transactions, an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the transfer pricing for those transactions over a fixed period of time. It may be unilateral involving one tax administration and a taxpayer or multilateral involving agreement of two or more tax administrations.*[124]

Rules governing the administration of APA are the pertinent features of TP laws that adopt the arrangement for fixing the arm's length price of related party transactions. The regulation determines annual threshold of related party transaction that lead to APA, the form of

[120] Interview with Daniel Beyene, cited above at note 104. He asserted that none of the registrants of the database properly understood the grounds of relation in the customs and tax laws of the country. According to him, some taxpayers consider themselves as related to Chinse exporter because the two countries are in good relation than the grounds in the laws. He indicated that before applying any transfer pricing rule on related party transactions it is vital to create awareness on the taxpayers.
[121] *Ibid.*
[122] Income tax laws of Countries including China, USA, India, Nigeria Tanzania, Uganda, South Africa, Zambia, Argentina etc, impose the burden of proof on the taxpayer while Austria's law imposes on the tax authority. PWC, cited above at note 93, p. 185, 189, 197, 207, 210, 215, 257, 329, 476 & 833.
[123] Rules on Transfer Pricing, Art. 7 (5).
[124] OECD, cited above at note 96, p. 23.

application for APA, the method of TP, identification of comparables, the cause and effect of termination of the APA, etc.[125]

The Ethiopian income tax laws prescribed the procedure and elements of APA between the Tax Authority and taxpayer that involves in international related party transaction or domestic related party transaction having annual turnover more than five hundred thousand birr by schedule C taxpayers.[126] It is not specified whether the tax authority can conclude APA irrespective of the annual threshold of related party transactions of the taxpayer. This is administratively costly for the Tax Authority. There are rules on the manner of application for entering into APA, termination of the arrangement, on TP methods, etc.

2.3. Valuation of Intellectual Property: Accounting Issues

Financial statements of traders and companies are important decision making inputs.[127] They are a medium of communication between the business enterprise and interested parties like shareholders, creditors, financial analysts, valuation experts, tax authority, and litigants.[128] Intangibles including IP which are called goodwill by the accounting profession have been the missing element of business enterprises' financial statements.[129] Imprecise definition and measurement have been the reasons forwarded by accountants for their non-discloser.[130] To counter the trend of non recognition and to disclose relevant and meaningful financial information about the value of a business enterprise, rule makings have been carried out by various accounting standard setting organs regarding the definition, recognition criteria, measurement and techniques of valuation of intangibles assets. All the major developed countries either allow or require the recognition of purchased identifiable intangible assets and their ensuing amortization.[131] They are consistent in their practice not to reflect the value or cost of self-developed intangibles on the balance sheet particularly before development phase.[132]

The International Accounting Standards Board (IASB)[133] is one of the international accounting standard setting organs whose regulations named as International Financial

[125] C. Devonshire-Ellis *etal* (eds.), cited above at note 113, p. 48-56.
[126] Rules on Transfer Pricing, Art. 12 & Income Tax Proclamation, Art. 29(2).
[127] United Nations, cited above at note 5, p. 83
[128] G. Smith & R. Parr, cited above at note 6, p. 92.
[129] United Nations, cited above at note 5, p. 83.
[130] G. Smith & R. Parr, cited above at note 6, p. 85.
[131] *Id*, p. 89
[132] *Ibid.*
[133] Note: IASB was reorganized from International Accounting Standards Committee (IASC) in 2000. It has been working since 1973 on accounting standards which can be accepted by nearly two hundred participating

Reporting Standards (IFRS). Its International Accounting Standard (IAS) 38 prescribes rules on the definition, recognition criteria, measurement principle and disclosure of intangible assets in financial statements; IFRS 3 regulates such issues of intangibles and goodwill in the case of business combination; and IFRS 13 prescribes fair value measurement and disclosure in financial statements. In USA, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards number 142 on goodwill and other intangibles and number 141 on business combinations governing the definition, recognition criteria, measurement and disclosure of intangibles in financial statements. The Indian Accounting Standard (Ind AS) 38 provides rules on reporting of intangibles in financial statements. The commercial code of Ethiopia has some rules on book keeping and accounting for traders and commercial business organizations. The rules on the definition, recognition criteria, measurement principle and valuation techniques, and disclosure of intangibles in the code are discussed vis-à-vis the above international standards.

2.3.1. Definition of Intangible Assets

"An intangible asset is an identifiable non-monetary asset without physical substance."[134] Asset is an economic resource controlled by an entity as a result of past events that has future economic benefits in the form of cash inflows either standalone or in combination with other assets.[135] For trademarks, patents, softwares, copyrights or other intangibles to be an asset for accounting purpose, they should be identifiable[136] from goodwill, controlled[137] by an entity based on past transactions or events, and have an economic benefit[138] to the controlling entity. Goodwill falls in the realm of asset only if acquired in business combination.[139]

countries. The accounting standards promulgated before the reorganization has been named as International Accounting Standards (IAS). G. Smith & R. Parr, cited above at note 6, P. 89 & 90.

[134] International Accounting Standard 38: Intangible Assets, Para 8.

[135] *Ibid*.

[136] An intangible asset satisfies the requirement of identifiability if it is either separable by way of assignment or license from the controlling entity (either individually or together with other identifiable intangibles) or arise from contractual or legal rights regardless of its separability from the entity or other legal rights. From this it is vivid that an IP like copyright, trademark and patent satisfies the identifiably condition. *Id*, Para 12.

[137] Control by an entity exists if it has the power to reap future economic benefits arising from the exploitation of the asset and has the power to restrict others from the benefit. The power generally arises from enforceable legal rights. The conventional IP law confers the IP owner such control that copyrights, patents, trademarks, etc fulfils this condition. *Id*, Para 13.

[138] Future economic benefits flowing from the asset may include revenue from selling or licensing the asset, cost savings from using the asset or revenue from the sale of products or services incorporating the intangible assets. *Id*, Para 17.

[139] *Id*, Para 11.

Persons operating trade in Ethiopia are required to keep books and accounts in accordance with business practice and regulation.[140] There are some superseding mandatory standards on keeping books and accounts.[141] Persons working business must show assets and liabilities in their balance sheet.[142] Assets are debit balances and should appear in the balance sheet as establishment expenses, fixed assets, stocks, and short term or liquid assets.[143] The code doesn't define intangible assets nor clearly require their disclosure in balance sheets.[144] One may argue that such assets would appear in the balance sheet if business practice and regulation require provided the number and manner of the lists are indicative.[145] Nonetheless, intangibles including IP are almost neglected in the financial statement of business enterprises in practice that there are no practically developed rules which govern the accounting treatment of the assets in Ethiopia.[146] Sometimes goodwill noticed in the financial statements despite unacceptable due to the absence of clarity on assigning value and on its elements.[147]

2.3.2. Recognition Criteria

For IASB, intangibles can be recognized as an asset in financial statements if they meet the following criteria apart from satisfying definitional elements of intangible asset (identifiable, control and economic benefit): future economic benefits are probable to flow from the asset to the entity, and the cost of the asset can be measured reliably.[148] Generally, these are satisfied if the asset is separately acquired from another entity or acquired in business combination.[149] Internally developed intangibles aren't generally recognised as an asset in financial statements while internally developed goodwill can't be totally recognised.[150]

[140] Com. C. Art. 63 (1).
[141] *Id*, Art. 63 (2).
[142] *Id*, Art. 67 & 74 (1).
[143] *Id*, Art. 74 (2).
[144] Note: there is no definition for what asset refers for accounting and book keeping in the commercial code let alone to define intangible assets.
[145] Com. C., Art. 63(1).
[146] Interview with Samson Bekele, Senior Team Leader at Joint Authorized Accountant and Business Consultants PLC., October 9, 2015, Addis Ababa &Telephone Interview with Workneh Meseret , Accountant in Addis Ababa, October 20, 2015.
[147] Telephone Interview with Workneh Meseret, cited above at note 146.
[148] International Accounting Standard 38, Para 18 & 21-23.
[149] *Id*, Para 25-34.
[150] For they to be recognised as an asset they must be in the development phase and other specific condition should be met. See *Id*, Para 48-67.

The Ethiopian commercial code doesn't provide recognition criteria for the disclosure of intangible assets in financial statements.[151]

2.3.3. Measurement Premise

Based on the standards of IASB, initially intangible assets are required to be measured at their cost.[152] Cost is an amount of cash or cash equivalents paid or fair value of other consideration conferred to acquire or construct an intangible asset.[153] For intangibles acquired separately, cost includes purchase price, custom duties, non-refundable income taxes, and any direct cost of preparing the asset for its planned use while for intangibles acquired in business combination it is the fair value allocated to an identifiable intangible asset from the total purchase price of the business on the acquisition date.[154] Fair value is an amount to exchange an asset between knowledgeable parties in an arm's length transaction.[155] After initial recognition, the controlling entity can opt to measure the intangible asset either using the cost or revaluation model. Based on the cost model an intangible asset shall be carried at cost less any accumulate amortization and impairment expenses.[156] If revaluation model is adopted, an intangible asset shall be carried at a revalued amount i.e. fair value of the asset at the date of revaluation less subsequently accumulated amortization and impairment losses.[157]

The Ethiopian commercial code doesn't offer any measurement premises regarding the initial recognition of IP nor measurement rules after initial recognition. Only for tangible assets the code has some crude standards on measurement premises. Accordingly, fixed assets shall appear at their "value of origin" or "revaluation amount" if such is conducted.[158] Apart from these, "cost price "and "purchase price" are used by the code as measures of other tangible assets though all the measures aren't described.[159]

2.3.4. Valuation Inputs and Techniques

FARS 13 have provided some standards regarding the order of relevant inputs to determine the fair value of identifiable intangible asset acquired in business combination for initial recognition or the revaluation amount for an asset to carry in the statements after initial recognition. Three levels of inputs are identified to determine the fair value of an intangible

[151] Com. C., Art. 74(2).
[152] International Accounting Standard 38, Para 24.
[153] *Id*, Para 8.
[154] *Id*, Para 27-32.
[155] *Id*, Para 8.
[156] *Id*, Para 72-74.
[157] *Id*, Para 72, 73, 75-77.
[158] Com. C., Art. 84 (1).
[159] *Id*, Art. 84

asset, in its highest and best use, to be recognised in financial statements. Level 1 inputs are quoted prices (unadjusted prices) in active markets for identical intangible assets.[160] Level 2 inputs are inputs other than level 1 which are observable either directly or indirectly.[161] This may include the prices of identical assets in inactive market, prices of similar assets from active market. Level 3 inputs are unobservable inputs for assets which are based on the assumptions of market participants.[162]

FARS 13 has set out principles for the application of valuation techniques though it doesn't mandate the application of a particular technique(s). An entity is required to select the valuation method to determine fair value of intangible asset pertinent in the circumstances, for which enough data exists and maximizes use of relevant observable inputs.[163] The three widely used techniques of valuation which are market, cost and income are discussed by the standard as possible choices for an entity.[164] They are required to be applied consistently across periods of time.[165]

Inputs and valuation techniques for determining measurement premises for initial recognition of intangible assets acquired in business combination, or for revaluation after initial recognition aren't sufficiently specified in the relevant laws of Ethiopia.[166]

2.3.5. Disclosure

An entity controlling an intangible asset is required to disclose the useful life of the asset, amortization rate and method for finite duration intangibles, gross carrying amount and accumulated amortization for finite assets.[167] It is also required to disclose the measurement premises, inputs to measure fair value when relevant like, in the case of revaluation to determine the carrying amount, technique of valuation utilised.[168]

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[160] IFRS 13 Fair Value Measurement: What Does This Mean? (2011, Duff & Phelps LLC), p. 3 <www.duffandphelps.com> accessed 19/08/2015.
[161] *Ibid.*
[162] *Ibid*
[163]Deloitte, Clearly IFRS: Summary Guidance and Practical Tips for IFRS 13 – Fair Value Measurement, p. 2 <www.deloitte.ca> accessed 19/08/2015.
[164] *Ibid.*
[165] *Ibid.*
[166] Com. C., Arts. 66-85 & 549-553, Income Tax Proclamation, Art. 23(4) & 24, and Trade Competition and Consumer Protection Proclamation, 2014, Proc. No. 813, Fed. Neg. Gaz.,Year 20, No. 28.
[167] For the details of the items required to be disclosed please read International Accounting Standard 38, Para 118-125.
[168] Deloitte, cited above at note 163, p. 3.

The commercial code is not clear about the disclosure of intangible assets in financial statements.[169] The Ethiopian income tax law requires the disclosure of acquired intangible assets for the purpose of depreciation deduction despite silent on the disclosure of valuation inputs and valuation techniques.[170] It concerns only intangibles with finite useful life and the disclosure aims at getting tax deduction that may not be comprehensive for other interested persons. They can't be found in the financial statements of the taxpayer if she needs no deduction.

2.4. Valuation of Intellectual Property for Infringement Damages

Providing an incentive to create, disseminate, and commercialize inventions and creations is one of the standard justifications for copyrights and patents while trademark encourages an owner to invest on quality to get consumer loyalty.[171] IP laws provide provisional and civil remedies that protect the incentive structure. Damages rules are critical remedies since injunction order alone isn't enough if the owner sustains damage.[172] They are central for properly compensating damage and deterring infringement of IPR.[173] The existence, clarity and adequacy of rules on the amount and method for calculating damages for copyright and neighbouring right, patent, and trademark damage in the Ethiopian main IP laws will be assessed.[174] The moral state of an infringer and its impact on extent of damages are examined. An assessment is made on the practical implementation of such rules by referring court cases, if there are any.

2.4.1. Measure of Damages and Method of Calculation

The Ethiopian copyright and neighbouring rights proclamation provides two alternative principles to determine infringement damages of IPR which are adequate compensatory damages (resulted from material damage, moral damage and expenses)[175] and restitutionary damages.[176]

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[169] Com. C., Arts. 66-85.
[170] Income tax proclamation Art. 23(4) & Council of Ministers Income Tax Regulation, 2002, Art. 13, Reg. No. 78, Fed. Neg. Gaz., Year 8, No. 37.
[171] R. Blair & T. Cotter, *Intellectual Property: Economic and Legal Dimension of Rights and Remedies* (2005), p. 42, Copyright and Neighbouring Rights Protection Proclamation, 2004, preamble, Proc. No. 410, Fed. Neg. Gaz., Year 10, No. 15 & Inventions, Minor Inventions and Industrial Designs Proclamation, 1995, Proc. No. 123, Neg Gaz., Year 54, No. 25.
[172] R. Blair & T. Cotter, cited above at note 171, P. 42.
[173] *Ibid.*
[174] Copyright and Neighbouring Rights Protection Proclamation No. 41o/2004 as amended by proclamation 872/2014; Inventions, Minor Inventions and Industrial Designs Proclamation No. 123/1995 and Trademark Registration and Protection Proclamation, 2006, Proc. No. 501, Fed. Neg. Gaz., Year 12, No.37.
[175] Copyright and Neighbouring Rights Proclamation, Art. 34 (1) & (4).
[176] *Id*, Art. (2) & (3).

Moral damages and recovery of expenses seem reserved only to a claimant who sought compensatory damages. This is improper since the plaintiff's incentive from the protection of copyright or neighbouring right is conserved not only awarding the net profit of the infringer, lost profit or the reasonable royalty that could have been paid by the infringer but also by reimbursing the wherewithal of the plaintiff incurred for enforcement of her right. Compensating expenses is not left to the discretion of courts which is an exception to the rules in the civil procedure code.[177] The Ethiopian Federal High Court's decisions are consistent with this mandatory prescription.[178] Conversely, the Federal Supreme Court Cassation decisions are inconsistent with the law since they require the plaintiff to bear her expenses.[179] Neither the law nor court decisions describe the types and qualify the extent of the expenses. This could lead an understanding that courts should order the recovery of, even, unreasonable and exaggerated attorney fees or other expenses or though the infringer is unwitting. This may over deter the infringer that the law should have put qualifications. It seems possible for a plaintiff claim her expense even if there is no moral and material damage provided infringement of copyright or neighbouring right is proved. The law is silent on the mandatory recovery of expenses of victorious defendant.

The minimum statutory moral compensation is one hundred thousand birr which can be increased based on the extent of damage.[180] No guidance exists in the law to determine the existence and extent of moral damage. In Simiret Ayalew *etal* vs. Samuel Hailu, the Federal High Court articulated the existence of moral damage from the infringement of the author's rights to be known by the public, publish and control the quality of her work.[181] The Court didn't repeat its analysis in two other cases.[182] From the cases reviewed, the Court doesn't list

[177] Copyright and Neighbouring Rights Proclamation, Art. 34 (1) & Civ. Pro. C., Art. 462.
[178] Simret Ayalew *etal* v. Samuel Hailu (File No. 54181, Federal High Court of Ethiopia, 09/10/2000 E.C.), p. 4; Getahun Shibru v. Artistic Printing Press *etal* (File No. 88615, Federal High Court of Ethiopia, 16/2/2003 E.C.), p. 17; Ealis Asegahegni v. Yekey Shibir Semahtat Betesebochina Wedajoch Mahiber and Ethiopian Post Office (File No. 90008, Federal High Court of Ethiopia, 25/7/2003 E.C.), p.5; and Mulu Haileselassie v .Zemenawi Printing Press (Civil File No. 05471, Mekele Zone High Court) , p. 19.
[179] Simret Ayalew *etal* v. Samuel Hailu (Federal Supreme Court Cassation Bench of Ethiopia, 04/5/2004 E.C.), *Federal Supreme Court Cassation Decisions,* vol. 13, p. 581; Getahun Shibru v. Artistic Printing Press *etal* (Federal Supreme Court Cassation Bench of Ethiopia, 10/2/2002 E.C.), *Federal Supreme Court Cassation Decisions,* vol. 10, p. 341; Ealis Asegahegni v. Yekey Shibir Semahtat Betesebochina Wedajoch Mahiber and Ethiopian Post Office (Federal Supreme Court Cassation Bench of Ethiopia, 15/04/2005 E.C.), *Federal Supreme Court Cassation Decisions,* vol. 14, p. 273; and Mulu Haileselassie v. Zemenawi Printing Press (Federal Supreme Court Cassation Bench of Ethiopia), *Federal Supreme Court Cassation Decisions,* vol. 9, p. 151.
[180] Copyright and Neighbouring Rights Proclamation, Art. 34 (4).
[181] Simret Ayalew *etal* v. Samuel Hailu, cited above at note 178, p. 4.
[182] Getahun Shibru v. Artistic Printing Press *etal*, cited above at note 178, p. 16; and Ealis Asegahegni Vs. Yekey Shibir Semahtat Betesebochina Wedajoch Mahiber and Ethiopian Post Office, cited above at note 178, p 4&5. In the former case, the court made sure the existence of moral damage on the ground that the infringement

conditions to determine the extent of moral damage more than awarding only the statutory minimum. Whether damage to economic or moral rights or both that entitles moral damages isn't obvious. The Federal Supreme Court of Ethiopia asserted the payment of moral damages in the law when an economic right is infringed and moral damage is sustained.[183] This doesn't clearly depict whether the foundation of moral damages is damage to moral rights or even may arise from damage to economic rights though one could suspect that moral damage should materialize apart from infringement to economic rights.[184]

Material compensation is the measure of economic injury to IP owner. The law has three alternative methods for valuation of IP in the infringing product. These are lost profit of the plaintiff (damage to plaintiff), reasonable royalty and net profit of the infringer.[185] While the first is subsumed in the realm of compensatory damages, the latter two are grouped with in restitutionary damages.[186]

Lost profit of the plaintiff is determined considering the profit she would have made but for the infringement and the profit made by the defendant from the infringement.[187] The plaintiff bears the burden of proving the economic benefits she would have collected but for the infringement. Loss of economic benefits may arise from sales diversion that proof should be adduced on the total quantity of sales lost and unit price within the periods of infringement.[188] It may also arise from price erosion due to the supply of lower priced infringing products which requires proof of gross reduced price the owner would have collected during the period

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inhibited the plaintiff from marketing the book in accordance with the normal practice. However, no further analysis is conferred in the judgement what is this practice and how it causes moral damage to the author? Unfortunately, in the latter case no indication is made by the court whether moral damage is sustained by the plaintiff and the specific act producing it. It simply says the plaintiff's moral damage is presumed since his right is infringed.

[183] Mulu Hailu v. Zemenawi Printing Press, cited above at note 179, p. 151. & Samuel Hailu & Horizon Printing Press P.L.C. v. Simret Ayalew etal, cited above at note 179, p. 581.

[184] Note: If we argue that the infringement and damage to economic rights lonely entitles moral damages, damage to moral rights would be ineligible for compensation once the author or her heirs assign economic rights. This is based on the non-transferability attribute of moral rights. On the other hand, if we say only damage to moral rights results moral compensation, harm to economic rights can't necessarily entitle such compensation. For instance, infringement of the exclusive right to distribution causes damage to none of the moral rights. Copyright and Neighbouring Rights Proclamation, Arts. 7 & 8.

[185] Copyright and Neighbouring Right Proclamation, Art. 34 (2), (3) & (4).

[186] Blair and Cotter consider reasonable royalty as a measure of compensatory damages than restitutionary damages. They view it as the amount the plaintiff would have received but for the infringement. Quite to the contrary, our law views it the amount of royalty the defendant would have paid to the owner of the right had he been licensed by the latter. R. Blair & T. Cotter, cited above at note 171, p. 208 & Copyright and Neighbouring Right Proclamation, Art. 34(2).

[187] Copyright and Neighbouring Right Proclamation, Art. 34 (4).

[188] G. Smith & R. Parr, cited above at note 6, p. 617.

of infringement.[189] It is evident that lost profit as a measure of infringement damages applies when the right holder developed and marketed copyright incorporating materials. Restitutionary compensation applies in the absence of such facts. According to the cases reviewed, the claimants base material compensation on the bases of lost profit method which is an aspect of income approach. Although in the Simert *etal* case material damages is claimed based on lost profit, the court dismissed part of the compensation that the claimants considered they would have made as a profit but for the infringement on the bases of insufficient proof.[190] However, the court has ordered sixty thousand birr material damages claimed earned by the defendant from selling the infringing book by multiplying unite price with quantity.[191] The decision is inconsistent with the law on the following grounds. Obliging the courts to decide material compensation considering the material damage of the plaintiff and the profits of the defendant from the infringing act doesn't mean the gross sales made by the defendant.[192] The court employed gross sale of the defendant than profit. The decision doesn't tell us the extent of profit lost by the plaintiff as a result of price reduction or/and sales diversion by the infringing book. In the Elias case, the plaintiff claimed 180,000 birr as material damages from gross sale of sixty copyright incorporating materials with three birr and 100,000 birr damages from the income lost by him due to the infringement in accordance with lost profit.[193] The court dismissed the first compensation arguing that the materials are sold not because they incorporated the architecture of the plaintiff.[194] It dismissed the second prong of compensation arguing that since the architecture is created for the purpose of commemorating victims of the Red terror, it would not be sold for any one.[195] The decision indicates that the work has no economic value at all because of what it designates. It doesn't contemplate whether the work would have value to the survivors of the terror for remembering the event or to others for other reasons. In both of the cases, the plaintiffs didn't start manufacturing and marketing of the works. In such cases it is noted that lost profit method of valuing IP in the infringing product is inapplicable owing to the impossibility of showing the sales lost and/or the prices reduced due to the infringing act. If the claimants want to succeed using this approach they must show such effects vividly. In the Getahun

[189] *Ibid.*
[190] Simret Ayalew *etal* v. Samuel Hailu, cited above at note 178, p. 4.
[191] *Ibid.*
[192] Copyright and Neighbouring Rights Proclamation, Art. 34(4).
[193] Asegahegni v. Yekey Shibir Semahtat Betesebochina Wedajoch Mahiber and Ethiopian Post Office, cited above at note 178, p. 1.
[194] *Id*, p. 4.
[195] *Ibid.*

case, infringement of reproduction right occurred before the owner enters the legitimate books in the market. The plaintiff claimed material damages for the books made ready for market according to its order and for the infringing books sold. The court decided that the plaintiff is ineligible to claim damages for the books that is found in the hand of the publisher and not entered in the market arguing that these are made on his authorization and can still be marketed.[196] It only decided damages to the infringing books by deducting the costs of production and distribution incurred by the defendant.[197] Unlike that of the above cases the court based its decision on profit than gross sale which is acceptable in light of article 34(4) of the proclamation. However, whether the proof is made by the plaintiff as per the requirement of the law isn't stated in the decision.

As a measure of unjust enrichment (restitutionary damages), a plaintiff can claim either a reasonable royalty the infringer would have paid in a licensing agreement or the net profit of the infringer from her act. What constitutes the factors to determine reasonable royalty isn't expressed in the law. It can be an established royalty the right holder imposes in licensing agreements or royalty rate that could be accepted by a willing licensor and licensee or developed by market rule of thumb.[198] The method endorses the market approach of valuation of IP that the context of the surrogate transaction must be comparable with the value of property in the infringing product. Some vilify reasonable royalty as inadequate to dissuade infringement since the infringer runs the risk of paying what he would in any event have been liable to pay.[199] To protect the incentive from ownership of IPR and discourage infringement, it is argued that damage rules should award the maximum of the lost profit of the plaintiff or net profit of the defendant.[200] The position of our law on reasonable royalty seems not compensatory seen from these criticisms. One may argue that the mandatory recovery of expenses and existence of moral compensation sufficiently make reasonable royalty compensatory and deterrent. As stated above our law is not clear whether such awards are available for a claimant who seeks restitution of unjust enrichment. Secondly, the remedy of moral compensation for non author owners is not certainly granted by the law that makes the argument unsatisfactory. The net profit of the infringer from her act of infringement is the other restitutionary damages adopted in the copyright and neighbouring right proclamation.

[196] Getahun Shibru v. Artistic Printing Press *etal*, cited above at note 178, p. 15.
[197] *Id*, p. 15 & 16.
[198] R. Kelbrick, "The Concept 'Reasonable Royalty' in Intellectual Property Legislation — a Comparative View", *The Comparative and International Law Journal of Southern Africa*, Vol. 31, No. 1 (March 1998), p. 33-35.
[199] *Id*, p. 33.
[200] R. Blair & T. Cotter, cited above at note 171, P. 264.

The plaintiff should prove the gross sales from infringing products while it is the burden of the defendant to show part of the profit due from other market factors.[201] This is an advantage to the plaintiff that pursues this method than lost profit method in Art. 34(4). Like that of reasonable royalty infringer's net profit fails to be compensatory in case the harm of the plaintiff is much higher than the profit from the act of infringement. In all of the cases referred, courts didn't base the value of the copyright in the infringing product on reasonable royalty or net profit of the defendant.

In a trademark infringement suit the court has the discretion to order compensation for the plaintiff when the latter suffers damage.[202] Such permissive power of courts to compensate when damage is inflicted seems unacceptable if the country wants to encourage investment on quality of goods and protection of consumers. The proclamation provides two options to determine compensatory damages that are the higher of the net profit of the infringer or reasonable royalty the claimant could have imposed on the infringer had there been a licensing agreement between them plus any expense related to the suit.[203] The claimant may suffer a colossal damage in the form of price erosion, sales diversion and corrective advertising due to the infringement.[204] In this case, the higher of the net profit from infringement or reasonable royalty may be far less than the actual damage of the plaintiff that the law suffers a serious deficiency in terms of adequate compensation. Reasonable royalty may be infeasible to determine damages since the claimant may have no policy to license her trademark or comparable licensing agreements may not be available in the market. Similarly, net profit of the infringer may not be pertinent due to the absence of record of sales of infringing products. Thus, lost profit should have been adopted as one optional measure of damages. In net profit calculation the defendant bears the burden of proving the part of the profit resulting from other market factors like patents, trade secrets, effective distribution channel while the plaintiff is responsible to prove the gross sales arising out of infringing products.[205] Once compensating the clamant is believed, it is mandatory to order the inclusion

[201] Copyright and Neighbouring Rights Proclamation, Art. 34 (3).
[202] Trademark Registration and Protection Proclamation, Art 40 (1) (b).
[203] *Id*, Art. 40(2).
[204] D. Slottje (ed.), *Economic Damages in Intellectual Property: A Hands-on Guide to Litigation* (2006), p. 236-239
[205] Trademark Registration and Protection Proclamation, Art. 40 (3).

of litigation cost in the award.[206] There is no qualification on extent and reasonableness of such expenses of the claimant in our case.[207]

Patent infringement damage rules are far developed in USA compared to trademarks and copyrights. The county's patent law obliges courts to grant damages adequate to compensate the infringement, but in no event less than a reasonable royalty for the use made of the invention including interest and costs as fixed by the court.[208] Case laws developed methods and respective inputs to calculate adequate compensation. Lost profit and reasonable royalty are alternative methods to calculate infringement damages. Lost-profit calculation is based on the profits that the patent holder would have made from the sale of the units, but for the infringement, even if some of the components of the units were not patented.[209] It is a function of sales volume, price and costs. The Panduit case[210] was the first that provided factors to determine lost profit as a result of infringement. If it is difficult to proof lost profit, a plaintiff can claim reasonable royalty she would have claimed had she licensed the use of the patent during the period of infringement.[211] In USA, courts are allowed to increase compensatory damages up to three times.[212]

The Ethiopian patent law has neither a rule for measuring the value of invention in the infringing product nor provides methods for calculation. It only entitles the patentee to bring a suit against unauthorized person who infringes by performing her patent rights or doing acts which likely cause infringement of the rights.[213] Such entitlement can't proscribe the patentee

[206] *Id*, Art. 40 (2)
[207] *Ibid.*
[208] D. Slottje (ed.), cited above at note 204 p. 95.
[209] G. Smith & R Parr, cited above at note 6, P. 649.
[210] The case provided four factors to determine the lost profit of the plaintiff. These are existence of demand for the patented product during the period of infringement; the absence of acceptable non-infringing substitutes which satisfy the demand during the period of infringement; the plaintiff should have manufacturing and marketing capability to meet the demand and supply the customers that purchased the infringing product; and the patent holder can compute the profit she claims to lost. However, modifications are made on the factors by subsequent cases. For instance, the patentee can claim damages for infringement if she shows that demand exist for functionally related products of her patented product under the first prong or she can still claim for damages even if acceptable non-infringing substitutes exist provided she proves the share of sales she would have got but for the infringement. Panduit Corp. v. Stahlin Bros. Fibre Works, Inc. (1978) Cited in D. Slottie, cited above at note 204, p. 100.
[211] There are fifteen factors listed in Georgia Pacific case which the court thought should be considered to fix the hypothetical reasonable royalty. The factors include such elements as existing relevant licenses; profits of the licensee; the duration of the patent and terms of the licence; the nature of the license-as exclusive and non-exclusive; the commercial past performance of the invention in terms of public acceptance and price; the market to be tapped; and any other economic factors that a reasonably prudent business person would take into consideration under similar circumstances. Georgia-Pacific Corp. v. United States Plywood Corp. (1970), Cited in D. Slottie (ed.), cited above at note 204, p. 173 & 174.
[212] D. Slottje (ed.), cited above at note 204, p. 95.
[213] Inventions, Minor Inventions and Industrial Designs Proclamation, Art. 24, 45 & 51.

from using other available rights, remedies or actions.[214] Whether such other remedies or rights could comprise injunction claim and damages to compensate material damage, moral damage, expense in relation to the suit and interest on the damages are not clear. It is also undetermined if the courts can order treble or punitive damages.

2.4.2. Who Can Be Sued for Damages?

Examining the question is important since it has an effect on recovering the value of IP in the infringing product. Infringers can be classified into direct and indirect.[215] One who performs an exclusive IPR without the authorization of the owner is direct infringer. A person who makes, uses or sales the patented invention without authorization or who reproduces, distributes, publicly performs, translates, etc copyright incorporating materials without permission or unauthorised trader who uses the trademark of another person in her commercial goods or services is a direct infringer. An indirect infringer involves in the infringement either through inducing or extending contribution to direct infringer. The US and UK patent law have specifically governed indirect infringement.[216] Accordingly, indirect infringement exists if the following three conditions meet: direct infringement must be proved; there must be an act of inducement or procurement for performing infringement; and the inducer or contributor should make her act knowing that the act of the direct infringer trespasses patented inventions.[217] This assures that indirect infringement is not a strict tort liability. However, IP laws generally impose a strict liability on direct infringers.[218] From these one can say that the claimant can be compensated from direct infringers irrespective of their mental state and from indirect infringers upon proving the required moral element.

The Ethiopian IP laws don't define infringement though the term is used.[219] Nor there is a separate provision in our patent law that expressly regulate indirect infringement unlike the position of US and UK patent laws. Owning to this, it is unclear whether indirect infringers are liable to compensate if they inflict damage to IP of the claimant. If infringement is understood to include an act of inducement or procurement which results for the infringement of IPR, indirect infringement is actionable for damages in our laws though under a strict liability rule because knowledge or reasonable knowledge of the infringer isn't a condition

[214] *Ibid.*
[215] D. Cameron & G. Locke, Canadian Patent and Trade secret Laws (2013), chapter 5 <http://www.jurisdiction.com/patweb05.pdf.> accessed 1/08/2015.
[216] *Ibid.*
[217] *Ibid.*
[218] R. Blair & T. Cotter, cited above at note 171, p. 264.
[219] Copyright and Neighbouring Right Proclamation, Art. 33 & 34, Inventions, Minor Inventions and Industrial Designs Proclamation, Art. 24 & Trademark Registration and Protection proclamation, Art. 39 & 40.

for liability.[220] However, the condition of innocent infringers can be considered in fixing the extent of damages in the case of copyright and neighbouring right infringement.[221] Accordingly, courts have the power to limit the amount of damages for unwitting infringers to the profit derived from the act. Whether this discretion applies to limit only the material damages the plaintiff suffered or includes to limit moral damages and recovery of expenses is unarticulated by the copyright law. The patent and trademark laws do not give the discretion for courts to mitigate the damages for innocent infringers.[222] Such kind of rule can be good for adequately compensating the plaintiff. But, the same treatment of unwitting and fault infringers may raise the question of fairness as the later is more dangerous than the former. Moral element sensitive compensation extent rules are also generally present in other countries' laws.

2.4.3. Who Can Sue for Damages?

IP may be assigned or licensed that the question of standing to bring a suit for infringement and recovery of damages is of particular significance. Assignors, assignees, licensors and licensees may have a varying interest in a given IP. It is conferred that the decision whether any of them must, may, or may not involve in infringement litigation has to be moved by realistic evaluation of their interest and the consequence of her abstention than upon her amenability to classification as assignor, assignee, licensor, or licensee.[223] In patent cases, the assignor may have an interest to involve in infringement if she preserves a reversionary interest in the patent, is entitled to a running royalty tied to sales or production, continues to own the patent or continues to own the patent outside the assignee's territory while the assignee has always such concern.[224] It is asserted that mostly the licensor and exclusive licensee of a patent would have a substantial interest in participating in infringement litigation while there is a weak support for non-exclusive licensees for such participation owning to difficulty of proving the extent of their harm.[225]

The Ethiopian patent law gives the right to sue for infringement only to the patentee.[226] Whether secured creditors and exclusive licensees can bring an action for damages joining the patentee or initiate themselves is not implicated in any of the provision of the

[220] Copyright and Neighbouring Right Proclamation, Art. 34 (5).
[221] *Ibid*.
[222] Inventions, Minor Inventions and Industrial Designs Proclamation, Art. 24 & Trademark Registration and Protection Proclamation, Art. 40.
[223] R. Blair & T. Cotter, cited above at note 171, p. 266.
[224] *Id*, p. 265.
[225] *Ibid*.
[226] Inventions, Minor Inventions and Industrial Designs Proclamation, Art. 24.

proclamation. It is also unclear if the right to bring infringement suit can be transferred by contract. The copyright proclamation assigned the right to sue for the owner of the rights.[227] Like that of the patent law, one may argue that secured creditors and licensees are proscribed from bringing a suit for damages. However, the exclusion of exclusive licensees and secured creditors from bringing an action for damages by the law is not optimal given their sole interest to exploit the exclusive right out of the IP and possible reluctance of the right owner to bring the action. The trademark proclamation is generalist in its approach as it doesn't entitle the right to sue for infringement damages either for the trademark registrant or trademark owner rather than using the words the claimant, the plaintiff or the applicant.[228] The proclamation is open that trademark registrant, franchisee or assignees must, may, or may not be allowed to sue for infringement damages taking into account realistic assessment of their interest in light of the Ethiopian Civil procedure code while the patent and copyright proclamation seem unsuitable to such assessment that is unsupported by economic reasoning.

[227] Copyright and Neighbouring Rights Proclamation, Arts. 33 & 34.
[228] Trademark Registration & Protection Proclamation, Arts .39 & 40.

CHAPTER THREE

Commercialization of Intellectual Property in Ethiopia

3.1. Introduction

IP can be commercialised, undergo a process to produce marketable services or goods, either by the owner or third party. Third party commercialization of IP is commonly conducted through the tool of assignment and licensing.[229] IP laws of different countries determine the transferability, licensing (franchising) and securitizing of IP. Prescriptions are made on the form, scope, duration, geographical limit, grounds of termination of assignment and licensing of copyrights, patents, trademarks, and soon. Licensing of IP is also policed to protect and promote fair competition in the market. Certain licensing agreements or provisions of a license are indefensible if they restrict or affect fair competition.

Effective enforcement of IPRs is one condition for commercialization of IP apart from providing the appropriate legal vehicles that enable to identify the owner, recognise and regulate assignment of the rights, govern licensing of the rights, and allow the use of IP for raising funds by the owner, licensor, and licensee. Ethiopia is one of the countries with high rate of piracy of IP. Preliminary studies on the rate of piracy in the creative industry in Ethiopia estimated 90%.[230] Commercialization IPR by the owner, assignee or licensee is unthinkable in a situation of rampant piracy. The availability of funds is the other important factor for the commercialization of IP.

Though assessment of the availability of finance and examination of effective enforcement of IPRs are relevant issues for commercialization of IP, this chapter mainly concerned examining legal issues on tools of commercialization of IP. The rules governing transferability of patents rights, copyrights and trademarks through assignment and license contracts under the respective laws; the interaction of competition and IP law in relation to IP licensing; and legal infrastructure of using IP as a security for raising finance are some of the main focuses.

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[229] European Commission, Commercialization of Intellectual Property: Assignment Agreement (September 2013), p. 2 < https://www.iprhelpdesk.eu/sites/default/files/newsdocuments/Assignment_Agreements_0.pdf.> accessed 30/08/2015.

[230] Getachew Mengstie, cited above at note 27.

3.2. Preconditions for Commercialization

The commercialization of IPR is dependent, among others, on the existence of rules that clearly establishes acquisition of ownership and freedom to operate. Some of the rules in the Ethiopian main IP laws governing such preconditions are discussed herein after.

3.2.1. Ownership of Intellectual Property Right

Ownership is imperative precondition that must be determined before concluding IP commercializing contracts that consulting and examining relevant rules which prescribe the identity of the owner shouldn't be neglected.[231] Unless any act of commercialization without ownership right or without the owner's authorization may entail infringement suits. The Ethiopian main IP laws have rules on original and derivative ownership over IP. The ensuing discussion addresses some of such rules.

In principle, the author of a copyrightable work is the original owner of economic rights.[232] When a work is created with the participation of two or more persons, they become co-authors and original joint owners of the economic rights.[233] In the case of collective work, original ownership of economic rights is entitled to the person that initiated and directed authoring the work.[234] The proclamation doesn't define collective work neither it has guidelines to determine an act of 'initiation' and 'directing' which may impede the exploitation of the work using varying modes. Unless agreed otherwise, the employer or person who commissions the work is granted original ownership of economic rights on a work created in the course of employment or contract of service, respectively.[235] The law doesn't describe course of employment or contract of services which may create difficulties to determine ownership over creations by employee or commissioned worker when it is remotely related with their duties.[236] This default rule hardly allows determining original ownership of economic rights on copyrightable works of students created in a university. The relationship of the student and the university can't be characterised as employment or independent contract but teaching-learning relationship. The student authors the work in the

[231] ACIPA, Intellectual Property and Commercialization of Research and Development: A Guide for Horticulture Industries (October 2006), p. 45 <http://acipa.edu.au/pdfs/intellectual-property-for-commercialisation-of-research-and-development.pdf.> accessed 5/09/2015.
[232] Copyright and Neighbouring Rights Proclamation, Art. 21(1).
[233] *Id*, Art. 21(2)
[234] *Id*, Art. 21(3)
[235] *Id*, Art. 21(4).
[236] Australian courts considered the following factors to determine whether copyrightable work is created in the course of the contract: extent of the creation during ordinary working hours; whether the employee is engaged and directed to apply his mind for the purpose of creating a copyrightable material or invention; the nature of the employee's position in the company or business (senior employees may be considered authored or invented the work for benefit the employer). ACIPA, cited above at note 231, P. 55.

umbrella of her relation with the university that the latter has an interest in the work. Such a gap may create ownership conflict that hinders the commercial exploitation of the work. The producer of audiovisual work is the original owner of economic rights while other co-authors are entitled to authorship right in their respective work and the right to receive remuneration based on a contract with the producer unless the works can be exploited separately.[237]

Original ownership of an invention is, in principle, given to the inventor.[238] When more than a person invents, they become joint owners of patent rights.[239] Patent rights over an invention by an employee or commissioned worker invented in the course of their duties under contract of employment or service are conferred to the employer or commissioner unless agreed otherwise.[240] The patent law suffers the same gap as the copyright law regarding original ownership of inventions of students in a university with the use of the latter's facilities since the relationship can't fall within contract of commission work or employment.

Original ownership of trademark rights is granted to the first registrant.[241] Despite co-ownership of trademark by several persons is indicated, the use of the mark without confusing the public is undetermined.[242] To promote distinctiveness of traders' goods and services and avoid consumer confusion, co-ownership of trademark is not accepted in some systems.[243]

As discussed, co-inventers and co-authors are entitled original joint ownership. Joint ownership of an invention or creation can also arise from assignment agreement if assigned for several persons. The Ethiopian copyright and patent laws don't provide default rules on the management of joint ownership of IPR.[244] If assignment or licensing is concluded only by

[237] *Id*, Art. 21(5).
[238] Inventions, Minor Inventions and Industrial Designs Proclamation, Arts. 7 (1), 45 & 48.
[239] *Id*, Art. 7 (2).
[240] *Id*, Art. 7(3). Unlike the copyright and neighbouring right law, our patent law has provided default rules regarding original ownership of patent rights over an invention that is the result of the material contribution of an employer and employee or commissioner and commissioned worker. In such situation joint ownership in equal shares is presumed.
[241] Trademark Registration and Protection Proclamation, Art. 4
[242] See Art. 28(3). The rules on collective trademarks under the Proclamation shouldn't be considered as prescription of co-ownership of a trademark by two or more registrants or traders but by a single entity like trade unions. The proclamation doesn't expressly describe any default rule on the rights of registrant nor it sort out the guidelines for rights and obligations in the statute that the collective trademark based on. *Id*, Arts. 18-23 cum 26-33.
[243] S. Chakravarty, "Importance of Assignment Agreements under Intellectual Property Law of India", J. *Intellec Prop Rights*, Vol. 14 (November 2009), p. 517.
[244] In USA a co-owner of copyright is entitled to exploit his creation in any way subject to duty to account for the other co-owners while co-owners of patents are allowed to exploit the invention without any restriction, even with no duty to provide an account to others.

a co-owner, others may bring an infringement action against the assignee or licensee which in effect hinders the commercial exploitation of the rights. Similarly, whether one of the co-owners can renounce her share in the IPR without consulting others and if so the fate of the IPR afterwards is not regulated.

The Ethiopian copyright and patent laws suffer gap concerning ownership of IPRs arising from the course of overlapping employment relations of an employee or from overlapping relation of employment and contract of services or from overlapping contract of services. This is highly probable for university teachers who possibly conduct research for another institution. Inventions by a professor with using the facilities of the university and the person who commissioned the work attract multiple interests that ownership clash would appear unless the contracts manage it.[245]

3.2.2. Freedom to Operate Intellectual Property

> *Freedom to operate refers to the ability to conduct research and development, commercialise a research outcome or use another person's intellectual property in your business without infringing intellectual property owned by a third party.*[246]

Seeking authorization from the IP owner is the primary way-out to secure freedom to operate (FTO) once IPR, in addition to, utilization of any exceptions and limitations to IPR by law and applying for compulsory licensing.

It is said that issues of FTO are more frequent to patent and plant breeder's rights than other IP rights[247] that examining the Ethiopian patent law on limitations to rights and compulsory licensing is commendable as authorised enabling ways for FTO. The use of patent rights without the consent of the owner for non-commercial purposes, solely to carry out scientific research and experiment or use of patent incorporating products which have been put in the market in Ethiopia by the owner or with his consent (exhaustion of patent rights) are permitted.[248] With the exception of the exhaustion of rights, the limitations can't allow the use of third party owned IP to conduct R&D[249] or for otherwise commercial exploitation of

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Joint Ownership and Assignments of Intellectual Property Rights: Part II –Copyrights (May 27, 2011) <http://www.lexology.com/library/detail.aspx?g=6cf9c2fd-fc6c-4495-bce1-eff6921ee4aa > accessed 4/09/2015.

[245] ACIPA, cited above at note 231, p. 53.

[246] *Id*, p. 59.

[247] *Ibid.*

[248] Inventions, Minor Inventions and Design protection proclamation, Art. 25(1)

[249] Using a patented invention to carry out research and experiment by the operation of the limitation is possible if the purpose is *solely scientific* (emphasis added) (25(1(b))). The point is that conducting research and

IPR. The prohibition may adversely affect the commercial exploitation of once IPR. In this case, licensing in or buying of the patent seems the only option to exercise FTO. If the owner of such necessary patent refuses to licence or assign her IPRs, the FTO may be exercised through applying the procedurally entangled way-out, compulsory licensing.

FTO earlier and later inventions are some grounds for issuance of compulsory licensing in Ethiopia.[250] Compulsory licensing is not an effective way to exercise FTO owning to several procedural conditions[251] and the limitation on further licensing without the consent of compulsory licensor.[252] The compulsory licensee can't exploit her IPR by licensing since it amount as authorisation of other persons for use of the compulsorily licensed IP.

Copyright exceptions and limitations may enable to exercise FTO once IPR in commercial settings by exploiting copyrighted works without authorization of the owner. For copyrights, FTO is most likely an issue regarding softwares than other works since exploitation of the latter can be effectively made by taking ideas from copyright protected works. An owner of software may need the use of other softwares owned by third party to efficiently work her rights. For commercial purpose, FTO seems available only in two limitations-reproductions for teaching; and reproduction and adaptation of computer programs.[253] If such limitations are not fit for exploitation of software owned by third parties and voluntary licensing is refused, the owner of software may apply for non-voluntary licensing.[254] This is effective based on implementation regulation that is not yet enacted.[255] This constrains the commercial exploitation of dependent creations, such as softwares.

Circumstances may command the use of an invention by the owner of a creation or the use of a creation by the owner of an invention for commercial operation. As noted above the limitations to patent rights seem unfit to use an invention for commercial purpose which is almost true for limitations to copyrights. Compulsory licensing of patent rights is available to exploit another dependent invention but not for utilizing creations like software irrespective

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experiment using a patented invention to commercialize another IP forming party of the property of a business enterprise has the sole purpose of profit.

[250] Inventions, Minor Inventions and Industrial Designs, Art. 29(1) & (2).

[251] *Id*, Arts. 29(1) & (2), 30, 31 & 32.

[252] *Id*, Art. 32.

[253] Copyright and Neighbouring Rights Proclamation, Arts. 11 & 14. The rest of the limitations and exceptions are allowed either for personal , private, free of charge purpose which oust commercial purpose (see Arts. 9, 12, 15, 16) or they are not as such relevant to exercise freedom to operate (see Art. 13).

[254] *Id*, Art. 17.

[255] *Id*, Art. 17(2).

of the level of dependence.[256] In the copyright law, non-voluntary licence can be applied by anyone but it is dysfunctional currently since the implementing regulation isn't enacted. To exercise FTO over a creation, authorization of the patentee seems necessarily required which her refusal may highly limit the commercial FTO of once IPR.

3.3. Modes of Commercialization of Intellectual Property Rights

The commercial transfer of IPR without infringement generally takes place via assignment, licensing or franchising of the right.[257] Determining commercialization of IPR in any of such modes and the associated conditions are the functions of IP and IP related laws. These require mandatory and permissive rules. The sufficiency of the rules on assignment, licensing and securitization of IPR in Ethiopia are addressed in the ensuing parts.

3.3.1. Assignment

Assignment is the transfer of ownership of IPRs from one party (assignor) to another (assignee).[258] The concept of assignment is recognised in the laws of many countries and is required to be in writing.[259] Assignment can be outright transfer of ownership by sell or donation of IP or conditional transfer by perfection of security interest against the IP. Outright sale of IP can be made in lieu of monetary consideration or in exchange for proprietary interests like share. Transfer of ownership over IP may also happen by the operation of the law through succession upon death of the owner.

In Ethiopia, exclusive rights over copyright are transferable by assignment agreement.[260] The copyright law requires the assignment agreement to be in writing.[261] Questions may be raised on the effect of assignment not concluded in writing. The general contract provisions of the civil code should be called to make such assignment as mere draft since it is an agreement which create obligations of proprietary nature.[262] Assignment isn't defined by the proclamation that if it includes conditional transfer of economic rights through enforcement of pledge is unclear. An assignment shall terminate after ten years if the agreement is silent on the duration.[263] Should the assignment that assigns the right/s for formation of business organization terminate if it says nothing on the duration of the agreement despite the

[256] Inventions, Minor Inventions and Industrial Designs Proclamation, Art. 29 (1) & (2).
[257] WIPO, *Intellectual Property Handbook* (2nd ed., 2004), p. 171.
[258] European Commission, cited above at note 229, p. 3.
[259] WIPO, cited above at note 257, p. 172 & 173.
[260] Copyright and Neighbouring Rights Proclamation, Arts. 23-25.
[261] *Id*, Art. 23 (2).
[262] Civ. C. Art. 1675, 1676(1), 1720(1) cum. Copyright and Neighbouring Rights proclamation, Art. 23(2).
[263] *Id*, 24 (3).

existence of the organization? This kind of utter time fixation may cause such kinds of absurdities. There is no default rule in the proclamation that fixes the geographical limit of assignment.[264] The assignment should expressly specify the subject exclusive right/s otherwise only the rights cited in the agreement considered as assigned.[265] No default rule exist which determine the inclusion of subsequent improvements on copyrighted work by the assignor or assignee that make obsolete or reduce the utility of the assigned exclusive rights. The author has a right to revoke the assignment if the assignee failed to exercise her right in a manner that prejudices the interest of the former that can't be waived in advance.[266] Revocation is not allowed earlier than three years from the date of assignment or if the work supplied subsequently from the date of delivery.[267] This is also the case if the failure is due to acts expected to be conducted by the author.[268] Here the law uses the term "author" that the right to revocation seems reserved only to author assignor than none-author owner assignor. This is very difficult to justify since the interest of the latter is also equally at stake when the assignee fails to exploit the work.

Writing and registration of assignment agreement of patent rights are validity conditions in the patent laws of many countries.[269] The Ethiopian patent law requires changes in ownership of patent rights to be in writing, registered and publicised.[270] Registration is conducted upon the request of interested parties and has third party effect.[271] However, there is no further illustration on the phrase "changes in ownership" in the regulation and if it includes conditional transfer like security interest in patent rights is uncertain. Whether the patent office can evaluate the terms of the contract is unstipulated. It seems that the office is required to register the agreement even if there are terms that require the payment of prices after the expiry of the rights or restricts output of the assignee. It is noted that there is no pledge agreement requested for registration as of the writing of thesis and argued if requested, EIPO would register considering it as changes in ownership.[272] Duration, territorial

[264] In India, in the absence of otherwise provision in the copyright assignment agreement, the geographical limit of exploitation of the exclusive rights is presumed to be within the territory of India. The Institute Of Company Secretaries of India, IP Rights- Law and Practice (2013), p. 155 < www.icsi.edu> accessed 30/08/2015.
[265] Copyright and Neighbouring Rights Proclamation, Arts. 23 (3) & 24 (2).
[266] *Id*, Art. 25.
[267] *Id*, Art. 25(3).
[268] *Id*, Art. 25(2).
[269] WIPO, cited above at note 257, p.173, Patent Law of the Republic of China (December, 2008), Art. 10, & Consolidated Patent Act (Denmark, January 28,2009), part 6.
[270] Inventions, Minor Inventions and Industrial Designs Regulation, 1997, Art. 47(1), Reg. No. 12, Fed. Neg. Gaz., Year 3, No. 27.
[271] *Ibid*.
[272] Interview with Admasu Arega, Patent Search and Examination Expert at EIPO, October 9, 2015.

limit, subsequent improvements on the assigned right and grounds for revocation of the assignment agreement aren't regulated by our patent laws which may create uncertainty on the commercial exploitation of rights.

An application for the assignment of trademark rights with written assignment agreement must be filed to the relevant organ.[273] Upon examining the request, the office must register and cause publication of the transfer.[274] A trademark can be assigned separately from the business.[275] The separate transfer may be refused if the office finds that such an act may misleads the public.[276] The refusal should have been mandatory to protect consumers from confusion. Whether the refusal is appealable isn't clear. The transfer of trademark separately from goodwill is not treated by the Ethiopian trademark law. The effect of registration and publication of transfer of trademark is not articulated unlike licence that has only an effect on third parties.[277] The time limit for requesting registration isn't determined. The assignment of trademark subject to co-ownership can't be transferred without consent of co-owners.[278]

IPRs may form part of transfer of technology (TOT) agreement which may take the mode of assignment or licensing. TOT is understood as the transfer of systematic knowledge, technology or technical knowhow from one person to another which enables the recipient to manufacture products.[279] Patents, softwares or other IPR may become part of TOT agreement that additional conditions may be provided by investment laws in the interest of protecting fair trade, public health, interest of once nationals, etc. The Ethiopian investment proclamation makes registration of an authenticated TOT agreement a validity condition when any investor concludes the agreement for undertaking her investment.[280] The TOT agreement, be it in the form of assignment or licensing, which is not registered bears no legal effect for the interest of this law.[281] It is worth noting that TOT agreements that include IPR to an investor operating in Ethiopia should comply with this condition apart from the requirements of assignment or licensing of the rights under the specific relevant IP laws provided the laws are applicable. For instance, TOT agreement for the assignment of

[273] Trademark Registration and Protection Proclamation, Art. 28 (1) & (2).
[274] *Id*, Art. 28(6).
[275] *Id*, Art. 28(4). But, the transfer of the business transfer trademark unless the assignment provides the otherwise.
[276] *Id*, Art. 28(5).
[277] *Id*, Art. 29(2).
[278] *Id*, Art. 28(3).
[279] Yohannes Hailu, *Legal and Institutional Framework for Transfer of Technology in Ethiopia* (LL.M thesis, Unpublished, April 2015), P. 13.
[280] Investment Proclamation, 2012, Art. 21, Proc. No. 769, Fed. Neg. Gaz., Year 18, No. 63.
[281] *Id*, Art. 21(4).

software to conducted investments based in Ethiopia should be in writing according to the copyright law and should be registered by the investment Agency in accordance with the investment proclamation. There is no provision in this proclamation that enables the Agency to put its say on searching and choosing technologies or evaluating the TOT agreement in light of protecting public health, fair trade, adequacy and reasonability of payments for the technology and soon. Quite to the contrary, the repealed TOT regulation No. 121/93 had provisions that discipline TOT agreement between an Ethiopian recipient and a foreign supplier of technology that covers from searching the technologies to evaluation, approval and follow up of TOT agreements in light of these factors.[282] The investment proclamation is very much fragile for protecting national interests especially when the TOT in Ethiopia is from a foreign supplier. It may be to heel this that the Ministry of Science and Technology of Ethiopia prepared draft regulation on TOT.[283] It is said that the draft regulation is basically similar with the repealed regulation except variances on certain issues, such as it omitted regulating the price and mode of payments for the technology.[284] It is recommended that the draft must be enacted by the government.[285] The writer supports this but it must be underlined that the draft must include rules on payments for the technology since it has paramount significance to quash inappropriate transfer prices which further may have an effect on income tax and national foreign currency reserves.

No provision exists in the Ethiopian copyright, patent and trademark laws that regulate the determination of the value of rights in the assignment agreement. This implies that the parties are autonomous to determine the value of IP using any of the methods of valuation, i.e. cost, income or market methods. No default rule exists that enables fixing the consideration for assignment of the right/s if the agreement is silent. Whether the agreement is maintainable in such cases is unstated. None of these laws provide an implied rule of warranty that protects the assignee from defective ownership of the assignor.[286] These frustrate the commercial exploitation of IPR with the apparatus of assignment.

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[282] Yohannes Hailu, cited above at note 279, P. 88-94.
[283] *Id*, p. 94.
[284] *Id*, p. 97.
[285] *Id*, p. 146.
[286] Note; the repealed TOT regulation No. 121/93 requires the supplier of technology to guaranty the recipient against defective title. The point is that had it been this law were active the supplier should have the duty to guaranty against defective title for IPRs that form part of TOT agreements. Currently, there is no active law that plays this role. See, Transfer of Technology Council of Ministers Regulation, 1993, Art. 11, Reg. No.121 Neg. Gaz., Year 52, No. 53.

3.3.2. Licensing

Licensing is a contract whereby the holder of IP (licensor) allows the use of the IP to another person (licensee), within the limits of agreed terms.[287] It is essentially a contractual process that enables exploitation of IP by third party without relinquishing ownership. The forthcoming discussion examines licensing of IPR in Ethiopia by categorizing into general and special issues.

3.3.2.1. General Legal Issues on Licensing

The provisions of IP licensing contracts not just rely on the parties' agreement but also on the relevant law and the types of the IP.[288] The Ethiopian copyright law has some rules on licensing of economic rights. The licensing agreement is required to be in writing.[289] It must respect the validity conditions for the conclusion of contracts under the Ethiopian civil code. The licence terminates after five years from conclusion unless agreed otherwise.[290] Failure to adequately exercise the rights by the exclusive licensee that prejudices the legitimate interest of the author could be revoked by the latter.[291] Here, the use of the word 'author' may imply exclusive licensors or non-author owners can't exercise revocation however, difficult to justify as examined above in relation to assignment. There is no provision that defines exclusive or non-exclusive licences and contrary to our trademark law[292] which provides a default rule in case the licence agreement remains silent on the issue.

The Ethiopian patent law has no lucid provision on voluntary licensing of patent rights. The form and nature of licence contract, grounds and procedures to revoke the contract, and duration of the licence aren't all regulated. These make the law not only behind the equivalent copyright and trademark laws of Ethiopia but also ineffective to guarantee confidence and avoid possible conflicts in licensing of patent rights. The law indicates the possibility of registration of licensee regarding surrender of patent rights unless the reference implies compulsory licensee.[293] The details of registration of voluntary licensing are not regulated by the law.

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[287] European Commission, Commercialising Intellectual Property: Licensing Agreement (June 2013), p. 3 <https://www.iprhelpdesk.eu/sites/default/files/newsdocuments/Licence_agreements_0.pdf.> accessed 23/08/2015, Trademark Registration and Protection Proclamation, Art. 2(7).
[288] *Id*, p. 5.
[289] Copyright and Neighbouring Rights Proclamation, Art. 23(2).
[290] *Id*, Art. 24(3).
[291] *Id*, Art. 24.
[292] Trademark Registration and Protection Proclamation, Art. 32.
[293] Inventions, Minor Inventions and Industrial Designs Proclamation, Art. 35(3) and 30(3).

Based on the English version of the proclamation, a licence contract for the use of trademark is enforceable if concluded in writing.[294] Licensing contracts, modification and termination thereof are required to be registered and publicised.[295] Registration is not a validity condition but has an effect on third parties.[296] It is mandatory to expressly indicate whether it is for all or part of the goods or services covered by the trademark the licence concerns.[297] In default of this the licensee has the right to use the trademark for all the goods or services covered by it.[298] Unless agreed otherwise, the right extends during the duration of registration, including renewals.[299] The license contract is void if it has no provision that indicates an effective control on the quality of goods or services by the licensor.[300] The proclamation prescribes the nullity of restrictions in the contract which are not derived from the rights of registration of trademark or unnecessary to safeguard the rights.[301] Trademark licence is presumed as non-exclusive.[302] Collective trademark or an application to collective trademark can't be the subject of licensing contract.[303]

Parties to the agreement are free to determine the amount and nature of royalties using any of the methods of valuation. There is neither a provision that guides the determination of royalty for licensing nor exists any default rule which enable determination in the Ethiopian IP laws on voluntary licensing of IP. The laws don't prescribe implied warranty that rescues a licensee from defective title. There is no provision in the patent and copyright laws that govern subsequent improvements of licensed rights in relation to the contract of license. The absence of such gap filling rules may create fears on the expectation of the parties.

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[294] Trademark Registration and Protection Proclamation, Art. 29(1). One should note that the Amharic version of this provision is silent on the writing requirement of licence contracts and the mandatory condition of stating the goods or services in which the licensee could use the trademark. The subsequent sub-article talks about registration and publication of the licence contracts, modification and termination thereof. The English version seems more tenable than the Amharic version seen in light of such acts and underpinning clarity of the terms of the licence.

[295] *Id*, Art. 29(2).

[296] *Ibid*.

[297] *Id*, Art. 29(1).

[298] *Id*, Art. 33.

[299] *Ibid*.

[300] *Id*, Art. 30.

[301] *Id*, Art.31 (1).

[302] *Id*, Art. 32. According to this provision a trademark licence can be exclusive, non-exclusive or sole. In the case of non-exclusive licence contract, which is the rule, the licensor can grant further licence contracts for the use of the trademark. On the other hand, if the contract is an exclusive contract, the trademark owner can't grant further licences but she can use the trademark. If the agreement expressly proscribes the licensor not to use the trademark and not to grant further licences, then it is a sole licence contract. The Trademark Registration and Protection Proclamation neatly articulated the rules and exceptions on all of these issues unlike that of the Ethiopian copyright and patent laws.

[303] *Id*, Art. 29(3).

3.3.2.2. Some Special Issues on Intellectual Property Licensing

3.3.2.2.1. Assignabiltiy of Intellectual Property Licences

An IP licence contract is expected to provide provisions on the transferability of rights of the licensor and licensee. Concerns arise if this is not the case. Default common law rules in USA prescribe non-transferability of non-exclusive licences on copyrights, trademarks and patents.[304] While exclusive patent license is treated similarly, rules on exclusive copyright and trademark licences aren't well developed.[305] The licensor is free to assign her rights.[306] Regrading copyright and patent licence this is to enable the owner to exercise control over the identity of the licensee for effective exploitation of exclusive rights whereas for trademark licence to allow the owner protect and maintain the goodwill, quality and value of its products and its trademarks.[307] Statutory provisions prohibit the assignment of IP license by the licensee in some other countries.[308]

In Ethiopia, contractual rights and obligations can be transferred to non- contracting persons unless prohibited by the contract, nature of transaction or law.[309] Services contracts are examples of non-assignable contracts by law.[310] No provision and court jurisprudence exist in the Ethiopian IP laws that address the assignment and sub-licensing of IP license by the licensee or the assignment of rights of the licensor.[311] Whether the personal exploitation of IP license by the licensee is important for the licensor isn't determined. One may say if the license contract doesn't prohibit assigning the license or granting sub-license, the licensee is free to perform the acts. However, this may damage the interest of licensor since that may let a competitor to control the copyright or the patent or the quality and goodwill of trademark may be affected. To curve possible controversies on assignment of licences and to give clear warning for the parties, the laws should have addressed the issues.

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[304] E. Ziff and J. Deming, IP Licenses: Restrictions on Assignment and Change of Control (2012), p. 3 & 4 <http://www.skadden.com/sites/default/files/publications/Publications2679_0.pdf.> accessed 30/08/2015.
[305] *Ibid.*
[306] *Ibid.*
[307] *Id*, p. 2 & 4.
[308] See For Example, Consolidated Patent Act (Denmark, January 28, 2009), Part 6.
[309] Civ. C., Arts. 1740, 1741,1962 & 1976
[310] *Id*, Art. 1740(1).
[311] Note that only one provision exists that proscribes granting sub- licences by the compulsory licensee in relation to compulsory licensing of patent rights. However, this provision seems problematic since it doesn't allow any room to contract around the prohibition by the compulsory licensor and compulsory licensee. The provision simply says the compulsory licensee can't authorise others to use the licence. Inventions, Minor Inventions and Industrial Designs Proclamation, Art. 32(1).

3.3.2.2.2. Intellectual Property Licenses in Bankruptcy

Law of bankruptcy focuses on maximising the value of bankrupt estate and equitable treatment of creditors with equal level of rights.[312] The law grants trustees liberal powers to manage property of the estate including accepting, rejecting or otherwise exploiting different unperformed contracts like IP licenses. IP laws are interested on guarantying adequate incentive for the right owners. Licensing of IP is one leeway to reap the incentives from exclusive IP rights. The incentive may be damaged in the state of bankruptcy of the licensor or the licensee unless saving rules are prescribed. If the licensor goes bankrupt, the trustee of the estate may reject the licence before due date in pursuit of negotiating better terms.[313] This dismantles the investment made by the licensee on the bases of the IP which in the long run discourages the exploitation IP by licensing.[314] The bankruptcy of the licensee may harm the interest of the licensor since the trustee may transfer the license to persons undesired by the licensor such as competitors or unskilled licensees.[315] This daunts the exploitation of IP through licensing.[316]

The Ethiopian main IP laws don't provide any rule on IP licenses in the state of bankruptcy of the licensee. Whether the trustee can assume and assignee the licenses or the licensor can terminate the agreement isn't regulated in the laws. The Ethiopian bankruptcy law prescribes the management of the estate. The trustee can generally sell any property with the oversight of the commissioner.[317] However, there are special rules on the management of lease contracts regarding immovable property in lessee bankruptcy case.[318] The provisions safeguard the interest of the estate since it voids any contractual clauses that provide an outright termination of the lease in the state of bankruptcy of the lessee and empowers the trustee to continue or cancel the contract.[319] The rules protect the interest of the lessor by authorizing to end the contract of lease with the estate.[320] There are no equivalent rules on the cancellation or assumption of IP license contracts by the trustee in licensee bankruptcy

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[312] S. Moskowitz, "Intellectual Property Licenses in Bankruptcy: New "Veto Power" for Licensees under Section 365(n)," *The Business Lawyer*, Vol. 44, No. 3 (May 1989), p. 771 <http://www.jstore.org> accessed 14/09/2015. Note that these two pillar principles of bankruptcy law are reflected in a number of provisions of the Ethiopian bankruptcy law. Com. C., Such as Arts. 1019 -1040, 1002 and 1003 with 1058-1080.
[313] P. Menell, cited above at note 10, p. 768.
[314] *Ibid.*
[315] *Id*, p. 769.
[316] *Ibid.*
[317] Com. C., Arts.1035& 1036. Note that the sale of business by the trustee should be approved by court in addition to the approval of the commissioner (Art. 1037 of the Com. C.)
[318] *Id*, Art. 1040.
[319] *Id*, Art. 1040(1), (2) & (3).
[320] *Id*, Art.1040(5).

scenario and the equivalent protection for the licensor. One may argue the trustee can choose to utilize or sell them. This may harm the licensor by letting the IP fall in the hand of competitors or inexperienced licensee. There should have been rules in the bankruptcy law on the management of IP licenses which balance the interest of the licensor and creditors of the estate.

The Ethiopian IP and bankruptcy laws are silent on the outcome of IP licenses when the licensor bankrupts.[321] No provision governs the interest of the licensee when the licensor undergo bankruptcy. An investment made by the licensee could be damaged if the trustee freely rejects the IP license. Whether the licensee can continue exploitation despite rejection of the licence or sale of the IP by the trustee is undetermined. Our bankruptcy law hasn't prescribed whether the parties to IP license can't contract around the bankruptcy law. Such non-regulation of the outcome of bankruptcy of licensee or licensor on IP licenses may create uncertainty which discourage exploitation of IP rights by licensing.

3.3.2.2.3. Competition Law Issues in Intellectual Property Licensing

IPR exclusivity is given in return for the presumed benefits of society from the disclosure of creations and inventions or quality of goods and services designated by trademarks. However, states that have endorsed the free market economic thinking prefer open and fair market competition for transaction in goods and services.[322] To balance the aims of IP laws to entitle the owner exclusive rights for the exploitation of IP and competition laws to foster open and fair competition, countries have enacted specific guidelines governing IP licenses in their competition law regime.[323] In USA, IP licenses that fix the price of the goods or services incorporating the IP by the licensee, mandate output reduction by the licensee, allocate customers and soon are treated anti-competitive *per se* while tying arrangements for the supply of none-patented products from the licensor, cross-licensing, patent pooling, and improvement grant backs are considered on rule of reason basis.[324] Excessive rate of royalty, royalty after the expiry of the terms of protection of IPR, restrictions on the selling price of

[321] Note: even the protection afforded to lease contracts on an immovable when the lessee bankrupts is absent when the lessor bankrupts. Article 1040 of the Ethiopian commercial code concerns the continuation or cancellation of lease contracts over immovable in the state of the bankruptcy of the lessee but not the lessor.
[322] C. DesForges, *The Commercial Exploitation of Intellectual Property Rights by Licensing* (2001), p. 58.
[323] *Ibid*.
[324] *Id*, p. 60.

the licensee and tying arrangements are considered licensing practices that may restrain competition and could be invalid in the Japanese competition law.[325]

Ethiopian competition law bans, on rule of reason bases, acts of a business person/s such as which impose excessive selling or resale price by dominant trader, vertical or horizontal agreements that fix selling or resale price, merger of business.[326] The law applies to any commercial activity or transaction in goods or services conducted or having effect in Ethiopia.[327] Goods refer movable commodities which can be sold, purchased, leased or other commercial activity can be conducted other than monies and securities while service refers commercial rendering of services other than in lieu of salary and wage.[328] These don't provide clear reference to IP which is challenging to determine if the law applies to IP transactions and categorize the licensing of IP either transaction in goods or services. Questions arise on the interplay of the competition law and IP laws though one assumes the applicability of the former to IP licence. Should IP licenses that fix selling or resale price of IP incorporating goods or services, allocate customers, impose excessive royalty or pools IPR be considered a restraint of competition under the law? One may argue the very nature of exclusive enjoyment of IPR empowers to perform the acts. The argument may be underpinned that IP laws are interested in the adequate working or use of IP in Ethiopia which default is sanctioned by compulsory licensing for copyrights and patents or cancellation for trademarks but not in the manner of using or adequately working.[329] However, the concern of competition law for open and fair market is another equally important issue that can't be simply left to the mercy of traders which IP licences should be cognizant of. This is why other countries and EU have prescribed specific guidelines in their competition law regime that governs permitted and prohibited acts in IP licenses for protecting competition.[330] The Ethiopian competition regime doesn't specifically refer IP in the provisions and doesn't have rules that guide the application of competition law to IP licenses.

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[325] ABA, Antitrust Issues in International IP Licensing Transaction (2012), p. 513ff <http://www.jurists.co.jpenpublicationtractatedocsInternational_IP_Licensing%20Handbook_Japan_chapter.pdf .> accessed 26/09/2015.
[326] Trade Competition and Consumer Protection Proclamation, Arts.5-13.
[327] *Id*, Art.4(1).
[328] *Id*, Art. 2(1) & (2).
[329] Copyright and Neighbouring Rights Proclamation, Art. 17, Inventions, Minor Inventions and Industrial Designs Proclamation, Arts. 29-33, and Trademark Registration and Protection Proclamation, Art. 35.
[330] C. DesForges, cited above at note 322, p. 58-60.

3.3.3. Security Interest in Intellectual Property

The opportunity of effectively using IP for raising money by owners presupposes the existence of proper legal infrastructure and awareness in the relevant stakeholders.[331] Generally, security interest over property arises pursuant to the agreement between the creditor and the debtor if the former requires more than just commitment of performance or repayment.[332] Clear rules on the creation, perfection, priority, management and enforcement of security interest in IP are essential for effective commercialization. Before embarking on examining the existing rules in Ethiopia, it is crucial to consult the experience of some countries.

In China, assignable exclusive right of copyright, patent or trademark can be pledged to secure performance of obligation.[333] The contract of pledge is required to be in writing and registered.[334] The pledge becomes effective as of the date of registration against all subsequent assignees, licensees or secured creditors.[335] The pledgor can't assign or license the rights pledged unless with the consent of the pledgee and the fees or royalty arising from this is required to satisfy the obligatory right of the pledgee or deposited in agreed third party.[336] In the case of copyrights, the secured creditor can bring a legal action to preserve the value of the secured rights and claim damages.[337]

In South Africa, security interest in IP is governed by the combination of contract and IP law provisions.[338] The security rights must be registered in IP specific register for it to be effective against third parties.[339] The security interest includes proceeds from the exploitation of charged right/s such as license fees, royalties or other compensation.[340] In certain

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[331] WIPO, WIPO Questionnaire on Security Interest in Intellectual Property, P. 129 <http://www.wipo.int/edocs/mdocs/copyright/en/wipo_ip_fin_ge_09/wipo_ip_fin_ge_09_7_annex.doc> accessed on 1/12/2015.

[332] A. Mills, "Perfecting Security Interests in IP: Avoiding The Traps," (September 2008 Issue), *Banking Law Journal*, p. 747.

[333] Guarantee Law of the People's Republic of China, Art. 79. <http://www.asianlii.org/cn/legis/cen/laws/glotproc373/> accessed 1/12/2015.

[334] *Ibid*.

[335] WIPO, cited above at note 331, p. 143.

[336] Guarantee Law of the People's Republic of China, Arts. 79 & 80.

[337] WIPO, cited above at note 331, p. 143.

[338] *Id*, p. 154. See also Practical Law Company, Lending and taking security in South Africa: overview <www.practicallaw.com/finance-mjg> accessed 1/12/2015.

[339] WIPO, cited above at note 331, p. 154.

[340] *Ibid.*

circumstances the secured creditor is allowed to lodge legal action to preserve the value of the security and claim damages.[341]

In USA, security interest in IP is governed by the uniform commercial code (UCC) and specific IP laws.[342] The UCC governs the creation of collateral over general intangibles which are understood by courts and the official comment as including patents, trademarks and copyrights.[343] The US Copyright Act has specifically referred security interest over copyrights whereas the patent and trademark laws are interpreted to include security interest since they consider the rights as personal movable property.[344] Accordingly, security interest in IP is created by properly authenticated written agreement and becomes effective through registration in the relevant government organ which confers the secured creditor priority over competing assignments, licenses and secured creditors.[345] The security interest includes proceeds arising out of the encumbered IPR such as royalty price, fees or infringement damages and the secured creditor can take legal action independently of the owner when right is infringed.[346]

The Ethiopian main IP laws don't mention security interests in IP. As discussed above, the laws regulate the requirements and form for assignment of exclusive rights. Assignment isn't defined in these laws and it is unclear whether it includes security interest over IP. The laws don't specifically refer secured creditors while they cite licensees during invalidation and termination of the rights which may show the law maker has no intention to regulate security interest in IP.[347] None of the laws specifically allow secured creditors to lodge legal action to protect the value of the secured exclusive rights. These succinctly prop that the laws failed to govern the issue.

The provisions of the Ethiopian civil code on pledge apply for movable property, claims and other intangibles whereas on mortgage and antichresis generally apply to security interests in

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[341] *Ibid.*
[342] *Id*, p. 157. See also J. Hornick, Security Interests in Intellectual Property <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=4c698bab-7284-48a2-a8bd-12e04b5bf9ef> accessed 1/12/2012.
[343] S. Lebson, Security Interests in Intellectual Property in the United States: Are They Really Secure? *http://ladas.com/security-interests-intellectual-property-united-states/* accessed 1/12/2015.
[344] *Ibid.*
[345] WIPO, Cited above at note 331, p. 157.
[346] *Ibid.*
[347] See for example, Inventions, Minor inventions and Industrial Designs Proclamation, Art. 35(3) & Trademark Registration and Protection Proclamation, Arts. 34(2) and 37(2).

immovable property.[348] Any of these provisions nowhere specifically refer security interest in IP. The code doesn't define the scope of "other intangibles" and it is vague if it includes exclusive right to use copyrights, patent and trademarks. From this, two lines of argument may surface. The first argument is the civil code doesn't address security interest in IP because there is no clear reference to copyrights, trademarks or patent rights or judicial understanding of the phrase "other intangibles" to include such rights. This can be supported by the failure of code on pledge of "other intangibles" to govern perfection of security interest over the rights, priority of secured creditor against competing licensee, assignee and secured creditor, administration of the proceeds of the secured rights and lodging of legal action to protect the value of the security. These may be the reason WIPO questionnaire considered the absence of any law that cover security interest in IP and related issues in Ethiopia.[349] The second argument is security interest in patent, trademark or copyright is addressed in the civil code since it regulates pledge over "intangibles", a feature of these IPRs. The protection given to literary and artistic works in the part of the code governing property can be produced to support this line of argument.[350] Difficulties face this argument when one examines the relevant rules of the code. The rules have left unaddressed perfection of security interest in IP, priority of secured creditor over assignee and licensee, inclusion of proceeds and lodging of actions to protect the value of the security. Even regarding creation the rules are not as such vivid. For intangible rights not established by title, copyrights and neighbouring rights can be typical example; the pledge is executed in the form prescribed for the transfer of the rights in the special law.[351] Irrespective of such forms, the law requires the contract of pledge to be in a document which clearly specifies date, rights pledged and the debt guaranteed.[352] The status of this document, if it can be considered as a written contract, is far from clear. Regarding rights established by none negotiable instrument, the code only mandates the delivery of the instrument that establishes the rights to the pledgee or third party.[353] Trademark and patent can be considered rights established by such instrument since they are supported by certificate. The form and content of the contract of pledge isn't determined. Delivery of the instrument is criticisable since that may hinder the exploitation of the IP in case it is only part of the rights pledged. In default of regulating such matters and

[348] Civ. C., Arts. 2829, 2865, 2866, 3047 & 3117.
[349] WIPO, cited above at note 331, p. 145.
[350] Civ. C., Arts. 1647ff
[351] *Id*, Art. 2865(1).
[352] *Id*, Art. 2865(2).
[353] *Ibid*.

clear reference to any of the IPRs, it is very difficult for me to share the second line of argument.

There is no law that address security interest in IP licence rights in Ethiopia. The transferability and creation of security interests over IP licences is the sphere of IP laws[354] that none of the Ethiopian IP laws have prescribed them. If the relevant IP law prohibits the transfer of IP licenses, then security interest can't be created since the licence is of personal to the licensee. Such silence of the laws creates doubt on the validity of security interests over IP licenses.

The lessons of the countries discussed above are also another buttress to claim the absence of rules that addressed security interest in IPR or IP licence rights in Ethiopia. Neither the main IP laws nor the civil code have addressed the issue.

IP isn't almost used as collateral in practice in Ethiopia which isn't surprising given the absence of proper legal regime. It is remarked that Awash International Bank hasn't been concluded collateral contract using IP.[355] The market for IPR and the owners of the rights are not aware of the possibility of using IP as a security.[356] With rampant violation of copyrights owning to ignorance of the rights by the community, taking IP as collateral by the Bank considered risky.[357] IP is one of the assets that can serve as collateral according to the commercial credit procedure of the Ethiopian Commercial Bank.[358] Currently, the bank is negotiating to finance the commercialization of an IP as a testing case using the property as a security.[359] However, low level of awareness and enforcement of IPR in the country is raised by the customer manager of the Bank as challenges.[360] He also noted that the law on security interest in IP isn't clear on the system of registration of IP pledge.[361] He is also concerned on the insufficiency of the law whether the assets that resulted from the financed IPR would be

[354] United Nations, UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property (March 2011), p. 23 < www.uncitral.org/pdf/english/texts/security-lg/e/10-57126_Ebook_Suppl_SR_IP.pdf.> accessed 29/08/2015.
[355] Interview with Teshome Regassa, Attorney at the Head Office of Awash International Bank, September 8, 2015, Addis Ababa.
[356] *Ibid.*
[357] *Ibid*. According to the attorney, Banks are not even interested in using tangible property as a security let alone intangibles which is undeveloped in the country because of the problem of effectively controlling ownership interest over them.
[358] Interview with Andualem Admasie, Customer Relationship Manager at the Head Office of Commercial Bank of Ethiopia, September 9, 2015, Addis Ababa.
[359] *Ibid*.
[360] *Ibid*.
[361] *Ibid*.

part of the collateral as proceeds.[362] He summarised that theses should be addressed for the effective commercialization of IP through securitization in the country which the Bank is just starting. I buy the concerns of the interviewees that with weak enforcement of IPR and in the absence of clear system governing security interest in IPR as examined above it is highly risky to take IP as a security for performance of obligation.

3.4. Extinction of Intellectual Property Rights

Patents and copyrights have temporary legal terms of protection while trademarks enjoy permanent life with periodic renewal. However, IPR may extinct before expiry of such terms of protection or renewal time due to different reasons which the ensuing discussion focuses on analysing the governing rules in the Ethiopian main IP laws with the perspective of safeguarding licensees and secured creditors.

Termination and invalidation of patent are grounds of extinction of patent rights in Ethiopia before the expiry of duration of protection.[363] The rights terminate either when the patentee surrenders them in a written declaration or the annual maintenance fee is not paid in due time.[364] The surrender of part or all of the patent rights must be registered and published and can't come into effect unless registered licensees consent in a written declaration.[365] This protects the interest of only registered licensees. The interest of secured creditors of the rights is not protected. If the patentee can surrender without the consent of secured creditors, the potential of garnering money using patents as a security would be adversely affected. The law doesn't specify the details of registration of patent licenses that the effectiveness of licensees consent would be minimal. The consent of unregistered licensees is not a requirement for the surrender of patent rights which may affect their interest. Termination of the patent rights can also arise from failure to pay annual maintenance fees within due time. The law requires payment of the fee in advance starting one year after filing an application for the grant of the patent.[366] Six months grace period are allowed for let payment with additional penalty.[367] It isn't plain when the grace period for late payment starts. According to EIPO, this is creating problems in the administration of annual maintenance fees.[368] No exceptions prescribed that allow late payment of fees after the grace period if the failure is undeliberate and owning to

[362] *Ibid*.
[363] Inventions, Minor Inventions and Industrial Designs Proclamation, Arts. 34-37.
[364] *Id*, Art. 34.
[365] *Id*, Art. 35(3).
[366] *Id*, Art. 17(1).
[367] *Ibid*.
[368] Interview with Admasu Arega, cited above at note 272.

force majeure. Whether licensees (exclusive) and secured creditors of the patent rights can save the rights from termination by paying the annual fees is undetermined. Such ambiguities may hinder the commercialization of patent rights with the vehicles of securitization and licensing. A patent can be invalidated by the court upon the application of interested party if it doesn't fulfil the requirements of patentability or the description is not clear and complete for the invention to be practiced by a person skilled in the art.[369] Invalidation of the patent entirely or partially makes void the patent or part of the claims from the date of grant, respectively.[370] The effects of the invalidation on licensees are not spelt out by the patent law. Whether the licensees may require return of royalties paid to the licensor is undecided though the regulation requires informing them.[371]

Trademarks become extinct if cancelled or invalidated. Cancellation arises from failure to renew registration of the trademark in due time, the application of the owner for renunciation or the application of any interested person.[372] Registration of trademark is valid for seven years and must be renewed within three months from the expiry of this duration.[373] Late renewal is allowed within six months from the lapse of the three months.[374] Renewal is possible by the request of the owner that exclusive licensees and secured creditors are excluded. This may cause uncertainties on licensing and securitization of trademarks. Cancellation of trademark by the application of the owner to renounce totally or partially takes effect upon the written consent of licensees of the trademark and registration of the decision to cancellation.[375] Unlike the patent law, the consent of licensees is required when renunciation is pleaded regardless of registration of the licenses. This affords a better protection for all licenses which in turn encourages licensing of trademark. The consent of pledgees of the trademark isn't stipulated as a precondition for renunciation which endanger their interest. A trademark can be cancelled on the application of any interested party for non use in Ethiopia for continues period of three years without legitimate reason.[376] If the licensee or the owner can show that the non-use is resulted from force majeure, the registration can't be cancelled.[377] Whether the pledgee can make such a proof to save her interest in the

[369] *Id*, Art. 36(1).
[370] *Id*, Art. 36(2) & Inventions, Minor Inventions and Industrial Designs Regulation, Art. 38 (1).
[371] Inventions, Minor Inventions and Industrial Designs Regulation, Art. 38 (2).
[372] Trademark Registration and Protection Proclamation, Arts. 25(5), 34 & 35.
[373] *Id*, Art. 25(3).
[374] *Id*, Art. 25(5).
[375] *Id*, Art. 34.
[376] *Id*, Art. 35.
[377] *Id*, Art. 35(4).

trademark is unstated. Any interested party can apply in writing for invalidation of trademark registration owning to non-fulfilment of the conditions for registration.[378] EIPO decides on the invalidation upon informing the owner in writing and the decision takes effect from the date of registration.[379] The position of the law in disallowing licensees who paid a fee to the licensor from claiming repayment following invalidation is difficult to justify.[380] Whether the parties can contract around this prohibition is undetermined. The position of the law is perilous to licensees who paid lump sum royalty and don't benefited from the trademark. There are no provisions in the Ethiopian trademark law that govern the appeal or review of the decision of the EIPO both on invalidation and cancellation for none-use.

The Ethiopian copyright law doesn't govern the grounds for extinction of exclusive economic rights before the terms of protection. Whether the right owner can renounce the exclusive economic rights and the effect of renunciation on the licensees and pledgees are uncertain.[381] The effect of invalidation of copyright protection on licensees is not decided. These gaps in the law may cause uncertainty in the commercial exploitation of copyrights and neighbouring rights.

[378] Trademark Registration and Protection Proclamation, Art. 35.
[379] *Id*, Arts. 36(2) & 37 (1).
[380] *Id*, Art. 37(2).
[381] With respect to moral rights the law has made it clear that the author or her successors can waive them in a written application. The law doesn't mention the organ that accepts the application. See, Art. 8(3).

Conclusion and Recommendation

Conclusion

Examination of the relevant Ethiopian laws on valuation and commercialization of IP in the preceding chapters portrayed the inadequacy of rules in terms of existence, clarity and tenability. The ensuing discussion specifically presents such findings.

The Ethiopian income tax laws have no adequate rules which enable collecting the appropriate income tax from related party IP transactions. The TP provisions are only provided in relation to Schedule C. They are absent in schedule B and D that the Tax Authority has no power to examine IP transactions concluded by taxpayers in these schedules with related parties whatever it suspects the transfer price doesn't meet the arm's length principle. TP rules in the income tax laws regarding IP never been applied and taxpayers are not sufficiently aware of who are related parties.

The disclosure of IP in financial statements is critical on and for valuation. The commercial code of Ethiopia doesn't stipulate recognition criteria, measurement premises, valuation inputs and methods for disclosure of IP nor is the practice well developed. This makes our case far behind the international financial reporting standards.

IPR infringement damages rules follow the general principles and methods of valuation of IP. Our patent law doesn't regulate methods for calculating infringement compensation. Lost profit of the plaintiff isn't prescribed as optional method to determine infringement damages in our trademark proclamation that militates against adequately compensating the plaintiff if net profit of the defendant and reasonable royalty are smaller or difficult to prove. The proclamation made awarding compensation discretionary to courts which may adversely affect the foundations of trademark system. Our copyright proclamation suffers vagueness whether moral damages and expenses can be claimed with restitutionary compensations. It doesn't clearly determine the ground and extent of moral damage.

Application of lost profit method requires fixing the amount of sales diverted or/and prices reduced owning to infringement considering loss of plaintiff and profit of defendant. These necessitate marketing the infringed IP before or during infringement by the plaintiff. Despite this, in most of the cases discussed the Federal High Court based its decisions on lost profit and awarded gross profit of the defendant or dismissed the claim because of insufficient proof. This is far from the spirit and letter of the law.

The patent proclamation doesn't prescribe the mandatory entitlement of litigation expenses. The copyright and trademark proclamations require recovery of expenses of IPR infringement claimants but put no qualifications on the extent. The Ethiopian Supreme Court cassation decisions didn't award recovery of expenses which are contrary to such laws.

Clear systems on ownership of and FTO IPR are critical for commercialization. The copyright proclamation neither defines "collective work" nor describes "directing" and "initiation" which is the base for entitlement of ownership over such works. The patent and copyright proclamations don't clearly set IPR ownership on inventions or creations from university-student relation. IPR ownership over inventions or creations from overlapping contracts of employment or contracts of employment and service or contracts of service aren't determined. Assignment, licensing and renunciation of IPR subject to joint ownership aren't regulated in the main IP laws.

Our copyright and patent rights exceptions aren't adequate to commercially enjoy FTO dependent IPR. In the patent proclamation compulsory licensing is insufficient to guaranty FTO IPR since it prohibited the licensee to grant licenses without the consent of the licensor and excluded the owner of dependent creations. Involuntary licensing implementation regulation of copyright isn't enacted that dependent invention or creations can't be operated by using copyrighted works.

None of the main IP laws defined assignment of IPR which creates uncertainty if it includes security interest in IP. They have no rules on valuation of IPR for assignment and subsequent improvements on the assigned rights. No rule exists on the territorial limit of assignment of copyrights. The ten years duration for assignment of copyrights is rigid to accommodate circumstances when the rights contributed for formation of business organization. Territorial limit, duration and revocation of assignment of patent rights are undetermined. The effect and time of registration of transfer of trademark rights aren't regulated.

The main IP laws have no rules on valuation of IP for licensing, subsequent improvements on licensed rights, assignabilty and sub-licensing of IP license. The duration, nature, revocation and details of registration of patent licence aren't governed. The copyright proclamation doesn't stipulate nature of licence contracts and allow non-author owner to revoke licence contracts.

Bankruptcy of the licensor may adversely affect the investment of the licensee if the trustee freely rejects the licence. IPR may fall in the hand of competitors of the licensor or unskilled persons in licensee bankruptcy case if the trustee freely assumes or transfers it. To appropriately consider such interests with balancing the interest of creditors of the estate, bankruptcy law should provide rules governing assumption and rejection of unperformed IP licences in the state of bankruptcy. The Ethiopian bankruptcy law has no rules governing the rejection, transfer and assumption of IP licences in the state of bankruptcy of the licensee and the licensor.

There are no guidelines in the Ethiopian competition law or main IP laws on the application of competition rules on IP licenses. Whether terms in IP license contracts which set excessive royalty, royalty after the extinction of IPR, limits the output of the licensee, pools different IPRs be considered anti-competitive is difficult to determine.

In Ethiopia there is no system that properly regulates security interest in IP. Neither the main IP laws nor the civil code addressed the creation, perfection, priority over licensees, assignees or secured creditors, management of proceeds and lodging of actions for injunction and damages against infringement by the secured creditor in relation to security interest in IP or IP licence rights. This with insufficient awareness of stakeholders and rampant piracy of IPR are pleaded as causes for the inexistence of IPR collateral in practice.

The main IP laws have no sufficient rule that allows secured creditor and exclusive licensee to maintain IPR, to bring infringement suits against the infringement of the rights and requires consent of the secured creditor when the right is surrendered. The starting date for late payment of annual fees to maintain patent rights is undetermined. The patent law fails to safeguard unregistered licensees when the owner decides to surrender her rights. Prohibition of repayment of licensing fees following invalidation of registration of trademark is difficult to justify. Appeal from invalidation and cancellation of trademark registration is unspecified. Renunciation and invalidation of exclusive economic copyrights are not regulated.

Recommendation

The findings in the conclusion show the insufficiency of the existing rules on valuation and commercialization of IP in Ethiopia. It also reveals implementation gaps on some of these rules. In accordance with these findings, the writer would like to recommend the following:

- The Ethiopian income tax laws should be modified to include rules on TP in Schedule B and D taxpayers that allow valuation of related party IP transactions.
- The rules in the Ethiopian commercial code governing financial statements should be revised to govern the recognition criteria, measurement premises, valuation methods and inputs for the disclosure of IP forming part of the assets of business enterprise.
- The Ethiopian patent proclamation should be amended to clarify acceptable infringement damages calculation methods.
- The trademark proclamation must be amended to make awarding of infringement damages of trademark mandatory, lost profit a measure of infringement damages and clarify the scope of litigation expenses.
- The copyright proclamation should be amended to clarify the possibility of claiming moral damages and expenses with restitutionary compensations, ground and measure of moral damage, and ambit of litigation expenses.
- The Federal High Court should only apply lost profit to calculate infringement damages for a claimant who marketed copyright incorporating products. It should stop confusing gross profit of the defendant with lost profit of the claimant. The Federal Supreme Court should award the recovery of litigation expenses to victorious copyright infringement claimant.
- New provisions should be added in the main IP laws on the use, licensing, assignment, renunciation and other acts for the management of IPR subject to joint ownership.
- The copyright and patent proclamations must consider regulating IPR ownership over creations or inventions arising from overlapping contracts.
- The copyright law should clarify "collective work" and an act of "initiation" and "directing" to entitle ownership on such work.
- The exceptions in the Ethiopian copyright and patent laws should be modified to guaranty FTO dependent IPR with minor commercial interest phase.
- The compulsory licensing regime in the Ethiopian patent law should be amended to secure FTO dependent creations and enable granting of licenses by the owner of the dependent compulsory licensee.
- The copyright proclamation implementing regulation on involuntary licensing should be enacted in such way to assure FTO dependent inventions and creations.
- The main IP laws should be amended to define assignment of exclusive rights and include rules on valuation IP for assignment.

- The copyright proclamation should consider regulating subsequent improvements of assigned rights, territorial scope and exceptions on the rigid duration of assignment.
- The patent laws should consider regulating subsequent improvements, duration, territorial limit and ground and procedure for revocation of assignment agreement.
- The trademark proclamation should be amended to regulate time and effect of registration of assignment agreement.
- The main IP laws should be modified to regulate valuation of IPR for licensing, assignabilty and sublicensing of IP licences.
- The patent proclamation should be amended to govern duration, nature, revocation and details of registration of license contract.
- The copyright proclamation should be modified to govern the nature of copyright license and allow non-author owner revoke the licence.
- The Ethiopian bankruptcy law should be amended to regulate rejection, assumption or transfer of unperformed IP licenses by a trustee in licensor or licensee bankruptcy scenario.
- Rules that guide the application of competition law on acts that adversely affect competition and fair trade, like excessive royalty and output limit in IP licences should be enacted.
- The government must consider regulating security interest in IP and IP licence rights either in the IP laws or secured transaction law. This should target at clearly governing the creation of security interest in IP, perfection of the security interest, priority over licensees, assignees or secured creditors, management of proceeds from the charged IP and lodging of actions for injunction and damages against infringement of charged IP. Works aimed at creating awareness on pledging of IPR must be made and IP laws on piracy should be effectively implemented.
- The main IP laws must consider enabling secured creditor and exclusive licensee to maintain IPR and bring IPR infringement suits and require the consent of the former on surrender of the rights. The patent proclamation should be amended to clearly fix the starting date for late payment of annual maintenance fees and protect unregistered licensees in the event of renunciation. The trademark proclamation should be amended to allow repayment of license fees following invalidation of trademark registration and appeal from the decision of trademark office on invalidation and cancellation. The copyright proclamation should be amended to govern renunciation and declaration of invalidation of copyrights.

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