



LAW FOR GAME DEVELOPMENT

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Legal aspects of the video game industry

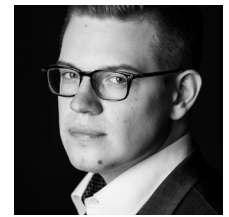
The video game development sector has grown rapidly in recent years. With the spread of smartphones, new business models, and distribution platforms, the market for video games has taken off, becoming a key sector of the creative industry. Its growth stirs the imagination and appetite not only of game producers and publishers, but also of the biggest companies in sectors like IT and film, who are increasingly oriented toward the game market. It is also a promising field for investors, particularly from Asia. The industry's growth has not even been slowed by the COVID-19 pandemic. To the contrary, the industry has taken advantage of this time to reinforce its position and achieve new growth.

The competitiveness of the video game market is also growing, and smaller producers and publishers must compete with global giants. This is not discouraging Polish producers and publishers. In addition to the largest studios, smaller but equally ambitious ones continue to spring up in Poland, with backing from various programmes and accelerators.

The picture of the Polish game industry is diverse and hard to summarise, but it can certainly be said that its value is growing year on year, as is the quality of native productions. In the upcoming years, Poland has a chance to become the biggest centre for production of video games in Central & Eastern Europe.

We are aware that the video game industry is struggling with various legal issues peculiar to the sector. We devote a series of articles on the game development industry to some of these legal issues. We address issues of intellectual property law, employment law, tax law, and also less-obvious regulatory aspects. We hope you find it worthwhile reading.

Jakub Barański, Monika A. Górka, Lena Marcinoska, Krzysztof Wojdyło



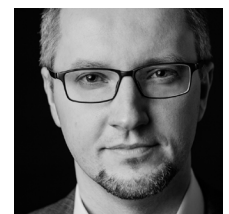
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KRZYSZTOF WOJDYŁO

Humvee, iPhone, Pip-Boy: Can real-life items be depicted in video games?



DAWID SIERŻANT

Video game designers often place the narrative of their games in contemporary or historical times. This requires them to base elements in the game on items familiar from the real world, such as vehicles, clothing, jewellery, weapons, foods and electronics. Can such depictions be freely used in games, or is consent required?

This is a crucial business question, and a mistake can generate significant legal risks for a game’s producer and publisher. It includes the risk of claims by owners of rights to depicted items, as well as contractual risks arising out of agreements between producer and publisher, or distributor and console manufacturer (in various configurations, depending on the business model). The risk grows for AAA titles generating high sales all around the world. This situation is not helped by the major differences between the legal systems in the largest video game markets (the US, China, Japan, South Korea, Western Europe).

A game using elements of reality can be more appealing to players, but licence fees can increase production costs, sometimes greatly.

Buy a licence

Licensing is the essence of certain games and sometimes accounts for their market power. The licence usually covers the entire “universe” (objects, trademarks, characters, story lines). This applies in particular to productions based on other works, such as films, books or comics, sports (e.g. *FIFA*, *NBA*), racing (*F1*, *Need for Speed*), or simulators (*Microsoft Flight Simulator*).

In the case of other games, placement of items from the real world is an extra requiring realism but not essential to the production (e.g. action or adventure games). Increasingly, the reverse situation occurs, in which the producer of an item from the real world pays for developers to place the item in a game.

Under Polish law, items appearing in games are protected mainly through copyright. Real-world items depicted in a game (e.g. furniture or clothing) may, but need not be, works within the meaning of copyright law. A necessary condition is the existence of originality and individuality. The object

risks

works

must be innovative and original, not merely the repetition of a commonly functioning idea, concept or design (see Poznań Court of Appeal judgment of 31 December 2014, case no. I ACa 989/14.) Thus mundane or typical items (such as a mug, a chair, a bottle or a window) will typically not enjoy protection. But this issue should be approached with caution due to the very liberal interpretation of the notion of a work adopted in the Polish case law (for example, a marathon route and the design of a typical graveside candle have been held to be works). Thus, as a rule, placement of such an item in a game requires the consent of the holder of the economic copyright.

Works presented in a game may also be regarded as an elaboration (derivative work) of works existing in real life, particularly in cases where multimedia conversion, e.g. texturing, in itself is creative. By including such works in a published game, the publisher essentially disseminates such works, and for commercial purposes. Thus, as a rule, such action requires the consent of the holder of the economic copyright.

derivative work

Moreover, an item to be used in a game may be protected based on industrial designs, or trademark if the product displays a logo or designation of a business.

Public domain, open licence, permitted use

An interesting solution, particularly in the case of productions set in historical times, is to use works for which the economic copyright has expired. Economic copyright generally lasts until 70 years after the author's death (or first dissemination of the work, if the author is unknown), and after that time the work enters the public domain. This may apply to such elements as weapons (e.g. swords), furniture, costumes, and paintings. Museums are helpful in this respect, typically labelling exhibits with notes on copyright (for example, it is possible to check which exhibits at the National Museum in Warsaw have entered the public domain).

copyright has expired

Another option is to use works under an open licence, such as Creative Commons. In that situation, however, it is essential to verify the precise terms of the licences, in particular whether they include consent to commercial use or to make elaborations.

Creative Commons

There is an exception to the requirement to obtain consent (to purchase a licence) under the notion of permitted use. In Poland, this is governed by Art. 292 of the Copyright Act, under which it is permissible to “unintentionally” include a work in another work if the included work is not material to the

permitted use

work in which it is included. This has to do particularly with works “in the background,” or non-essential details. The work is included only incidentally and is not relevant to the game as a whole. This provision may thus be applied to incidental depiction in a game of copyrighted elements of interiors (such as a table, window, refrigerator or chair) or items of everyday use (toys, cigarettes, telephone, food, clothing, etc).

This regulation is narrow but essential. Considering the liberal interpretation of a “work” developed in the Polish case law, it would be irrational to require creators of games, films or photographs to obtain licences to show any background elements. But it should be pointed out that due to erroneous translation, the word “incidental” in Art. 5(3)(i) of the Copyright Directive (2001/29/EC) was rendered in the Polish version and the Polish act as “unintentional.” This term is interpreted in the Polish legal tradition by reference to the subjective sphere (a person’s knowledge or purpose). Such an interpretation would recognise permitted use only when the game producer had no intention of including a depiction of a copyrighted item in the game. In practice, showing a lack of intention could be problematic. The original term “incidental” does not refer to a state of knowledge, but to the nature of the use compared to the work as a whole. Hopefully the wording of this provision will be corrected.

But it is clear that applying this exception in the practice of game development can be quite difficult, as in each instance it is necessary to make an individual assessment, and any determination of whether a given item is part of the background is bound to be largely arbitrary. We may thus wonder whether it would constitute incidental use for example to depict a certain model of automobile in a [cutscene](#) (a non-interactive narrative sequence in a computer game), or to allow the player to dress his avatar in a specific outfit or interact with a designer refrigerator or chair. Thus in most instances reliance on permitted use will arise only at the stage of defending against claims and not at the stage of game development.

Humvee and the arms industry: an example from the American market

In a decision issued on 31 March 2020 in *AM General LLC v Activision Blizzard, Inc.*, a federal court in New York held that it was permissible to depict the Humvee, a well-known American military vehicle, in the *Call of Duty* video game franchise. Due to the peculiarities of US law, this ruling cannot be carried over directly to European practice, as the finding of non-infringement was based on freedom of speech (the First Amendment to the US

US fair use

Constitution) and the fair-use doctrine. But the issue of depicting real-world items in games is not new. In 2012 a case was filed by Electronic Arts with a federal court in California seeking a declaratory judgment that it was permissible to depict a Bell military helicopter in the game *Battlefield 3*. The case was ultimately settled. In 2013, Electronic Arts announced that it would cease paying royalties to arms manufacturers like McMillan Group, while continuing to depict authentic models of weapons in its video games.

Do it yourself: Gnocchi and Nuka Cola

As an alternative to placement of real-world objects in games, developers often decide to create their own. This has led to the development of many products existing only virtually. Some have even gained cult status, such as the Nuka-Cola beverage and Pip-Boy electronic gadget from *Fallout*, the Rail-gun from *Quake*, N7 armour in *Mass Effect*, and the popular Halloween costume of Scorpion from *Mortal Kombat*. The developers of the *Grand Theft Auto* franchise displayed a sense of humour by creating an Italian luxury watch brand called “Gnocchi” for inclusion in the game.

But this option also carries some risk, particularly the risk of crossing the bounds of permissible inspiration. This could expose the developers to a charge that the item is an elaboration of an existing work (i.e. a derivative work). This applies in particular to items differing only slightly from the original, which will be recognised by the audience. Evidently, the gaming world includes many traps harder to evade than the “boss” on the highest levels of the games.

David Sierżant, attorney-at-law, Intellectual Property practice, Wardynski & Partners

derivative work
and inspiration

In-game advertising: How to play it?

The trend toward advertising in online channels has grown for years, but video games are still not a popular ad platform. While large foreign entities are eager to exploit this opportunity (among game publishers such as Electronic Arts and brands like adidas, Coca-Cola and Daimler), it is harder to find examples of this type of cooperation among Polish entities.



LENA MARCINOSKA

This may be due partly to the independent nature of Polish game productions and because they rarely set their games in realistic spaces (where it is generally easier to place ads). On the other hand, many advertisers seem unaware of this form of advertising, and many publishers don't seem familiar with this possibility for financing games.

But we believe that with the growing profile of the Polish video game sector and its positive reception, interest in placement of ad content in video games will grow. Thus it would be useful for game publishers and advertisers to know what to pay attention to in contracts for in-game advertising.

What is in-game advertising?

We should first explain that we use the term “in-game advertising” to refer to placement of ads for goods or services in a video game, so that the ads become an integral part of the world or universe of the game and play a certain function in that world. This function may be static, e.g. when a billboard advertising a product is part of the background or setting of the game, or dynamic, when advertised goods or services are used by the characters or the characters interact with the product. In-game advertising is thus similar to product placement.

in-game advertising
similar to product
placement

We don't regard ads appearing in the game menu on startup or during breaks to be in-game advertising. Such ads don't make goods or services an element of the game content.

In-game advertising should also be distinguished from “advergames.” They usually have little to do with games, but are created by companies solely to promote their own goods or services. Traditional advertising and advergames will not be the subject of the following discussion.

advergames
are something else

A few examples of in-game advertising

Typical productions that have used in-game advertising for years include racing games (such as *Need for Speed*, where players can drive a BMW, a Nissan or a Porsche) and sports games (e.g. from the *FIFA* and *NBA* series, where the stadium banners reflect the advertising from the real world).

In the longstanding production *Tom Clancy's Splinter Cell: Pandora Tomorrow*, the player's avatar uses phones from Sony Ericsson to take pictures of terrorists and transmit their photos to headquarters for identification, and to communicate with other characters. In the game *Worms 3D*, a worm directed by the player consumes Red Bull to speed up and gain energy. In *Super Mon-*

brands in video
games

key Ball, the bananas collected by the player were originally branded Dole, but in sequels the producer Sega announced a partnership with Dole's main competitor, Chiquita. And in *Crazy Taxi*, the player drives passengers around town, including to KFC or Pizza Hut restaurants or Levi's clothing stores.

Another good example is *The Sims*. Among other things, Sims have used Intel computers to quickly increase their resources of knowledge, a Renault Twizy electric car to increase the player's prestige and optimise expenses, and equipment from the Dove Hair Spa serving as a shower and hair protector. *Second Life* became an equally popular ad platform, where for example Calvin Klein promoted his new perfumes and Lacoste promoted its spring clothing collection. Indeed, *Second Life* includes some modest Polish ad themes, such as the mobile phone operator Play and even the Catholic intellectual weekly *Tygodnik Powszechny*.

As should be apparent from this brief overview, the range of brands using computer games for advertising is broad, and the types of games offering ad platforms are varied.

What to pay attention to in a contract for in-game advertising

Subject of contract—what goods or services are to be presented in the game

It might seem obvious—the product should simply be depicted in the game. Nothing could be further from the truth. Before an advertiser decides to include an ad in the world of the game, it should first get to know the characters, conventions, setting and mechanics of the game. This is even more important when the advertised product is to enter into interaction with the characters. Then issues such as which character uses the product (e.g. a crook or a policeman), what the product is to be used for and under what circumstances, whether alternative products are provided for in the game (and if so, whether they are from other brands or are “no-name” products), whether the advertised product is the only one of its kind used for a specific function, will all be relevant. These aspects and the publisher's undertaking to implement the product in the game in the specified way must all be precisely set forth in the contract. Oversights in this respect may prove fatal to the advertised product.

context is important

The game *Alan Wake* offers a good example. When moving in darkness, the main character uses a magic flashlight that protects him against dangers and serves as his main weapon. It might seem like an ideal advertising platform

for Energizer batteries. The problem was that in the game, the advertised batteries quickly ran out. The effect of the message? Players regarded Energizer batteries as a product of poor quality. Undoubtedly that was not the aim of the brand's owner. This blunder could have been avoided if the life of the batteries were specified in the contract (e.g. to reflect that guaranteed by the manufacturer in real life) and if the advertiser had ensured that the flashlight could also be powered by other generic batteries, which could highlight the difference in durability between ordinary batteries and the advertised ones.

opposite of the intended effect

Advertiser's liability for advertising not complying with the contract

The publisher's liability for carrying out the advertising of the good or service in the game not in compliance with the contract should also be considered. If the advertiser asserted such a claim under Polish law, it would be based on the general provision for breach of contract (Civil Code Art. 471). The advertiser would have to show non-performance or improper performance of the contract by the publisher, the occurrence of an injury on the part of the advertiser (e.g. a decline in sales of batteries), and a causal connection between the in-game advertising as implemented and the injury. Thus the point of departure for the possibility of effectively pursuing such claims is precise agreement in the contract on the rules for presenting the advertised product in the game.

precise contractual arrangements

This can be illustrated by the contractual dispute that arose between the group No Doubt and game publisher Activision. The contract did not involve advertising, but the use of the images of the band members in the game *Band Hero*; however, the issues are analogous. After Activision published the game, the group challenged the fact that their virtual counterparts performed works in the game not only by No Doubt, but also songs by other groups. The case was settled. However, in this case, as in the case of in-game advertising, the key would be to pay close attention to the contractual provisions and the terms of cooperation agreed by the parties.

Integrity of game and introducing ads into the game

A condition for safely conducting in-game advertising by the publisher is not only to ensure that it has been transferred the economic copyright from the authors involved in creating the game, such as graphic designers, programmers and scriptwriters, but also to correctly handle issues of their exercise of moral rights to their work. This aspect can sometimes be overlooked in contracts. Theoretically it can be imagined that for some reason the publisher may wish, for example, after completion of the work on the game, to com-

moral rights

mission third parties or only some of the authors to introduce product advertising into the game which was not originally foreseen. In such case, if the publisher fails to address the copyright issues in advance, it may expose itself to claims by authors for example for infringing the authors' moral rights to the integrity of their work.

A few other tips

There are a number of other issues which advertisers should pay attention to in the contract, such as the platforms in which the game is to be sold or delivered to players, the publisher's plans for promoting the game, and how much time the publisher intends to devote to promotional activity. The territory where the game is to be offered should be verified, particularly to determine whether the product advertised in the game is suited to the given market and is culturally appropriate, is sold in the given market under the brand used in the game, etc. It is also worthwhile to consider the advertiser's own promotional campaign (particularly if the product placement in the game is part of a broader campaign, e.g. connected with the launch of the product on the market in question) and its consistency with the publisher's actions. If in its own promotion of the product the advertiser wishes to use elements of the game world in its own message (e.g. characters using the product in the game), the rules for use of such elements and the terms of the relevant licence for the advertiser should be established.

platform, markets,
location

Legal classification of in-game advertising

The contractual issues also include adapting in-game advertising to comply with the applicable law. In Poland there is no single law comprehensively addressing advertising. Regulations concerning advertising are found in several different acts, some of which may apply to in-game advertising. These are primarily acts imposing bans or restrictions on advertising certain goods or services, such as alcohol (in the Act on Sober Upbringing and Combating Alcoholism of 26 October 1982), tobacco (Act on Protection of Health against the Consequences of Use of Tobacco and Tobacco Products of 9 November 1995), drugs (Pharmaceutical Law of 6 September 2001), and gambling (Gambling Act of 19 November 2009). Most of these acts provide for criminal liability for violation of prohibitions, which should be borne in mind by both game publishers and advertisers using games as an ad platform.

scattered regulations

The Unfair Competition Act may also apply to in-game advertising, imposing liability on a business (potentially both the publisher and the advertiser) e.g. for advertising that is misleading or contrary to fair practice, advertising

encouraging audiences to acquire goods or services while posing as neutral information, or impermissible comparative advertising.

Considering the growth of the game development sector, including in-game advertising, it cannot be ruled out that in the future some industry self-regulation will arise in this area of advertising or that video game entities will join existing self-regulation systems. In Poland this function is fulfilled primarily by the Advertising Council, which was established by the advertising and marketing community and provides oversight of issues such as the ethics of advertising content.

self-regulation
is possible

When considering the requirements of in-game advertising under Polish law, another controversial issue should be mentioned, namely notifying players that the game contains advertising content or product placement. Must the game include information on this topic? No such requirement is expressly provided for under Polish law with respect to video games. But this encourages hidden advertising and hidden product placement, which can have costly consequences (also [in cooperation with influencers](#)).

(In Poland, the same problem and lack of regulation affects all messages online, such as on blogs, forums, and video-sharing platforms. The situation of video-sharing platforms, which include such sites as YouTube, may change in connection with the November 2018 amendment of the Audio-visual Media Services Directive, which introduces informational obligations for video-sharing platform providers with respect to advertising, sponsoring and product placement. The member states were required to implement the amended AVMSD by 19 September 2020.)

The Broadcasting Act, which does address this issue, has a narrow scope of application (covering only TV and radio broadcasters and providers of on-demand audiovisual services) and does not cover advertising messages in games. Nonetheless, it appears that placement of ads in games should be subject to certain principles and conditions. Thus it would be reasonable to call for clear regulation for example of publishers' obligations in this area. Under the current regulations, hidden advertising messages in a game could be challenged under the Unfair Competition Act or in some instances under the Unfair Market Practices Act.

Benefits from in-game advertising for both parties to the contract

For the publisher, in-game advertising can be an additional source of financing for the game. Moreover, placement of real products in the game increas-

es the realism of the game's universe (according to 60% of players surveyed by Nielsen in 2008), and consequently increases players' immersion in virtual reality. This is vital for sports games, racing games, simulators and all other games set in the present day.

sources of funding

For the advertiser, the game is a platform for establishing or raising brand recognition. First, it allows the advertiser to reach a promising target group (the average player is a well-situated man, or less often woman, around age 35). Second, the playing time (averaging some 12 hours or more, or even days) ensures long exposure to the product. Third, thanks to virtual interaction with the product, the player can learn key attributes of the product (e.g. durability and energy-efficiency) and test it virtually in the game. Fourth, because games attract a large community exerting influence over players, in-game advertising opens the way to exploiting word-of-mouth or whisper marketing.

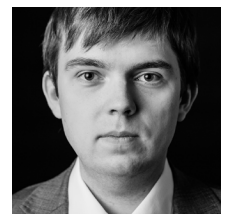
creating product recognition

Obviously, it is possible to achieve these benefits only when certain fundamental conditions are met: the ad content and the manner of presentation must be consistent with the conventions of the game, properly suited to the audience, unobtrusive, and simply of high quality. But undoubtedly, in-game advertising that is well conducted from a marketing perspective and properly secured from the legal side can generate benefits impossible to achieve in any other way.

Lena Marcinoska, adwokat, Intellectual Property practice, Wardynski & Partners

Video games, virtual currencies, and money laundering

What could video games have in common with money laundering and terrorism financing? Not much, it might seem at first glance. The duties in the [Anti Money Laundering and Counter Terrorism Financing Act](#) are mainly addressed to entities involved in financial services, such as banks and payment institutions. The AML/CTF regulations don't directly refer to video games or persons involved in their development and operation.



RAFAŁ KUCHTA

Keys to the gates of the money laundry

But there have been increasing reports on exploitation of video games for laundering money from criminal sources. In the game *Fortnite* criminals used stolen credit card data to buy V-Bucks (used in the game for microtransactions), which they then resold to players for traditional currency. Similar card frauds were also committed in the mobile game *Clash of Clans*. And in late 2019, in *Counter-Strike* the ability to resell container keys in the Steam Community Market was switched off because fraudsters had exploited this function to transfer illegally acquired funds. *Valve* reported then that nearly all transactions involving sales of container keys may have been connected to fraud.

frauds

All of these instances involve various types of virtual assets which also have financial value outside the game environment in light of their application in the game and the popularity of the games. We could say that virtual assets accessible in games have begun to function as surrogates for traditional currency. From this perspective, we may consider to what extent such cases could be covered by regulations imposing duties to combat money laundering on entities involved in activity connected with virtual currencies.

virtual currency?

Bottle caps and gold pieces

The analysis should begin with the definition of virtual currency in the AML/CTF Act. Under the statutory definition, virtual currency is a digital representation of value that meets all the following conditions:

- It is convertible in trade into means of payment and accepted as a means of exchange.
- It can be transferred, stored and traded electronically.
- It is not a legal means of payment, an international settlement unit, electronic money, a financial instrument, a bill of exchange or a cheque.

definition

If this definition is applied to virtual assets in games, it is clear that they are digital and are stored electronically. Typically they are not a legal means of payment, an international settlement unit, electronic money, a financial instrument, a bill of exchange or a cheque. Some virtual assets could potentially be electronic money, if they meet the conditions set forth in the Payment Services Act involving e.g. a redemption obligation and existence of an acceptance network.

It should be pointed out that the statutory definition does not refer to specific technological solutions. In introducing the notion of virtual currencies into the act, the reference was primarily to cryptocurrencies like Bitcoin, but

digital assets not based on a distributed ledger technology, or even functioning in a centralised system, can also be virtual currencies.

Virtual item, real-world trading

In the case of games, the greatest doubts are raised by the elements of the definition of virtual currency referring to its use in commercial trade—convertibility into means of payment, use as a means of exchange, or the possibility of electronic transfer or trade (or in general “convertibility”). After all, game developers often specify in the terms and conditions and other contractual forms that they retain all rights to virtual assets, and players are forbidden to resell them or otherwise trade in them.

But it does not appear that such reservations and contractual provisions can exclude a given asset from being regarded as virtual currency, so long as it does possess convertibility in practice. The definition does not limit the issue of convertibility of virtual currency to the purely legal sphere, nor does it refer to the intentions of the creators of the given asset. Thus it should be recognised that in this respect, it is sufficient for an asset to be regarded as a virtual currency if the given asset can actually be used as a means of commercial exchange, even if the game’s creators never approved this type of activity.

if you can pay with it,
it’s currency

This aspect is also noted by the Financial Action Task Force, an international organisation involved in creating standards for combatting money laundering and financing of terrorism. As FATF states in its [guidance on virtual currencies](#), “Development of a robust secondary black market in a particular ‘non-convertible’ virtual currency may, as a practical matter, effectively transform it into a convertible virtual currency.”

It essentially follows from an analysis of the definition of virtual currencies that in certain specific circumstances, virtual assets in games may be deemed to be virtual currencies for purposes of the AML/CTF Act, and one of the key aspects for such classification is the actual convertibility of such assets in commercial practice.

Primary and secondary tasks

If a virtual currency already appears in a game, the entity responsible for operation of the game is subject to AML/CTF duties if it performs commercial activity consisting of providing services of:

- Exchange between virtual currencies and means of payment
- Exchange between virtual currencies

- Intermediation in such exchange
- Operating accounts, meaning sets of identifying data maintained in electronic form ensuring the authorised persons the ability to use units of virtual currency, including conducting virtual-currency exchange transactions.

Apart from ordinary exchange, the regulation also covers intermediation services, which could potentially include a very broad range of activities. AML/CTF obligations can sometimes apply even to an entity not connected with the game operator, if that entity provides players an additional service related to the functioning of virtual currencies in the game (even if based on use of the operator's own application programming interface). Operation of accounts could be understood equally broadly; depending on the solutions employed in the game, sometimes the mere login and password used in the game could constitute a set of identifying data enabling use of units of virtual currencies.

In short, if a virtual currency appears in a game, and the entity responsible for operation of the game performs specified types of services, the entity will be subject to AML/CTF obligations, such as preparing a risk assessment, introducing appropriate internal procedures, applying financial security measures with respect to customers, and notifying suspicious transactions to the competent authorities.

But in many instances, virtual assets in games need not be regarded as virtual currencies, and consequently, the entities operating the game would not be deemed to be obligated institutions in connection with providing services involving virtual currencies. Nonetheless, game operators who are not formally subject to AML/CTF obligations may still introduce solutions at their own initiative helping to prevent exploitation of the game for criminal purposes, if they perceive such a risk.

if there is a virtual currency, beware of money laundering

Rafał Kuchta, adwokat, New Technologies practice, Wardyński & Partners

Remote work and “employer of record”: Employment in the video game industry



MAGDALENA ŚWITAŃSKA

The game development industry knows no boundaries, and often attracts workers from all over the world. But employment and immigration regulations pose a barrier to drawing on the resources of the global labour market, particularly when a game development studio considers employing persons in Poland who are citizens of countries outside the EU, the EEA, or Switzerland. However, new non-standard forms of work help overcome the difficulties in hiring foreigners, and are worth considering for roles such as programmers, graphic designers, sound engineers, script writers, and game testers.

Civil contracts—immigration problems remain

Civil contracts such as contracts of mandate and service contracts have been broadly applied for years in the game development sector as a way to work around the labour-law regime.

But they do not solve the problems connected with the need to legalise foreigners' work and stay in Poland. In many countries which allow at all for the possibility of working under civil contracts as an alternative to an employment contract (in Poland this is possible so long as the contract is not performed under conditions reserved for the employment relationship), hiring under such a contract still requires (as in Poland) an employment permit or other permit.

legalise foreigners'
work and stay

Hiring through an agency—only temporarily

A basic solution partially addressing both problems (i.e. the need to legalise the foreigner's work and performance of all of the employer's labour-law duties) is to hire the foreigner via an employment agency.

This solution can eliminate, or more precisely shift to the agency, most of the formalities and duties connected with hiring a foreigner and legalising his stay in Poland. The exceptions include certain obligations related to annual leave, working time, and occupational health and safety.

employment agency

But this solution has one fundamental drawback. In many countries there are restrictions on the maximum period for which an employer may use the work of a temporary employee. That is also the case in Poland, where this period is generally a total of 18 months within a period of 36 successive months, regardless of how many agencies intermediate in the employment. Thus this solution will work when there is a need for temporary reinforcements for a specific game project, but does not allow for formation of long-term co-operation. This may be an adequate solution for some productions but not others.

only 18 months

When using temporary work via an employment agency, the employer should properly secure its interests in the area of intellectual property rights, and ideally contractually ensure the transfer of all IP generated by the temporary employee.

Due to the time restrictions on temporary work, many employers seek other solutions, particularly turning to outsourcing (to which we will devote a separate article). But it should be borne in mind that in the case of foreigners, using outsourcing is fairly risky.

Remote working—an ideal solution (not entirely)

Another solution is the remote working model, in which the employee is hired directly by the employer but performs his work at a distance, in a country other than the one in which the employer has its registered office and conducts its operations (and thus the employee may work at home, in a rented office, or anywhere he finds himself at the time). Often it is employees themselves who insist on this approach, as they do not always wish to live and work in the country where the potential employer operates, particularly if the work does not require their constant or frequent presence at a fixed location.

remote working

As a rule, remote work solves the problem of the need to legalise the employee's immigration status, and thus obtaining a work permit or residence permit, which under current conditions is fairly time-consuming (taking from a few weeks to a few months). A short-term visa usually suffices for any necessary but brief work-related travel.

Moreover, the law in many countries, including Poland, does not require a foreign employer to have any organised form of activity in the country from which the employee works. The Polish regulations do not even mandatorily require a foreign employer hiring a worker in Poland to be registered in

Poland as a remitter of personal income tax or (if a relevant agreement is concluded with the employee) social insurance contributions due on the employee's salary.

However, remote work makes it necessary to apply at least some of the regulations of the foreign country from which the employee works. This is because the place of performance of the work is a factor which in many jurisdictions determines the law governing the employment contract between the parties. This is the case under Rome I (Regulation (EC) No 593/2008 on the law applicable to contractual obligations), which is applicable in Poland. While the parties to an employment contract may make a choice of the law governing the contract (e.g. the law of the state where the employer has its registered office), such choice must not deprive the employee of the protection he is entitled to under the mandatory regulations of the law that would apply if no choice of law were made (regulations that cannot be excluded by agreement of the parties). This means that if the law of the country where the employer has its registered office is chosen, it will still be necessary to apply at least the mandatory regulations of the law of the country where the work is performed. And in the case of Poland, the great majority of provisions of the Labour Code and other employment regulations are mandatorily applicable.

foreign regulations

Significantly, under Polish labour law, the model of remote working described above should also be classified as “teleworking,” which entails for the employer certain additional duties with respect to the terms of the contracts concluded with the employee, and also duties involving occupational health and safety (in practice largely not feasible for the employer to execute, but also to verify for the authorities overseeing compliance with employment regulations).

The fact that the employee resides in a country different from the one where the employer's registered office and operations are located also often means that in the event of a dispute arising out of the employment relationship, the employee will have a right to file suit with a court in the country where he performs work. In Poland this is provided for in the Civil Procedure Code (Art. 1103 and 1103⁴§1).

foreign court

“Employer of record” — formal employer and de facto employer

Employers' use of the services of entities acting as “employer of record” is gradually gaining popularity in Poland as an alternative to temporary employment, and particularly to the model of direct employment combined with

employer of record

remote working. This model is especially popular in the IT sector in the US and the UK.

In reality, this solution is a form of employment outsourcing (employee leasing) combined with remote working. It consists of separating the employer's rights and duties (the legal sphere of the employment relationship) from the actual benefit of the employee's work. In this model, the employee performs work remotely in a country different from the one in which the entity benefitting from his work is located, while that entity does not formally employ the worker. The worker is employed by another entity—the “employer of record”—registered and operating in the country in which the employee performs work. From the formal and legal side, it is this entity that is responsible for executing all the rights and duties of the parties to the employment relationship, and also all public-law obligations connected with employing the worker. In this arrangement, the employer benefiting from the employee's work is a client of the formal employer of record.

This solution thus lacks the fundamental “defect” of the model of direct employment and remote work, consisting of the need for the entity benefitting from the employee's work to apply the law of another country.

However, a drawback of this model (as in the case of outsourcing) is the need to rely entirely on the entity employing the worker to enforce any rights with respect to the employee, as well as perform public-law obligations. Depending on the jurisdiction, liability to the authorities of the state in which the work is performed may enter into play.

As when using the services of a temporary employment agency, the game development studio should contractually secure passage to the studio of all IP rights generated by the employee in this model.

It should also be stressed that this solution, like outsourcing or employee leasing, raises doubts under Polish law because it is not expressly regulated. The risk, particularly from the perspective of a Polish entity benefitting from the work of a foreigner formally employed abroad by an employer of record, is a determination that an employment relationship exists between the Polish entity and the foreigner. Under this arrangement, the level of risk will depend on the circumstances of the case. The likelihood of this occurring is relatively low, however, because for a finding of the existence of an employment relationship between the beneficiary of the employee's work and the employee to be made for the purposes of labour law, under the labour law

liability

IP rights

employment relationship?

it is necessary for the labour court to issue a legally final judgment pursuant to a claim filed by the employee (who typically will have no interest in filing such a claim) or by the State Labour Inspectorate (which in practice will have very limited scope for disputing the solutions applied in relation to a person permanently present in another country).

Magdalena Świtajska, adwokat, Employment practice, Wardyński & Partners

Outsourcing in game development: Is it worth it?

In the video game sector it is often necessary to draw on specialised knowledge from various fields (e.g. for graphic design projects). In such cases, it is increasingly common to cooperate with external experts by outsourcing certain processes. This form of cooperation carries many advantages, but if the conditions are not carefully framed it can create serious risks for the game development company.

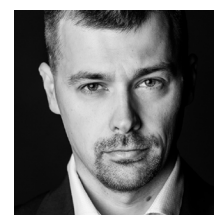
What is outsourcing?

The regulations in Poland contain no definition of outsourcing, but the concept is understood to mean long-term commissioning of an outside contractor to perform certain organisational functions, allowing the outsourcing company to focus on its core business.

It is most common to outsource entire processes (full outsourcing), but outsourcing may also involve only a certain segment of a function (selective outsourcing).

Outsourcing brings many benefits...

For businesses in the video gaming sector, cooperation on the basis of outsourcing can provide a range of advantages. First and foremost, it allows the company to entrust performance of certain areas to another entity, so that the company can focus on the fundamental aims of its business.



DR MARCIN WUJCZYK

Outsourcing often allows for a reduction of costs, as the outsourcer uses the contracted services only to the extent, and more importantly only for the time, it needs. This reduces costs of salary, social insurance, holiday, training, and maintaining workstations.

cost reduction

The outsourcer can also choose from among various suppliers, allowing it to negotiate a better price as well as access to specialists in various fields. Outsourcing enables the use of services of experts with great experience and professionalism when it would be too expensive and irrational to hire them full-time. The possibility of partially shifting the responsibility for performance of services is also significant.

...but also substantial risks

Improperly framed rules for performing outsourced services can carry major risks.

First and foremost there is a risk of a finding that the outsourcing contractor is in reality an employee. This can occur in instances where the contractor performs services under the same rules and conditions as employees. Under Art. 22 §1¹ of the Labour Code, regardless of the label assigned to the contract by the parties, hiring under the conditions set forth in the Labour Code is deemed to be hiring on the basis of an employment relationship. Thus if a person performs his or her duties (work):

- For a given entity
- Under that entity's direction
- At a place and time set by that entity
- For pay, and
- Personally,

there is a high risk that this relationship is one of employment, even if the parties have concluded an outsourcing cooperation agreement. The contractor could then apply to the court for a ruling that in reality the contract between the parties is not a cooperation agreement but an employment contract. A labour inspector may also assert such a claim.

A finding that the parties are bound by an employment relationship generates significant consequences for the outsourcing company deemed to be an employer. The contractor working to this point on an outsourcing basis can pursue all rights they would have enjoyed if the parties had acknowledged from the start that they were in an employment relationship. In particular, a contractor found to be an employee can demand:

employment relationship?

claims

- Overtime pay (Labour Code Art. 151¹)
- Cash equivalent for unused holiday (Labour Code Art. 171)
- Bonuses and other additional benefits to which employees of the given employer are entitled.

It should also be pointed out that the Social Insurance Institution (ZUS) is empowered to establish through a decision issued as a result of an inspection that work performed by a given person is in reality performed on the basis of an employment relationship and not an outsourcing agreement, if this has an impact on obligations to pay social insurance or health insurance contributions. If ZUS finds that because work was in reality performed on the basis of an employment relationship rather than outsourcing, social insurance contributions were underpaid, the employer will be forced to pay the difference, plus interest. The same applies to any arrears in personal income tax withholding for the period when there was deemed to be an employment relationship.

Social Insurance
Institution

There are also risks of petty criminal violations. Under Art. 281 §1(1) of the Labour Code, an unjustified change in the form of employment (for example, at the time when it is found that an employment relationship exists with a person providing outsourced services under a cooperation agreement) is a petty offence against employee rights, for which the employer or a person acting for the employer can be fined PLN 1,000–30,000.

fine

Outsourcing also carries a risk of disclosure of confidential information. Cooperating with an outside firm often requires the sharing of data constituting trade secrets. This information might then be exploited by the contractor for its own business ends, passed on to another company, or accidentally released.

Another risk arises out of the possibility that a contractor might be working simultaneously for more than one client from the game development sector, including competitors. In extreme instances, the fruits of work for one client might be exploited in work for another client.

How can the risks associated with outsourcing be minimised?

The existence of these risks should not discourage game developers from using outsourcing, but they should adequately protect their interests.

Limiting the risk of finding of an employment relationship

To limit the risk that persons working on an outsourcing basis will be reclassified as employees, it is essential to avoid actions that would suggest that they are treated like employees. In particular, the outsourcer should refrain from issuing instructions on the specific manner for carrying out a given task. The parties should avoid written instructions. The best solution is to set certain aims for the contractor in written form within a given timeframe (e.g. weekly or monthly). A log of working time of outside contractors should not be maintained; if necessary, it is better to stick to a record of hours of services performed on each day.

tasks, not instructions

It is recommended, if possible, to allow contractors to perform their services at any location of their choosing. This does not mean, however, that the outsourcer cannot provide working space, but if so, it is preferable that such space not be provided free of charge. Separate procedures should be introduced for the company's employees and for persons working under co-operation agreements. Even if the substance of these documents is similar, they should be separate documents using separate terminology (e.g. referring to "employees" in one and "service providers" in the other).

separate procedures

Outsourcing contractors should not enjoy the same benefits as employees, and the contracts with them should not use wording typical for employment relationships (e.g. job duties, annual leave, or official instructions). It is also risky to award "days off" to contractors, when they are not required to perform services but retain a right to be paid, as this is a solution typical for an employment relationship.

without employee benefits

It should be stressed that the existence of one of these questionable elements does not necessarily mean that an outsourcing agreement is in reality an employment contract. However, a combination of such elements greatly increases this risk.

Limiting the risk of disclosure of confidential information

To minimise the potential leaking of trade secrets, appropriate procedures protecting the flow of such data should first be introduced. Transmitting password-protected files is now standard. The market offers increasingly advanced methods for protection against unauthorised access.

confidentiality

In the outsourcing agreement, the parties should clearly address the contractor's liability for release of confidential data. It is worthwhile to include

the possibility of imposing contractual penalties in such situations. This approach makes it easier to hold the other party liable, as in such situations the contractor will generally have to demonstrate that it was not at fault in the disclosure of data.

Limiting the risk of competition by the contractor

If there is a serious risk that an outside contractor's cooperation with a competitor could harm the outsourcing company, it is worth considering specifying in the contract a period when work for competitors is prohibited. But to ensure that the ban is effective, the scope and area must be clearly defined. Specific entities regarded as competitors may even be named. It should be borne in mind, however, that inclusion of such a ban may have an impact on the fee. Sometimes contractors will demand additional compensation for including a noncompetition clause, but it is not necessary to pay separate consideration for the ban. In this case as well, it is worth including a right to assess contractual penalties.

noncompetition

Cooperation on an outsourcing basis brings a number of benefits, but to minimise the potential risks (in particular connected with a finding that the outsourcing is a hidden form of work under an employment contract), it is essential to precisely define the rules under which the external contractor will perform the outsourced services.

Dr Marcin Wujczyk, attorney-at-law, Employment practice, Wardyński & Partners

Claiming the IP Box in the video game industry

The instrument popularly known as the "IP Box," introduced on 1 January 2019, allows taxpayers to claim a lower, 5% rate of corporate income tax or personal income tax in their annual tax settlements for income generated from commercialisation of qualified intellectual property rights they have created or developed through R&D activity. In this article we discuss how to benefit from the IP Box in the game development industry, who is eligible for the IP Box, and the conditions that must be met.



JOANNA PROKURAT

CIT and PIT payers

Because the IP Box is available to CIT and PIT payers, a preferential income tax rate may be claimed by taxpayers operating in corporate form (CIT payers) or natural persons operating a business (such as freelance programmers). This option is equally available to taxpayers operating in any branch of the economy. The practice of the tax authorities confirms that beneficiaries of the IP Box may include, for example, individuals entering into cooperation agreements on a B2B basis.

General conditions for use of the IP Box

The IP Box, and thus the 5% income tax rate, is available when all three of the following conditions are met:

- The taxpayer earns income from commercialisation of statutorily defined “qualified intellectual property rights” (QIPR), which also include copyrights to software. (Also earning income from other sources does not prevent use of the IP Box.)
- The subject of protection of rights qualifying for the IP Box (e.g. software) was created, developed or improved by the taxpayer as part of research and development activity conducted by the taxpayer (R&D).
- The taxpayer maintains the statutorily required records in a manner enabling determination of revenue, tax-deductible costs, and net income (or loss)—in other words, in practice, enabling determination of taxable income (or tax loss).

commercialisation

R&D

records

Claiming of the IP Box in the annual CIT or PIT return

The preferential (5%) rate of income tax is not applicable with respect to current settlements of CIT or PIT (in particular, it is not reflected for purposes of calculating monthly or quarterly income tax advances), but may be claimed after the end of the tax year in calculating the annual tax obligation and filing the annual tax return. Thus, potentially the IP Box may be claimed for prior years for which the CIT or PIT obligation has not become time-barred (up to and including 2019, when the IP Box entered into force), so long as the statutory conditions are met. (In practice it may prove problematic to meet the condition of maintaining the appropriate records, as the tax authorities require the records to be maintained on a current basis.)

annual settlement

Condition 1: income originating in qualified rights

A taxpayer, including one operating in the video game sector, may enjoy a preferential rate of CIT or PIT for income from commercialisation of QIPRs. The category of QIPRs includes rights to:

- Patents
- Utility models
- Industrial designs
- Layout designs (topographies) of integrated circuits
- Supplementary protection rights to patents for medicinal products or plant protection products
- Medicinal products and veterinary medicinal products authorised for trading
- Protected plant varieties
- Copyright to computer programs

subject to protection under separate acts or ratified international agreements to which the Republic of Poland is a party, or other international agreements to which the European Union is a party.

To benefit from the preferential rate, it is sufficient to generate income from any one of the foregoing QIPRs. In the case of the video game industry in Poland, the most common QIPR is copyright to computer programs. But in other places, such as the US and Asia, the commonly employed form for protection of software is patent (which may be significant for entities planning expansion onto foreign markets). Rights obtained abroad protecting computer programs should also be reflected for purposes of the IP Box under the same rules as rights obtained in Poland, so long as they are subject to protection under statutes or international agreements to which Poland or the EU is a party.

Thus taxpayers from the video game industry may claim the IP Box for income from the transfer of economic copyrights to computer programs or grant of licences to such programs. The IP Box may also be applied to income from the sale of goods or services whose price reflects the price of copyright to computer programs or damages for infringement of such rights (e.g. obtained as a result of copying or elaboration of a program by a third party).

Use of the preferential income tax rate in the IP Box applies to independently created computer programs. Doubts may arise in a situation where the taxpayer elaborates or improves existing programs written by others, without acquiring the copyright or an exclusive licence from the owner (e.g. when software is used based on a nonexclusive licence for elaboration or improvement). It should be noted, however, that individual tax interpretations have been issued in which the tax authorities did not object to claiming of the IP Box by taxpayers hired by the holder of the copyright to modify or im-

prove programs (e.g. individual interpretation by the director of the National Revenue Administration Information Centre of 20 November 2019, no. 0113-KDIPT2-1.4011.492.2019.1.KO).

Thus it is vital for the possibility of applying the IP Box to analyse contracts with clients and programmers cooperating in a B2B model concerning the basis for mutual settlements and costs connected with the computer program.

Another fundamental issue for the possibility of claiming IP Box relief by the video game industry is the interpretation of the notion of “copyright to a computer program.” A computer program is subject to copyright protection if it manifests creative activity of an individual nature. In practice, protection extends to the program’s source code. Nonetheless, a video game is designed to be used as a whole, and thus for tax purposes may be deemed a single (consolidated) work. Creative activities carried out during the process of developing a game include combining, adjusting and interaction of all elements making up the game, so that they ultimately achieve the effect of a single product as intended by the team of developers. Thus we could refer to a specific integration within a video game of such elements as source code, output code, instructions, description of operating procedures, dialogue track, and graphics.

copyright to a
computer program

It should also be noted that a computer program may be incomplete, or even contain certain errors or gaps. Pre-alpha, alpha and beta versions, test or demo issues, are also computer programs, and thus may constitute QIPRs for purposes of the IP Box (so long as they meet the conditions for being regarded as a work).

demo is also a
computer program

Condition 2: creation of rights in R&D

The subject of protection of commercialised QIPR must be created, elaborated or improved by the taxpayer as part of its own R&D activity.

R&D activity is not a subjective category, i.e. it is not necessary for the taxpayer applying the IP Box to hold the status of an R&D centre or other subjective characteristics. Nor does the taxpayer have to qualify for R&D relief under the CIT Act or the PIT Act (which is a separate instrument from the IP Box). What is relevant is the objective aspect of the taxpayer’s activity.

R&D activity

R&D activity is defined as creative and systematic work, including scientific research and experimental development, undertaken in order to increase the stock of knowledge and to devise new applications of available knowledge.

definition

The peculiarities of operations in the video game industry (as in IT as a whole) leading to introduction of innovations, mainly involving work whose results are intangible, generate difficulties in identifying which operations constitute R&D activity and which are ordinary activities of a non-innovative nature. To determine whether particular activities may be classified as R&D work, the definition adopted by the OECD in the “Frascati Manual” may be helpful. According to the manual, R&D may cover processing of information in new fields, such as the development of new operating systems or languages, as well as development of new applications or significant upgrades of existing operating systems and application programs.

The Frascati Manual also provides examples of activities not regarded as R&D. These are routine activities not embodying scientific or technological advances or eliminating technological uncertainty. Thus the following, for example, are not regarded as R&D:

routine activities

- Development of business application software and information systems using known methods and existing software tools
- Creation of websites or software using existing tools
- Use of standard methods of encryption, security verification and data integrity testing
- Customisation of a product for a particular use, unless during this process knowledge is added that significantly improves the base program
- Adding user functionality to existing application programs
- Routine debugging of existing systems and programs.

Consequently, any research work in the IT industry, including the video game sector, whose aim is not routine activity but generally technological progress and growth of the field, should be deemed to be work qualifying as R&D.

Development work is defined as acquiring, combining and exploiting currently available knowledge and skills from the field of science, technology and commerce, as well as other knowledge and skills, for planning of production, as well as creating and designing new, modified or improved products, processes and services.

To meet the conditions of the IP Box, R&D work on a project must be systematic. The most appropriate definition of the systematic nature of the

work refers to conducting activity in an orderly fashion, according to a certain system, methodical and planned. Significantly, for work to be systematic, the continuity of the activity is not essential, nor is the length of time it is conducted, or the existence of a plan for the taxpayer to conduct similar activity in the future. It appears sufficient that the taxpayer has planned and conducted at least one R&D project, for which it has adopted a defined aim, timetable and resources.

systematic R&D work

Condition 3: relevant documentation

A taxpayer wishing to claim IP Box relief is required to maintain separate, detailed accounting records in a manner enabling calculation of the tax base for the 5% rate, including the connection between the costs incurred for R&D work and the income from QIPRs resulting from the R&D work.

First and foremost, the records must contain:

- Itemisation of each QIPR
- Determination of the revenue, tax-deductible costs, and net income (or loss) attributable to each QIPR
- Itemisation of costs attributable to each QIPR, in a manner enabling determination of the qualifying net income.

records

Additionally, taxpayers working on creation of more than one QIPR are required to maintain records for each R&D project, with a breakdown for:

- Project description
- Start and end time
- List of persons taking part in work on each project
- List of works created in each project, attributed by name to the persons performing the work.

Thus a taxpayer creating, for example, a video game must itemise all of the QIPRs arising in connection with the game development and maintain a separate record for each of them. It is possible to treat a game as a single (aggregate) QIPR, but such situations seem to be in the minority. Maintaining entries in a manner ensuring determination of the aggregate income from the QIPR or use in the product or service is permissible in particular when a division into specific QIPRs is not possible.

separate record
for each QIPR

The record must be prepared with cumulative recognition of expenses with respect to specific tasks (based on a set of documents confirming the incurred expenses). The cumulative set of documents should thus cover the

expenses from start of the R&D activity aimed at creation, elaboration or improvement of the QIPR, through the end of the given calendar month.

The regulations do not dictate how the records should be maintained for purposes of the IP Box. In particular, the records do not have to be prepared in a uniform manner, according to a specified template. Maintaining full accounting is also not required. An acceptable method of maintaining the accounting books is a tax ledger of revenue and expenses. In the case of taxpayers who maintain such a ledger, the requirement to ensure itemisation of the records for each QIPR project may be fulfilled by preparing, via a computer spreadsheet, a cumulative monthly set of documents confirming the expenses incurred for the QIPR project as of the end of the given month.

a tax ledger
of revenue and
expenses is enough

These records must be maintained on an ongoing, current basis, even though the IP Box is applied to annual taxable income. The tax authorities take the strict position that creation of separate records after the fact in order to meet the requirements of the IP Box regulations eliminates the right to apply the IP Box, even when the retrospective records allow for correct determination of the basis for taxation at the 5% rate (e.g. individual interpretation by the director of the National Revenue Administration Information Centre of 27 November 2019, no. 0115-KDIT2-1.4011.405.2019.2.KK).

The electronic version of the record should be archived, and the spreadsheet should be structured to allow data to be generated at a later date showing the state as of the end of specific calendar months.

Value of income taxed at 5% rate

The amount of income subject to taxation at the preferential 5% rate is the product of the income from QIPR achieved in the given tax year and an adjustment known as the “nexus factor”:

calculations

$$\text{income taxed at 5\% CIT or PIT} = \text{income from QIPR} \times \text{nexus factor}$$

If the taxpayer generates income from more than one QIPR, the basis for taxation is the sum of the products calculated for each QIPR.

QIPR income

Income (or loss) from QIPR is income (or loss) from:

- Fees or receivables under a licence agreement involving QIPR
- Sale of QIPR

what is income?

- QIPR reflected in the sale price of goods or services
- Damages for infringement of QIPR awarded in a contentious proceeding (judicial or arbitration).

Net income is the surplus earned during the tax year of revenue from this source over the costs of generating the revenue. If the costs exceed the revenue, the difference is a loss from the source of the revenue. Thus for purposes of calculating income from QIPR, revenue-earning costs should also be reflected, including indirect costs.

The amount of revenue from commercialisation of QIPR may be established in particular based on sales invoices issued, corresponding to provisions of concluded contracts. For the purpose of determining net income from QIPR, this revenue should be reduced by the direct and indirect costs of earning the revenue. This should not present problems when all of the costs involve QIPR. It may prove problematic, however, when the taxpayer creates software as part of its business, qualifying for the 5% tax rate, but also conducts maintenance work not qualifying for the IP Box. In that case, it is hard to allocate a specific figure of indirect costs (e.g. for internet, telephone, or electricity) to these two categories of revenue. It seems that in this case, the rule that should be applied is that when a taxpayer incurs costs to generate revenue from taxable sources as well as costs connected to revenue from other sources, these costs are recognised pro rata in the proportion of taxable revenue to total revenue. Thus it would appear warranted to add up all indirect costs incurred as part of the taxpayer's commercial activity and allow the costs pro rata, in the proportion of revenue from QIPR to other revenue.

revenue-earning cost

Nexus factor

The nexus factor is an adjustment factor applied for calculation of the final basis for taxation at the preferential 5% rate under the IP Box.

The nexus factor is calculated according to the formula

$$\frac{(a + b) \times 1.3}{a + b + c + d}$$

where each letter refers to costs actually incurred by the taxpayer:

“a”—for R&D related to QIPR directly conducted by the taxpayer

“b”—for acquisition of R&D results related to QIPR other than those falling under “d” from an unrelated entity (within the meaning of transfer-pricing regulations)

“c”—for acquisition of R&D results related to QIPR other than those falling under “d” from a related entity (within the meaning of transfer-pricing regulations)

“d”—for acquisition of QIPR by the taxpayer.

It follows that the greater the qualifying costs falling under category “a” or “b” incurred by the taxpayer, the greater the portion of income that may be subject to the preferential 5% CIT or PIT rate. But the greater the qualifying costs falling under category “c” or “d” incurred by the taxpayer, the lower the portion of income that may be taxed at 5% CIT or PIT.

Eligible costs should be reflected in the nexus factor regardless of how they are recognised in tax costs according to general tax rules. Consequently, costs for purposes of calculating the nexus factor should be understood more broadly (functionally) than for purposes of determining tax-deductible revenue-earning costs under the other provisions of the CIT Act or PIT Act. On the other hand, under the IP Box, this particular method of including costs in the nexus factor applies only for purposes of calculating this factor, and the IP Box does not alter the rules for treatment of these costs for other purposes, including for calculating the net income which is multiplied by the nexus factor.

Eligible costs for purposes of the IP Box are not identical to eligible costs for purposes of R&D tax relief. For example, the tax authorities have recognised expenses for accounting support and telecommunications services as costs falling under item “a” above (e.g. individual interpretation by the director of the National Revenue Administration Information Centre of 21 February 2020, no. 0113-KDIPT2-1.4011.654.2019.2.MM), whereas for purposes of R&D relief these items would not constitute eligible costs. It seems, by the way, that it would be hard to argue that most taxpayers use accounting or telephone services for R&D.

Numerous doubts are also raised by the eligibility of fees for subcontractors for the IP Box, in particular the fees of numerous persons cooperating in a B2B model via individual businesses. Depending how the regulations are interpreted, such costs could be assigned to either item “b” (as the result of R&D work, raising the nexus factor) or item “d” (reducing the nexus factor). Interpretations of the IP Box made so far by the tax authorities seem to re-

subcontractors' fees

ward the use of programmers operating their own businesses. All of the fees obtained from sale of software created entirely by a programmer, as well as work connected with improvement or modification of software, qualifies for inclusion in the IP Box relief.

This consequently raises the question of whether the entities paying such fees to programmers should classify these fees under item “d” (as the programmers are selling QIPRs). Otherwise, two entities could claim the same relief for the same QIPR, while classifying the same rights differently (the programmer as the sale of QIPR and the buyer as the purchase of R&D results). However, it seems that this approach may be too restrictive. On the part of the programmer, commercialisation of QIPR arises on the revenue side and determines the very possibility of applying the IP Box, indicating the added value from QIPR, while on the part of the entity cooperating with the programmer, the value of the same QIPR arises on the cost side and may affect the level of the nexus factor.

Summary

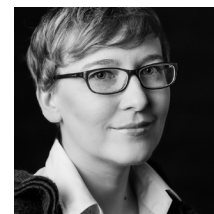
For the video game industry, the IP Box offers a very attractive tax solution, which may be exploited not only by firms employing programmers to prepare products (IT systems), but also by programmers operating their own businesses, who as business operators cannot claim the preferential deduction of 50% revenue-earning costs.

But any taxpayer wishing to take advantage of the IP Box relief should carefully verify whether they meet the conditions for applying the 5% income tax rate, so that they can easily prove in the event of an audit that they are properly claiming this tax preference.

Joanna Prokurat, tax adviser, Tax and State Aid practice, Wardynski & Partners

End of the road for the secondary market in e-books and video games?

In recent months, perhaps more than ever, life has moved online. Some people spend their time reading e-books or playing video games. Can they later resell or exchange such “used” works? A recent ruling by the Court of Justice throws into doubt the secondary trading in digital goods.



DR MONIKA A. GÓRSKA

Nederlands Uitgeversverbond v Tom Kabinet Internet BV (Case C-263/18), judgment of the Court of Justice of 19 December 2019

Does an e-book have a material medium?

Tom Kabinet Internet BV, a Dutch company, operated a “reading club” selling “second-hand” e-books to persons registered on its website. Tom Kabinet first acquired the e-books from official distributors or users. Users who wanted to sell a second-hand e-book to the company had to delete their copy of the book. The company secured the e-books acquired in this way using a digital watermark to confirm the legality of the copy. However, two publishers’ associations objected to Tom Kabinet’s activity, regarding it as a violation of copyright law.

second-hand
e-books

The district court in The Hague submitted a request for a preliminary ruling to the Court of Justice of the European Union, which turned on the legal classification of Tom Kabinet’s activity under the Information Society Directive (2001/29/EC). The referring court asked whether making available and downloading of e-books falls within:

- The notion of “communication to the public” under Art. 3(1) of Directive 2001/29/EC, or
- The notion of “distribution to the public” under Art. 4(1) of Directive 2001/29/EC.

The answer to this question was crucial because it determined whether Tom Kabinet could rely on the notion of exhaustion of copyright.

Exhaustion of copyright means that once a tangible copy of a work has first been sold or otherwise disposed of, the copyright holder loses the possibility of controlling the subsequent fate of that copy. In the analogue, brick-and-mortar world, the buyer of a physical CD or book can listen to the CD or read the book, and then dispose of that copy without the need to obtain the author’s consent. The buyer can for example resell the disc or book on an auction website, or donate it to a public library. As a rule, the author cannot oppose such actions.

exhaustion
of copyright

But the situation in *Tom Kabinet* was somewhat different. What Tom Kabinet provided to its subscribers was not print copies of books, but e-books, i.e. digital files. The fundamental issue was thus whether the rule of exhaustion can be applied to an e-book as in the case of print books.

To answer this question, we must refer to Directive 2001/29/EC and two legal situations governed by the directive: the right of communication to the public and the right of distribution:

<p align="center">Art. 3 of Directive 2001/29/EC</p> <p align="center">Right of communication to the public of works and right of making available to the public other subject matter</p>	<p align="center">Art. 4 of Directive 2001/29/EC</p> <p align="center">Distribution right</p>
<p>1. Member States shall provide authors with the exclusive right to authorise or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.</p> <p>2. ...</p> <p>3. The rights referred to in paragraphs 1 and 2 shall not be exhausted by any act of communication to the public or making available to the public as set out in this Article.</p>	<p>1. Member States shall provide for authors, in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise.</p> <p>2. The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.</p>

Art. 4 expressly refers to the “original” and “copies” of a work, thus alluding to the tangible medium of the work. This article refers to the sale of a specific object, which means transfer of ownership of an item. A digital file (which is what an e-book constitutes) lacks a tangible medium and thus cannot be regarded as a good for legal purposes. Consequently, because of its intangible form, a digital file cannot be the subject of transfer of ownership. Moreover, the intangible form of a digital work means that it is not easy to determine with certainty whether transfer of ownership of such a digital file has occurred. A digital file, including an e-book, is rather a record of data, which potentially may be protected by rights other than a right of ownership.

record of data,
not a good

Both Advocate General Maciej Szpunar and the Court of Justice also stressed that equalising tangible and intangible copies of works in this respect was not the intention of the EU legislature when it adopted Directive 2001/29/EU. The aim was to distinguish digital distribution (Art. 3) from physical distribution (Art. 4).

As an e-book is only a data file, and not a copy of a work within the meaning of Art. 4 of the directive, it is not subject to the rule of exhaustion. Making an e-book available to the public and facilitating download of the e-book does not fall within the concept of the right of distribution under Art. 4(1). Further, secondary trading in e-books requires the consent of the righthold-

exhaustion does not
apply to e-books

er (author or publisher), as making e-books available to the public should be assessed under Art. 3 of the directive, which excludes exhaustion of rights in this respect.

E-books and computer programs—different rules

Both the advocate general and the court took a different position on exhaustion of rights to e-books than that expressed in the earlier EU case law on computer programs. In 2012 the Court of Justice held that the sale of a computer program on a material medium and sale of the program by downloading it online have the same economic effect and should be treated the same way. In both instances, exhaustion of the copyright occurs (*UsedSoft*, C-128/11). Transfer of a copy of a computer program, whether via a material medium or by download, accompanied by a licence to use the program for an indefinite period, is equivalent to transfer of ownership of that copy, and consequently sale of that copy within the meaning of Art. 4(2) of the Computer Programs Directive (2009/24/EC). From an economic perspective, online supply of a copy of a computer program is the functional equivalent of supply of the material medium.

e-book = literary work + computer program

As EU law recognises the rule of exhaustion with respect to computer programs, which contributed to the development of a secondary market in software, it seemed that the Court of Justice might apply a similar rule to e-books. But the advocate general and the court did not take that view. An e-book, they found, is not just a computer program. It is a complex matter, including both a protected literary work and a computer program incidental to the literary work. An e-book is protected due to its content, which is its fundamental element, and the computer program merely enables reading of the e-book.

***Tom Kabinet* and the secondary market for video games**

The ruling by the Court of Justice in *Tom Kabinet* may prove interesting for the video game industry and the secondary market for video games. A video game is a complex work in which (similar to or even more than in the case of an e-book) other protected elements occur alongside the computer program. As the court held in C-355/12, *Nintendo*, video games “constitute complex matter comprising not only a computer program but also graphic and sound elements, which, although encrypted in computer language, have a unique creative value which cannot be reduced to that encryption. In so far as the parts of a videogame, in this case, the graphic and sound elements, are part of its originality, they are protected, together with the entire work, by copyright in the context of the system established by Directive 2001/29.”

a video game is a complex work

As for their manner of sale, video games may be found in boxed versions as well as digital (online) versions. The *Tom Kabinet* case thus forces us to ask whether the secondary trade in games in digital form is lawful.

In this context, the judgment issued in September 2019 by a court in Paris in *UFC–Que Choisir v Valve Corp.*, a dispute between a French consumer organisation and the operator of the game distribution platform Steam over whether users of the Steam platform could resell video games they purchased online, has attracted the attention of many commentators. The French court held that the rule of exhaustion applies to video games under both Directive 2001/29/EC and Directive 2009/24/EC. Exhaustion should thus apply to both material copies of a work and to digital works. Downloading a video game file and installing the game on a computer creates a copy of the game, and thus it is permissible to apply the rule of exhaustion. The French court also pointed out that although Valve alleged that it was providing subscription-based services, in reality its model for operating the platform resembled the sale of video games: the user obtained access to the video game for an indefinite period in exchange for payment in advance of a one-time fee.

It should be pointed out that the French court handed down its ruling before issuance of the *Tom Kabinet* judgment by the Court of Justice, and thus the French court might have reasoned differently if *Tom Kabinet* had already been decided.

The case law from the Polish courts should also be noted. In the judgment of 7 May 2014 (case no. I ACa 1663/13), the Warsaw Court of Appeal held that a digital record on its own could be equated with a copy (*egzemplarz*). The notion of a “copy” as used in the Polish Act on Copyright and Related Rights may include not only material (physical) copies of a work, but also versions made accessible to the public in electronic form (e.g. in a computer network) (Łódź Court of Appeal judgments of 4 February 2016, case no. I ACa 1107/15, and 5 January 2017, case no. I ACa 830/16).

Thus if a case involving second-hand sale of e-books were heard in Poland, it cannot be excluded that the court would allow the rule of exhaustion to be applied. However, in light of the ruling in *Tom Kabinet*, the line of decisions admitting the existence of a digital copy, and thus exhaustion of the copyright to the work embodied in that copy, allowing the same copy to be resold, may not survive. Like the judgment of the French court, the judgments of

Polish case law

the Polish courts cited above were issued prior to the judgment by the Court of Justice in *Tom Kabinet*.

Summary

The ruling by the Court of Justice in *Tom Kabinet* reinforces the division in the approach to traditional works and digital works. With respect to traditional boxed sales of video games, the rule of exhaustion can be applied, allowing resale of such a “used” game. But this does not appear permissible with respect to video games offered online, where resale of “used” games may infringe copyright. Unfortunately, the approach of the advocate general and the Court of Justice in *Tom Kabinet* means a continuation of the dualism in treatment of digital works and analogue works, which does not contribute to legal clarity or help the law keep current with the challenges of the digital world.

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Law vs. imagination

Is the creativity of video game developers limited by architects’ rights to the image of their buildings erected in public space?

Creators of video games often set the action of their games in spaces modelled on the real world or using well-known buildings and other structures existing in public space. Locations used in video games often gain popularity, and for many fans become a tourist destination in their own right (witness the growing interest in visiting Lower Silesia due to the popularity of *The Vanishing of Ethan Carter*).

Thus it is essential for creators and publishers of video games to determine whether the use of recognisable locations in games is limited in some way by the law, and if so, what requirements must be met to allow features of the built environment to be used in a game. The answer to this question is not obvious, due to a lack of harmonisation on the global or even the European level of regulations governing “freedom of panorama,” a form of permissible use limiting the entitlements of copyright holders. In addition



EWA NAGY

obstacles

to copyright, national legislation on protection of cultural heritage as well as the right to privacy may also present a barrier to importing images of buildings or urban spaces into the world of a video game. Below we outline the importance that freedom of panorama can have for the game development industry.

Freedom of panorama—when the author’s consent is not required

Generally, freedom of panorama allows persons who have not obtained the consent of the holder of economic copyright to disseminate works permanently displayed to public view. In practice, in countries where this freedom has been enshrined in legislation, exercise of freedom of panorama primarily boils down to photographing or filming buildings, sculptures and other objects that remain under copyright protection but are located in public space. Thus this freedom generally extends to images of buildings, squares, sculptures and other objects that could still be covered by copyright, i.e. designed at the end of the 19th century or later (considering that copyright protects works for the lifetime of the author and a further 70 years after the author’s death).

freedom of panorama

The scope of permitted use is regulated differently from country to country. For example, in France freedom of panorama is limited exclusively to making available works of architecture and monuments erected permanently in public places, by natural persons and excluding use for commercial purposes (Art. L.122-5(11), Code de la propriété intellectuelle). In Germany, freedom of panorama allows duplication, dissemination and public playback of works permanently located in roads, streets or public places, using graphics, painting, photography or film techniques, without any subjective restrictions, including for commercial purposes (§59, Gesetz über Urheberrecht und verwandte Schutzrechte). Italian copyright law, by contrast, provides no exception at all in the form of freedom of panorama. Moreover, dissemination and making available of images of architectural structures situated in the Italian landscape (regardless of whether they are covered by copyright protection) requires compliance with additional conditions under regulations protecting cultural heritage and the landscape (Art. 107–108, Codice dei beni culturali e del paesaggio).

different from country to country

Freedom of panorama in Poland

In Poland, [freedom of panorama](#) is regulated by Art. 33(1) of the Act on Copyright and Related Rights, which provides: “It is permissible to disseminate works permanently displayed in publicly accessible roads, streets, squares or gardens, but not for the same use.” The act does not specify that

how is it in Poland?

dissemination may be done solely for non-commercial purposes, and thus based on this provision it is permissible for example to create and market postcards with images of buildings or sculptures protected by copyright, or even street-art murals.

A condition for exercise of this right is the accessibility of the reproduced view from a public place and permanent placement within that context. However, any dissemination of temporary exhibitions or installations held in public space will require the consent of the holders of copyright to the exhibited works. In turn, freedom of panorama excludes any places to which access is limited, even if located in public space (e.g. the façade of a building visible only through binoculars from a private balcony), as well as any building interiors, regardless of their character and public accessibility.

Can video game developers exercise freedom of panorama?

The greatest doubts in applying the Polish provision is whether freedom of panorama allows only a faithful reproduction of works located in public space, via photography or film techniques, or also permits creation of other derivative works: graphics, paintings, drawings, souvenirs with images of famous buildings, or, indeed, inclusion of images of buildings and sculptures found in public space in video games.

freedom of panorama
for derivative works?

This issue has not yet been categorically resolved. Lawyers generally have no doubt that under the freedom of panorama provided for in Polish law, it is permissible to execute graphics or paintings depicting works protected by copyright, as in legal terms these works involve creative elements and may thus qualify as derivative works in relation to the depicted works (K. Gienas, commentary on Art. 33 in E. Ferenc-Szydelko (ed.), *Act on Copyright and Related Rights: Commentary* (Warsaw 2016)). But there is controversy surrounding for example the issue of designing and disseminating three-dimensional miniatures of architectural icons (e.g. as souvenirs). Opponents of recognising such activity as falling within the bounds of permitted use point to the need to evaluate whether such use of works accessible in public space infringes the legitimate interests of the authors. This assessment has to be made in each instance where a protected work is being exploited on the basis of any of the provisions establishing permitted private or public use, as stated in Art. 35 of the Copyright Act.

In the context of video games, it should be pointed out that in most instances, the graphics of the game are based on 3D models, and thus the views of spaces presented in the game do not constitute a recording of publicly

accessible places using photographic or film technology. A technology that has gained popularity recently for creating game graphics is photogrammetry, where numerous photographs are taken of a given object, in a range of shots and angles, and these photos are then processed to render a 3D image. This technology was used for example in creating *The Vanishing of Ethan Carter* and *Star Wars: Battlefront*. The sites where the narrative of the game plays out are thus generally presented realistically, and their appearance is not subject to any noticeable distortion. Moreover, even when not executed through video recording, the use of shots of publicly accessible spaces in realistic games may be compared to their use in films, which generally does not give rise to any major controversies under the Polish freedom of panorama.

But objects existing in reality are often imported into games stripped of their natural context, or are used in games featuring a violent narrative. Use of images of others' works in a context different from that intended by their creators could thus lead them to express their concern or objection to such use. Then the authors could challenge the use of their work without consent not only on the basis that it conflicts with their creative interests under Art. 35 of the Copyright Act, but also relying on their moral rights, specifically the right to respect for the integrity of the work.

context is important

In summary, video game developers wishing to import into the world of the game structures, sculptures or other works located in public space and covered by copyright must display sensitivity in selecting objects for use in the game. The differing scope of freedom of panorama in different countries may encourage them to set the narrative of the game in countries where the regulations and case law are more favourable to game developers. The economy of those countries may also benefit from this use due to the increased tourist traffic. But even in countries, like Poland, where freedom of panorama has been regulated quite liberally, it is essential in each instance to conduct an individual analysis to identify potential challenges to use of the work, relying for example on Art. 35 of the Polish Copyright Act or infringement of the author's moral rights.

vigilance needed

Ewa Nagy, attorney-at-law, Intellectual Property practice, Wardynski & Partners

The name of the game: Video game titles and trademark protection

Sometimes a video game's title is one of the game development company's most important assets. Properly selected, secured and promoted, it may constitute a valuable source of income for a long time. Therefore, at an early stage of work on the game, it is worth making an appropriate application to the register, bearing in mind that in the case of trademarks, the principle of "first come, first served" applies. A well-thought-out strategy for selecting and registering a video game title can also save a lot of nerves and money after the game is launched on the market.

Trademark clearance: How to check if a game title is registrable and can be used safely

Trademark clearance should precede not only an application for registration of a game title as a trademark, but indeed the very choice of the intended title (even if the developer ultimately decides not to register it). Trademark clearance is research to determine whether the same or a similar title has already been registered as a trademark or is being used by an entity from the same or a similar sector for identical or similar goods or services. This research is usually carried out using professional trademark databases. Among other things, trademark clearance should look for potential conflicts with earlier:

- Registered trademarks
- Designations used on the market
- Company names.

Clearance will take into account conflicts not only with other game titles, but also with designations of other goods and services, especially if they are renowned. All of these can present an obstacle to registration of a new trademark. Therefore, it is worthwhile to entrust this examination to a professional, such as a patent attorney, who will not only review the databases, but above all assess potential conflicts and risks. This can save the developer from lengthy disputes, including costs of litigation and change of title, and, in worse cases, a spectrum of financial claims.

3D Realms, a studio that created a game called *Ion Maiden*, found out the risk of not undertaking such an examination. The choice of title caused the



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professional support
needed

studio to become embroiled in a dispute with the heavy metal group Iron Maiden, which had registered its band name as a trademark. Among other things, that registration covered goods in Class 9, including computer games and video games. Therefore, in May 2019, the band [filed a trademark infringement lawsuit](#) in a federal court in California (*Iron Maiden Holdings Ltd v 3D Realms Entertainment ApS*). The musicians alleged that 3D Realms' *Ion Maiden* game title was almost identical, visually and phonetically, to the Iron Maiden trademark, and produced a similar overall impression. Additionally, the game title and the trademark used by 3D Realms were registered for identical goods: computer and video games.

Iron Maiden trademark



Original designation of game



According to the band, this could lead to a mistaken belief that the game was related to Iron Maiden. This was backed by reports from the band's fans, who were convinced that the *Ion Maiden* game was about Iron Maiden. The band sought USD 2 million in damages, destruction of all products designated with the *Ion Maiden* title, and deregistration of ionmaiden.com or transfer of the domain to the band. 3D Realms did not join issue, but resolved the case amicably by [changing the name of the game to *Ion Fury*](#).

Original game designation



Revised game designation



What else to avoid when choosing a game title?

Not every game title can be registered as a trademark. A title does not have to have artistic qualities, but it should be fanciful, ingenious, and original if the trademark is to fulfil its essential function of distinguishing the game and other related goods or services on the market. Therefore, the title should be chosen carefully so it is not too common and also does not just describe the features or type of game.

First, **descriptive or generic titles** must be avoided. An example of such a designation in the Polish Patent Office, from a slightly different market,

was the application for registration of the name “Gra” for playing cards and other goods. The office refused to register the mark (which in Polish simply means “game”), finding that it had no distinctiveness and did not fulfil the function of identifying the origin. In other words, customers would not associate it with any particular producer, but would perceive it as merely describing the product.

generic name
is unlikely to pass

This can make it a challenge to register the titles of simulators, which seem to be experiencing a renaissance. The difficulty will mainly concern their registration as word marks. The titles of such games typically contain the word “simulator” plus an additional component specifying what kind of experience or action the game simulates (a flight simulator, a farm simulator, etc). The story of *Euro Truck Simulator* can be given as an example. The Czech studio SCS Software s.r.o. wanted to register it for “computer games, online, simulation games, car driving imitation games.” In the game itself, the user assumes the role of a truck driver. Initially, the European Union Intellectual Property Office refused registration of the mark, finding that it lacked distinctiveness, but merely provides information about the type of product (a game simulating truck driving on European roads). But the studio did not give up. The mark was finally registered, but only because the studio managed to demonstrate secondary distinctiveness acquired through use of the game title. The studio presented various pieces of evidence of intensive use and considerable popularity of the game (and its sequel, *Euro Truck Simulator 2*). This case shows that the battle for registration is sometimes long, tiring and expensive. It is also necessary to submit evidence about the game, and it is worth collecting this systematically in advance. But the overall lesson is that it is better to choose a title that is immediately distinctive.

“simulator” is not
distinctive enough

Doubts cannot always be avoided. CD Projekt RED also faced Community allegations that the name *Cyberpunk*, which it submitted for registration, is generic for games. Among other things, it was argued that Cyberpunk is the name of a literary genre from the science fiction realm and that, for a game, it also indicates the type of game, i.e. a sci-fi game. But this does not seem obvious at all, especially when we consider that video games are increasingly treated as everyday goods, and persons who buy them are not only industry experts, but also customers buying a game for example as a gift. Therefore, the average customer for games is the general public, which may not treat this term as generic. The average consumer of games and the relevance of their perspective is described in more detail in our article “[Dungeons similar to Dungeons & Dragons](#).” The Cyberpunk mark was ultimately registered by EUIPO.

is cyberpunk
a genre?

Second, **it is not worthwhile to submit for registration designations consisting solely of elements that have entered ordinary usage** or customary commercial practice, e.g. are commonly present in game titles. This prevents any one entity from monopolising expressions everyone should be allowed to use.

appropriation of colloquial or common words

An example would be the word “ghost.” Electronic Arts sought to register Ghost with the US Patent and Trademark Office for games and other goods, leading to a [dispute](#) with Ubisoft. Ubisoft owned a number of earlier trademarks with the “ghost” element, including the game *Ghost Recon*. It opposed the registration, arguing that there was a risk of confusion because of the similarity between the marks. Ubisoft also pointed out that the word “ghost” often appears in computer game titles and forms part of many marks registered for computer games, applications or software, such as *Sniper: Ghost Warrior Contracts*, *Call of Duty: Ghosts*, *Ghost of Tsushima*, *Ghost Master* and *Ghost Theory*. Obtaining registration of the Ghost trademark, and thus exclusivity of its use for video games, would give EA an unfair competitive advantage, blocking the use of other game titles containing the word “ghost.” Eventually, the companies settled the dispute, and EA withdrew its trademark application.

Ghost

The word “candy” provides another lesson. King, publisher of the popular *Candy Crush Saga* series, submitted the name Candy for registration with USPTO for games and other goods. The gaming community (and competitors) considered this manoeuvre an appropriation of a common word customarily used in game titles. To publicise their opposition, game developers started the [Candy Jam](#) initiative, encouraging developers to develop and publish games with the word “candy” in the title. In view of the strong opposition (and thus a high likelihood of attempts to undermine the registration), King decided to withdraw its application. This does not mean that King does not own word marks that include the word “candy” as a component (e.g. *Candy Crush Saga*, *Candy Crush Soda Saga* and *Candy Crush Jelly Saga*). But they do not appropriate the word “candy” itself, so other producers can also use it in games and trademarks.

Candy

Why is it worth registering a game title as a trademark?

First, registration of the game title as a trademark gives the owner an **exclusive right to use the mark for commercial or professional purposes** (for 10 years, with the possibility of renewal for further 10-year periods, in practice indefinitely). This means that the owner holds an asset that is absolutely protected, giving the holder strong power in a given territory. The choice

choice of territory

of the territory should be selected according to the business strategy and planned expansion of the game. Therefore, it should be remembered that an EU trademark guarantees protection within the European Union, while a Polish trademark gives protection only in Poland. But to obtain protection in China or the US, the owner must register the trademark in those countries.

Second, a trademark owner obtains an important **weapon in the fight against counterfeits** or copycat products. Registration of a game title as a trademark entitles the owner to prohibit third parties from using an identical or similar designation for games or other goods or services often related to games. Thus it offers tools to fight against similar titles unfairly capitalising on the market success of a previous game, e.g. by misleading consumers into believing that they originate from the same studio or are related to it, creating the impression that they are another part of the same game, etc. Thus, ensuring registration of the title, especially if the production is later successful and becomes attractive for marketing, may have a significant economic dimension.

fight against counterfeits

Third, registration will also be beneficial if the company intends to **exploit a given title longer**, e.g. by releasing sequels. Consumers are also eager to buy game-related paraphernalia (such as mugs and T-shirts bearing the game title). Therefore, registering a title as a mark may be the key to effective merchandising. Such commercialisation of a mark requires appropriate selection of the scope of trademark protection, i.e. registration of the mark for the classes of goods relevant to the planned merchandising activity.

merchandising

Sample paraphernalia with game titles



Fourth, a **trademark always increases the company's value**. For some investors or game publishers, formal title protection by developers may be vital information when deciding on the allocation of funds or selecting a counterparty.

company asset

The importance of registration of game titles is evident in the widespread practice of registration, including by Polish game developers, for example:

- Word mark **This War of Mine**, registered in the EU by 11 bit studios (Poland)
- Word mark **Layers of Fear** registered in the EU by Bloober Team (Poland)
- Word mark **Bulletstorm** and two-dimensional mark consisting of graphics and text



registered in the EU by People Can Fly (Poland)

- Two-dimensional mark of graphics and text



registered in the EU by Epic Games

- Word mark **The Witcher** registered in the EU by CD Projekt (Poland)
- Word mark **Sniper Ghost Warrior Contracts** registered in the US by CI Games SA (Poland)
- Word mark **Battle Breakers**, registered at the World Intellectual Property Organization with a designation for China and other jurisdictions by Epic Games.

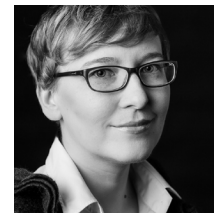
Research and register

Before investing time and money in marketing a game title, it is imperative to examine whether the same or a similar title has already been used or registered, to avoid problems post-launch. It is much easier and cheaper to change a game name before it is released than to bear the risk of entering into a dispute and related consequences. If the research shows that the ideal title is available, the rights to it must be properly secured, preferably by registering it as a trademark.

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examples
of registration

Copyright and game jams, hackathons and competitions



DR MONIKA A. GÓRSKA

Game jams, hackathons and competitions are some of the methods for activating and engaging the game development community (as demonstrated for example by the popularity of Poland’s nationwide online game jam #zostanwdomurobgry, held by the Indie Games Polska Foundation on 30 March – 6 April 2020 under the aegis of the Ministry of Culture and National Heritage and the Ministry of Science and Higher Education). Organising and promoting a competition is relatively uncomplicated. There are benefits on both sides. The participants have an opportunity to present their work, and the organiser gains access to a range of creative proposals. But such competitions pose copyright challenges, as we discuss below.

Competition rules

The organiser needs to draw up clear rules for participating in the competition. The rules should specify, at a minimum, the subject of the competition (the activities expected of participants), the timetable and manner of submission of works for the competition, who is eligible, the procedure for selecting the winners, the prizes to be won, and appeal provisions (if any). A key provision of the rules is identification of the prize. It might be conclusion of a contract to produce and distribute the winning work, or it might be a cash or in-kind prize.

what is the prize

In the case of a competition involving creation of a competition work, the rules should include provisions on the criteria and parameters for the works (characteristics, technical specifications), and also representations concerning authorship of the work. If the organiser intends to exploit works submitted in the competition, the rules must contain appropriate copyright provisions.

what criteria

Copyright to competition works

The organiser of the competition will acquire ownership and copyright to the winning work only if it has included such a reservation in the undertaking to grant a prize. Then acquisition will occur upon payment of the prize (Civil Code Art. 921 §3). If there is no provision on acquisition of ownership or copyright in the competition rules, the organiser will not acquire these rights.

acquisition of property and copyrights

This provision of the Civil Code does not indicate whether acquisition of copyright must take the form of a written contract. However, the Act on Copyright and Related Rights clearly provides that transfer of economic copyright to other persons requires compliance with written form under pain of invalidity. Thus, for evidentiary reasons and to avoid doubts as to the scope of acquisition of rights by the competition organiser, it is recommended to conclude a written contract transferring copyright to the work.

written contract

But it is not always necessary to acquire copyright to the competition work. More and more often organisers provide in the competition rules that the contestant will grant a licence to use the competition work. It should be borne in mind that an exclusive licence (like transfer of economic copyright) requires written form under pain of invalidity. However, a non-exclusive licence may be granted in any form (a provision to this effect in the competition rules will suffice).

What to pay attention to in the rules or the contract concerning the competition work

Both the competition organiser and the participants should pay particular attention to the following issues:

- Fields (methods) of exploitation of the competition work—the designation of fields of exploitation sets the boundaries of use of the work by the organiser, and also indicates the scope of transfer or grant of a licence by the contestant
- Derivative rights, i.e. the possibility of modifying or elaborating the competition work—creation of derivative works based on the competition work, and disposing of derivative works, requires the consent of the original creator of the work, i.e. the contestant
- Territory and duration of the licence, rules for terminating the licence, and sublicensing rights, if the rules provide for the contestant to grant a licence to the organiser—it is important to bear in mind the controversies surrounding “perpetual” licences, although the courts are showing the first signs of permitting indefinite licences in Poland
- Moral copyright, which unlike economic copyright is inalienable—importantly, acquisition of copyright to a competition work does not deprive the contestant of protection of his or her moral rights
- Ensuring the participants’ consent to use of their image—under copyright law, a person whose image is recorded and disseminated must consent to this use
- Designation of the governing law, particularly in international competitions—similar-sounding legal concepts may be regulated entirely dif-

fields of exploitation

possibility of modification

rules of licence

authorship

image

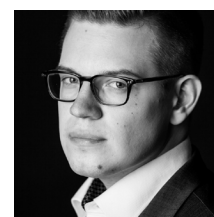
governing law

ferently in various countries (for example, a “perpetual” licence, derived from and permissible in the United States, would be controversial in Poland).

The issues mentioned above do not exhaust the questions surrounding acquisition of copyright or issuance of a licence in competition procedures. The rules, like a contract, should be drafted to meet the needs of the specific competition, the works, and the organiser. And we encourage participants to read the rules carefully.

Dr Monika A. Górska, attorney-at-law, Intellectual Property practice, Wardynski & Partners

Fundamental issues a game developer should pay attention to when negotiating a contract for publication of a video game



JAKUB BARAŃSKI

Contracts for publication of video games are concluded between game developers and companies specialising in publishing games (sometimes referred to as “dev-publisher agreements”).

Just a few years ago, the word in the video game industry was that the role of publishers in the process of commercialising new games was on the way out, and the future of the industry was in self-publishing of games by developers. But publishers have not gone away, and still represent a hugely important element of the operation of the entire industry. For game developers, contracts with publishers are one of their key business relationships. The publisher typically provides not only services and knowhow in marketing and distribution of games, but also serves as a fundamental source for financing game development.

So as a developer, it is vital to consider the nature of cooperation with a publisher, and first and foremost what to pay attention to when negotiating the contract with the publisher.

publisher or self-publishing?

First question: What do we need a publisher for?

Any developer, but particularly one negotiating a contract with a publisher for the first time, should ask themselves at the beginning what they expect from their publisher, and then consider what the publisher will expect of them.

mutual expectations

In simple terms, the publisher's role boils down to three aspects:

- Financing production of the game
- Marketing of the game
- Organising distribution of the game and managing relations with distributors.

publisher's role

In practice, not all of these elements will necessarily be involved. Contracts are often concluded where the publisher does not finance development of the game, but handles solely distribution. There are contracts where the developer assumes the responsibility for marketing and does not expect any support in this respect from the publisher. But a classic or full-service publishing contract will cover all three of these elements.

The publisher in turn expects the developer to be in a position to create a work within a short timeframe in the form of a game suitable for commercialisation and offering prospects for good profits. Indirectly, the publisher also expects the developer to possess a qualified team of people allowing the developer to meet this goal. In exchange for its services—particularly when it also finances production of the game—the publisher also expects a fee, typically taking the form of a defined percentage of the revenue from sale of the game.

developer's role

These mutual expectations point to the fundamental areas typically addressed in the publishing contract, namely:

- Copyright to the game under development and other intellectual property rights
- The publisher's rights and obligations with respect to distribution of the game
- Rules for financing production of the game and subsequent division of the profits from sale of the game
- The scope and nature of marketing services provided by the publisher.

publishing contract

In this article we focus on two of the most fundamental issues, namely intellectual property rights and financial aspects.

Intellectual property: As the developer, can we retain the copyright to our game?

In the case of many developers cooperating with a publisher for the first time, their first question is how concluding a contract with a publisher will affect their copyright to the game they have created.

who has
the copyright

In the past, publishers most often expected the developers to transfer their economic copyright to the game to the publisher to the fullest possible extent—particularly in instances where the publisher agreed to finance production of the game. The practice today is different, but as a developer it is still worth closely examining the provisions of the contract governing the issue of intellectual property rights.

Now it is much more common in publication agreements to regulate the publisher's rights to use the video game (or rather to exploit the bundle of various intellectual property rights involving the game) through the grant of a licence. Thus this is generally a form that is more limited. Nonetheless, publishers often expect the scope of the licence to the IP rights granted them in the contract to be broad, a solution in practice sometimes bordering on a transfer of copyright. It should be examined from the developer's perspective whether the scope of the licence demanded is truly justified.

Scope of licence granted to the publisher

In terms of the scope of the licence, the following basic issues should be borne in mind:

- Territorial scope (i.e. in what countries the publisher obtains the right to exploit and benefit from the game)
- The platforms on which the publisher will have a right to commercialise the game (whether the publisher will be able to market the game exclusively in box form, e.g. at brick-and-mortar stores, or via certain digital distribution channels like Steam or the Epic Games Store)
- Whether the publisher will have a right to “port” the game to other platforms, and if so which (e.g. in the case of a game developed exclusively for PC, will the publisher also have a right to exploit and benefit from a new version of the game for consoles like PlayStation or Nintendo Switch)
- The right to localisation of the game, i.e. to adapt the language and narrative to make it relevant for users speaking other languages or coming from other cultures.

licence

It should also be considered whether the contract covers derivative works, such as sequels/prequels and merchandise inspired by the game (shirts, toys etc). Sometimes these items can generate significant revenue.

derivative works

The licence may be exclusive or non-exclusive. The first solution can be disadvantageous for the developer if the developer is considering potential cooperation with other publishers as well, who in certain aspects (e.g. in certain countries) have greater experience in marketing or distribution or can offer better financial terms.

exclusive or non-exclusive licence

The period for which the licence is granted must also be considered. Various solutions may be applied in this respect, but publishers from the US or the UK often propose clauses defining the licence as “perpetual.” Such clauses should be consulted with a lawyer specialising in the law of the jurisdiction governing the contract, as copyright law does not always allow the grant of a “perpetual” or “irrevocable” licence (more about perpetual licences [here](#)).

period of licence

The scope of the licence is vitally important in terms of the overall contract and not only in the context of intellectual property rights. The provisions governing the scope of the licence usually also define the scope of the publisher’s obligations in the area of distribution of the game, as well as the sources of revenue that will be subject to division between the developer and the publisher as part of the publisher’s fee—more on this topic below.

Finances: Will we receive funding from the publisher to develop the game, and if so, will we have to pay it back?

The second key issue in game publication contracts, from the perspective of both the developer and the publisher, is finances. One of the publisher’s roles is often (but not always) to provide the financing the developer needs to produce the game. This typically takes the form of debt financing, i.e. an interest-free loan subject to repayment out of the revenue from sales of the game.

financing

Apart from the total amount of the financing the publisher is willing to offer (which itself is obviously crucial, as the amount must suffice to cover the production costs of the game), the mechanism for paying out the funding also looms large. Most often funding is provided by the publisher in the form of advances, released gradually upon achievement of certain milestones in the game development process (e.g. drafting of the game design document, completion of a prototype, preparing a vertical slice). Thus the developer should first examine the description of the milestones proposed by the pub-

payment

lisher and the deadlines for achieving them. Situations should be avoided where the amount of individual advances is insufficient to cover the costs that will have to be incurred to meet the specific milestones, or where the gap between advances is too long and could disrupt the development process.

It is also worth the effort to precisely define the procedure for acceptance of individual stages. The developer should focus on negotiating solutions such as:

- A set period in which the publisher must accept or reject each phase of development
- An obligation for the publisher to provide a detailed justification as grounds for refusing to accept a phase of the work
- Provisions under which the publisher is deemed to accept the phase of work if it fails to express a position on the work by the stated deadline.

It is also recommended that from the time of approval of each phase, the publisher be required to pay out the next advance of funding within a relatively short time. This precise regulation of acceptance of phases and milestones helps avoid many difficulties during the course of game development.

As the publisher is providing debt financing, the provisions of the publishing contract on repayment of the financing are also crucial. As mentioned, the financing is subject to repayment out of the future revenue from game sales, referred to as the “recoup.” In practice, publishers typically expect repayment of the financing to take total priority over the developer’s benefit from sales. In other words, the publisher expects the monthly sales revenue from the moment of launch of the game to be applied first toward reimbursement of the financing, until the outstanding amount is entirely paid down, and only after that point will revenue begin to be split between the developer and the publisher in the defined proportions (more on this below in the discussion of the publisher’s fee). This approach to repayment of financing is referred to as a 100% recoup, as reimbursement of 100% of the financing takes precedence over the normal division of profits from sales. But sometimes publishers will agree to a lower degree of recoup, even 50%, particularly in the case of developers with a certain reputation on the market. It’s worth trying to negotiate such a solution, as it allows the developer to start drawing profits from its game earlier. A solution involving a rate of recoup below 100% is particularly important considering that most often the greatest revenue from sales of a new game is achieved immediately following its launch. Thus, in absolute terms, even a relatively small percentage of the revenue in the first months can be significant.

acceptance
procedure

repayment
of financing

Publisher's fee for services: rules for allocation of profits from the game

Apart from the publisher's expectation of repayment of financing provided for production of the game, it is also natural for the publisher to expect a fee for the services it provides. The publisher will most often collect this fee in the form of a set percentage of the revenue from sale of the game after the advances for funding the production are recouped. In practice, the division of revenue can differ greatly depending on numerous factors, but it is not unusual to encounter a 20:80 split, where 20% goes to the publisher and 80% to the developer.

publisher's fee

In this context, how the revenues subject to division between the developer and the publisher are defined in the contract becomes vital. Often the definitions prove more important than the split as such. How the notions of "gross revenue" and "net revenue" are defined in the contract deserves particular attention.

Gross revenue typically means all sources of revenue counted for division between the publisher and the developer (e.g. revenue from certain digital distribution platforms, revenue from "box" distribution, revenue from "merch" and in-game sales, e.g. extra items used in the game).

gross revenue

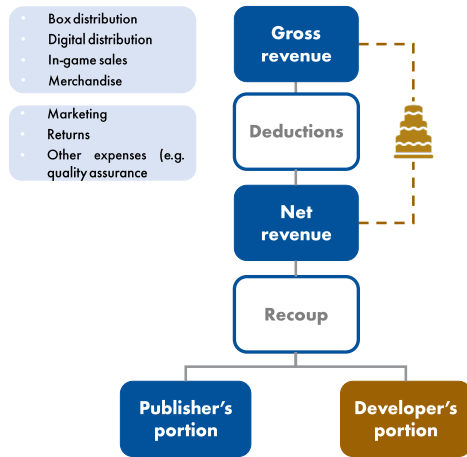
The second notion, net revenue, is equally important if not more so. It captures the value of revenue subject to division between the parties in the defined proportions after making certain deductions from the gross revenue of expenses defined in the contract. Publishers often expect that costs, e.g. for conducting marketing campaigns for the game, will ultimately be borne by the developer, which in practice means that they are deducted from the revenue generated from sales of the game prior to the split according to the defined proportions. Net revenue also often reflects other types of deductions, such as the value of returns by customers and other types of expenses which the parties agree will be charged to the developer, e.g. the costs of the quality assurance process preceding launch of the game on certain platforms.

net revenue

The connections between concepts like recoup, gross revenue and net revenue are depicted in the diagram below:

Business relations—game publication contracts

Financial conditions—method of allocating revenue



- Key issues: **definition of net revenue and deductions.** These two elements determine the size of the cake to be divided between the developer and the publisher
- The degree of **recoup** is sometimes negotiable—the lower it is, the faster proceeds will be going to flow to the developer (but the default is 100%, until the financing is completely down).
- The **share of net revenue** after recoup may be **differentiated** depending on global sales value (the higher the sales, the lower the publisher's share), or depending on the source of the revenue.
- **Bonuses** may be payable if certain targets are achieved (game delivered before deadline, certain score on Metacritic, etc).
- Duty to supply precise **financial statements** and right to audit the statements.

The definitions of gross revenue and net revenue in some sense define the size of the cake to be sliced up between the publisher and the developer. Optimal definition of these terms often outweighs the mere negotiation of a nominally preferential split.

In practice, particularly in the case of games where the publisher is responsible for relations with distributors, profit from sale of the game and other sources of revenue will flow first to the publisher and later be shared with the developer. Thus the provisions of the contract governing the publisher's duties to accurately and regularly inform the developer of the current financial situation related to sales assume great importance. The standard in publishing agreements is a duty on the publisher's part to submit a detailed financial report to the developer each month after launch of the game. The contents of the report are defined in the contract and typically include information on the value of revenue in the given month from particular sources (platforms, merchandise and in-game sales), the value of deductions (e.g. for returns), the net revenue, and the developer's and publisher's shares. In situations where the revenue from the game flows to the publisher, there is a great asymmetry of information between publisher and developer. In this case, the reports are an essential tool to ensure transparency of the entire process of splitting the profit. From the developer's point of view, it is also worth negotiating a right to audit the reports by comparing them to the source documents, which encourages the publisher to prepare them scrupulously. Moreover, timely submission of reports by the publisher is vital from the developer's perspective,

flow of information

as typically the profits are split in the agreed proportions a certain time after the publisher submits the report to the developer.

Other issues: exit plan, governing law, and dispute resolution

Finally, the provisions governing the end of cooperation with the publisher should be considered. Often one of the foundations of good contractual relations is the knowledge that at any time either party has a realistic possibility of walking away when this proves necessary for legitimate reasons.

In this context it should be examined whether the contract contains any grounds at all for termination or repudiation by the developer. Sometimes publishing contracts contain only provisions giving the publisher rights to unilaterally terminate the parties' cooperation. By contrast, examples of grounds for unilateral termination by the developer might include situations such as:

- Publisher's delay in payment of advances exceeding a set number of days
- Publisher's delay in launching sales of the game within a certain period after the developer's delivery of the "gold master" version of the game ready for commercialisation
- Publisher's delay in submitting monthly financial reports on game sales.

Apart from a reasonable definition of the grounds for terminating the contract, it is key to include an exit plan in the contract, i.e. to expressly address the results of termination of the contract during the course of performance, in terms of intellectual property rights, repayment of financing, and division of revenues. Only with a properly defined exit plan can the parties realistically consider exercising their rights to unilaterally terminate the contract. Otherwise, these rights may prove illusory, as exercising them will carry too great a risk of uncertainty about the consequences.

Apart from the issue of contract termination, it is essential to examine which jurisdiction's laws govern the contract. This issue is usually addressed near the end of the contract in a choice-of-law clause stating that the contract is concluded for example under Polish law, English law, or the law of some other jurisdiction. This is an issue of fundamental importance.

The dispute resolution clause is another important provision, specifying which authority will be competent to resolve misunderstandings that may arise between the parties—whether the state courts of a given country or an arbitration court—or requiring the parties to resort to mediation.

repudiation
of contract

exit plan

governing law

dispute resolution
clause

Summary and general remarks

A developer negotiating a contract with a publisher must consider many essential issues. Some of the most important provisions are those governing intellectual property rights, financing of game production and repayment of financing, and division of profits from sales between the publisher and the developer. But the issues touched on in this article are just the tip of the iceberg when it comes to the matters typically covered by a game publishing contract.

A developer negotiating the contract itself must remember several fundamental principles. First and foremost is to clarify with the publisher (which most often proposes the first draft of the contract as a starting point) the meaning of any provision the developer does not understand. It is also vital to try to ensure that the explanation provided by the publisher on the meaning of particular provisions is ultimately reflected in the wording of the contract. Even if not every aspect of the contract can be negotiated, it should certainly be clear to both parties, and there is no reason the publisher should not agree to explain what the provision means.

Tunnel thinking must also be avoided. Sometimes it is not worthwhile to focus all the party's efforts on negotiating an advantageous wording of one provision that seems crucial (such as the split of profits from the game). It is preferable to look at the contract as a whole and focus on negotiating several advantageous changes instead of one that is particularly difficult for the parties.

Considering how specific and complicated game publishing contracts can be, it is also worth consulting the draft with a specialist, and if possible entrusting to them the entire negotiation process. Ultimately this is the key contract on which the success of the game may depend.

professional help

Jakub Barański, New Technologies practice, Wardyński & Partners

I have an idea for a video game. How can I protect it?

This is one of the most often asked questions. The answer is difficult and equivocal. On one hand, a good idea is half the way to success. On the other hand, ideas are regarded as free and should not be monopolised, but a specific manner or form of expression of an idea can be the subject of copyright protection.

However, drawing the line between an unprotected idea and a protected manner of expression is a difficult challenge that depends on the specific factual circumstances. First it must be determined what can be protected in a computer game, and then how these elements can best be protected.

Idea vs expression

Copyright protects a work, i.e. any manifestation of creative activity of an individual nature, fixed in any form, regardless of value, intended use, or manner of expression. Protection extends only to the form of expression (e.g. in the case of a computer program, the source code and object code are forms of expression, the Court of Justice held in C-393/09, *Bezpečnostní softwarová asociace – Svaz softwarové ochrany*).

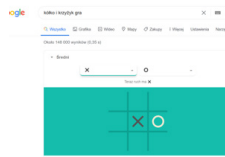
Inventions, ideas, procedures, operating methods and rules, and mathematical concepts are not subject to copyright protection (Art. 1(2)1 of the Polish Act on Copyright and Related Rights). Thus the rules of the game of noughts and crosses (tic-tac-toe) are not subject to copyright protection, meaning that they can be used by various persons and take various forms of expression. (An analysis of whether the examples below constitute a “work” for purposes of copyright or an unprotected product is beyond the scope of this article.)



Tradition wooden tic-tac-toe game by Duwen

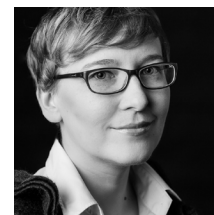


Lion & Tiger Tic-Tac-Toe by Londji



Sample internet search result for “tic-tac-toe”

Thus the rules of the game as such are not subject to copyright, as copyright protects only a creative, individual manner of expressing an idea. If the idea



DR MONIKA A. GÓRSKA

only the work is protected, not the idea

rules of a game are not subject to copyright protection

for a game takes on a creative and individual form of expression, e.g. as a scenario, graphics, or computer program, protection of such products on the basis of copyright may be considered.

Someone copied my idea! Really?

Popular goods, including video games, often fall victim to clones and copycats, which appear as soon as an item becomes a market hit. In many instances, disputes arise over the distinction between an unprotected idea and a protected manner of expression. That was the case for example in the dispute between Atari (with its *Asteroids* games) and Amusement World (*Meteors*).

The rules of the two games were identical: the player flies a spaceship, seeking to avoid collisions with asteroids (or meteors) and enemy spacecraft. The judge ruling in the case found there were certain similarities between the games (e.g. in both games there are rocks of three different sizes, and a collision with a rock disables the player's spaceship, and in both games the player's craft fires bullets). But there were also differences; for example, the meteors were coloured and the asteroids were black and white, the player's craft in *Meteors* moved and fired faster, and so on. The court concluded that *Meteors* did not violate the copyright to *Asteroids*. In the judge's view, Amusement World exploited an unprotected idea and gave that idea a different form of expression than in *Asteroids*. As the judge held, the defendant was entitled to use the idea for the game so long as it gave the idea a different expression, i.e. used different symbols, moves and sounds than the plaintiff (*Atari, Inc. v. Amusement World, Inc.*, US District Court for Maryland, 1981).

Asteroids

Another interesting example was the litigation between Tetris Holding and Xio Interactive, in which the key question was whether Xio infringed the copyright to *Tetris* or merely exploited an unprotected idea. Tetris argued that elements of the game protected by copyright (e.g. the appearance, colour scheme, and arrangement of playing pieces comprised of four squares, the appearance of the game playfield, the way the pieces move and rotate on the playfield) were adopted by Xio in its game *Mino*. Xio claimed it had only copied unprotected functional elements, including the rules of the game, and thus did not infringe Tetris's copyright (*Tetris Holding, LLC v. Xio Interactive, Inc.*, US District Court for New Jersey, 2012).

Tetris



Tetris Holding, LLC v. XIO Interactive, Inc., at 3 (D. N.J., 30 May 2012)

In its analysis, the court pointed to the striking similarities between the games, in the graphics, the style, the design of the playing pieces, and the colour and motion of the pieces, when creative freedom would allow for a much different form for the defendant's game. While maintaining the rules of the game (rotating the pieces to fit empty spaces and fill up the lines), the pieces could be given a different graphic appearance, or different ways of rotating and moving the pieces could be devised. The same idea could be expressed in many different ways, but Xio copied the expression by Tetris, and thus the court ruled in favour of Tetris.

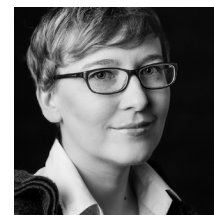
These two cases show that it is not easy to distinguish between an unprotected idea and a protected expression.

Other methods of protecting elements of a video game

It should be borne in mind that various elements of a video game may be protected by different intellectual property rights. Elements of graphics or music might be protected by copyright as works, but could also be registered as trademarks. The appearance of figures in a video game may be registered as a design. It cannot be ruled out that certain solutions in a video game might constitute an invention and obtain patent protection. But that is a topic for another article.

Dr Monika A. Górska, attorney-at-law, Intellectual Property practice, Wardynski & Partners

Protection of video games: Industrial design, patent, or trade secret?



DR MONIKA A. GÓRKA

When the concept for a video game takes shape, and an unprotected idea becomes a protected form of expression, the developer can consider how best to protect the game or elements of the game against copying by competitors. When thinking about legal protection of a video game, it is natural to refer to copyright law. But that is not the only potential source of protection. It is worth examining whether and to what extent elements of the game can be protected through industrial designs, patents, or perhaps trade secrets.

Copyright—what can be protected?

A video game comprises numerous, varied elements, such as graphics, music, narrative, software, and the graphical user interface. The debate under copyright law on how to protect a video game (as a computer program, each element as a separate work, or combined as a multimedia work) does not appear to be definitively resolved. But it seems most important in practice to determine whether a given element of the game constitutes a work, i.e. a creative, individual product of human activity. Any manifestation of creativity of an individual nature, fixed in any form, can be the subject of protection, regardless of its value, intended use, or method of expression.

Thus, in a game, copyright protection may extend for example to:

- Appearance of characters, worlds and objects (weapons, costumes, obstacles etc), architecture of towns and other locations, and so on
- Music
- Software.

Registration is not required to obtain copyright protection. Generally speaking, copyright protection expires 70 years after the death of the creator of the work. It should be borne in mind that an idea alone is not subject to copyright protection.

which game element constitutes a work?

protection for 70 years without registration

Industrial design to protect appearance—but is it always available?

The appearance of a product or parts of a product may be protected by an industrial design. As a rule, an industrial design protects the external, observable form of a product. This might include, for example, the particular appearance, shape, contours, ornamentation, structure, or specific external features of the material (see judgment of the Polish Supreme Administrative Court of 7 July 2017, case no. II GSK 3072/15). Protection on the basis of industrial design is used across many industries for a wide range of products.

appearance



Packaging of products
RCD 000785522-0001



Sets of products
RCD 000465679-0016



Complex products
RCD 000408166-0001



Parts of products
RCD 229752-0001



Logos
RCD 000751098-0001



Computer icons
RCD 000600184-0008

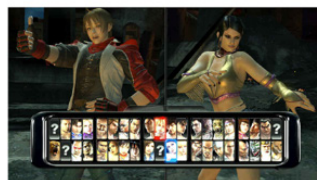
In video games, an industrial design might protect for example the appearance of a character in the game, the appearance of the gaming devices, or the graphical user interface.

For a design to be protected, it must be novel (i.e. not previously made available to the public) and must have an individual character, which means that the overall impression it produces on an informed user differs from the overall impression produced on such a user by a design previously made available to the public.

new, with an individual character



RCD 002088674-0001



RCD 000740774-0001



RCD 006370888-0001

If a design meet the conditions for protection, it may obtain national protection (e.g. in Poland or China), EU protection (in the European Union a design may be registered with EUIPO and obtain protection in all member states), or international protection.

It should be borne in mind that like other intellectual property rights, an industrial design provides protection limited exclusively to a given territory. An industrial design will be protected where it is registered, and thus registration in China or the US will not provide any protection in Poland.

only in a given territory

An industrial design is a temporary right, as protection is given for a definite period—in Poland, 25 years. At the end of this period, the design ceases to be protected and enters the public domain, which means that anyone can use it in any manner, commercial or not.

25 years

Although it is easy to register a design, the effectiveness of the protection depends on what the applicant seeks to protect. If the registration is not well-targeted, the design may prove to be little more than art for art's sake, formally augmenting the game development studio's assets but not necessarily securing them against infringement.

Patent for a game invention

Regardless of the industry, obtaining a patent for an invention is neither easy nor fast, as fulfilling the conditions for patent protection poses a significant organisational, legal and financial challenge. But [examples from the Polish market](#) show that it is possible to obtain patents for inventions in the game industry, which is encouraging and provides hope for an increase in the number of patents issued in this industry.

When deciding to seek patent protection, it should be borne in mind that to obtain protection, the invention must:

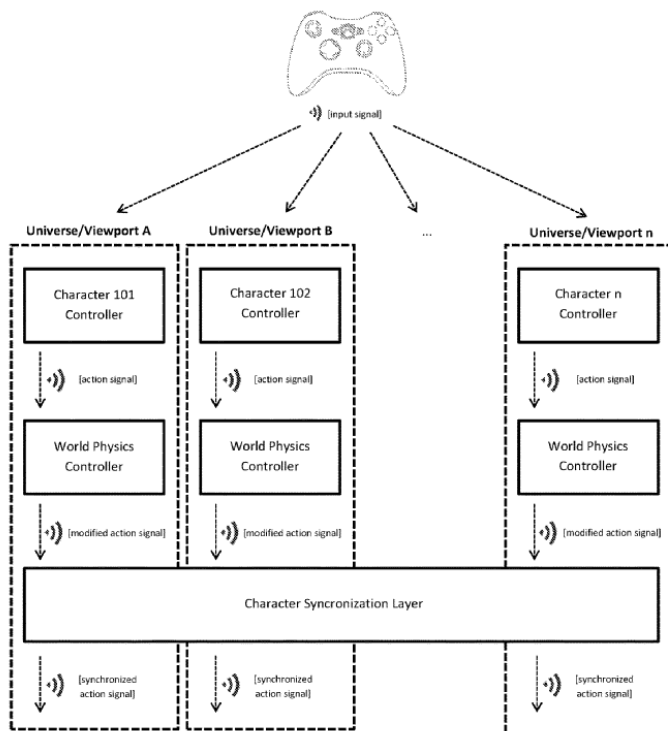
- Have a technical nature
- Be novel
- Possess an inventive dimension
- Be suitable for industrial application.

what an invention must be

Each of these requirements is separate and independent, and they must all be fulfilled for a solution to be eligible for patent protection (judgment of the Province Administrative Court in Warsaw of 8 March 2017, case no. VI SA/Wa 1554/16).

A method of operation or production may also constitute an invention. For example, in the US, Bloober Team SA obtained a patent for an invention called “Method of simultaneous playing in single-player video games.”

an invention is e.g. the method of operation



According to the description, the key feature of the invention is a method for a single player to function in multiple virtual realities at the same time by simultaneously controlling avatars for more than one character.

An invention might also be for example:

- A device
- A chemical composition
- An application (e.g. of a substance) to achieve a certain purpose.

However, schemata, rules and methods for conducting intellectual processes, game play, and computer programs are not regarded as inventions. Thus generally the rules of a game cannot be patented. But it cannot be excluded that the method of applying the rules of a game may fulfil the conditions for patent protection, as demonstrated by the [case of Nintendo applied to the European Patent Office for protection](#) of an invention entitled “Game machine and storage medium therefor,” which essentially involved a game (in this case, the example given was *Pokémon*), in which the player

rules of the game basically without a patent

moves around a map, encountering various characters, which arise according to an “appearance probability” (differing from character to character).

FIG. 5



Application no. EP 00116115.7

In the game, the “appearance probability” of a given character would vary over time, which increased the unpredictability of these encounters and of the game itself. Initially a patent for the invention was denied because of the ban on patenting game rules. But in considering an appeal, the Technical Board of Appeal at EPO held in 2009 that the essence of the invention was not so much concerned with a game rule per se, as the particular manner in which the rule is realised, namely the way events are generated in the game. The board found that the other prerequisites for patent protection were also met, and thus issuance of a patent was warranted.

A patent is a right that gives exclusivity in the use of the patented invention, an innovative solution of a technical nature. Patent protection is also territorial, and in Poland it lasts 20 years.

Trade secret

In some instances it is more advantageous not to seek formal protection of certain aspects or elements of a game. After all, when applying for a patent, for example, the applicant must disclose the essence of the invention, and thus anyone can examine the solution and after the end of the patent protection period can freely use the solution in their own business.

only in a given territory and only for 20 years

trade secret protects confidentiality

Sometimes certain elements of a video game do not fulfil the conditions for protection under copyright or industrial property law. In that situation, it should be considered whether the prerequisites are met for regarding these creations as a trade secret for purposes of the Unfair Competition Act (see the article “[Harder to protect trade secrets in commercial relations](#)”). Essentially, information or data, organisational or commercial, technical or non-technical, can be a trade secret so long as it remains a secret—confidentiality is a key condition for legal protection. Thus it is essential to take appropriate steps and introduce adequate security measures to maintain the confidentiality of commercially valuable information. A typical example is the recipe for Coca-Cola. The various measures supposedly employed to protect access to the formula are the stuff of legend. Trade secrets are generally protected indefinitely (as long as they remain confidential). Moreover, there is no obligation to register trade secrets.

it is necessary to
protect confidentiality

Selection of the method of protection is an important and difficult decision which may pay off only in the future. Thus the decision should be carefully considered and consulted with a specialist.

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