



Advancing Industry's View On Intellectual Property Since 1920

## Gowers Review of Intellectual Property - Call for Evidence

### *Introduction*

1. This Federation<sup>1</sup> acts to advance the views of the member companies on intellectual property (IP) matters. The member companies include many of the most innovative companies in the United Kingdom and are crucial to the life and prosperity of the country. They collectively account for a large proportion of the patents held by UK companies in the UK, as well as many UK trade marks and registered designs and much copyright material. Not only are the companies users of the IP system because they own IP rights, they are also users of the system because they must take into account the IP rights of others when planning their activities.
2. The Federation has submitted position papers over the years on many IP policy issues to the UK, European and international authorities. Some of these issues are touched on in the questions accompanying the call for evidence. Relevant Federation papers are mentioned in footnotes, are listed at the end of this paper and are attached.
3. A number of the questions accompanying the call for evidence seek information about the particular experiences of individual organisations. As a Federation, we present a collective view, and since individual experiences will differ, it will not be possible to give a collective view in respect of many of the questions. Moreover, the relatively short time allowed for reply to the call for evidence means that our remarks will be limited to those matters where the Federation already has a position. Our comments concern the following matters:
  - a) The need for national IP policy to balance the interests of all users
  - b) The need for the IP system to be of high quality and cost efficient
  - c) The fact that the present IP system in the UK and Europe is mainly good
  - d) The lack of a coordinated approach to IP within UK government
  - e) The importance of consultation in the field of IP
  - f) The need for an IP centre of excellence
  - g) The importance of IP research
  - h) Increasing IP education and awareness
  - i) The need for financial transparency in the UK
  - j) EPO governance and the role of national patent offices
  - k) The role of criminal penalties in the enforcement of IP
  - l) Specific issues
    - copyright exceptions, digital rights management, utility models, UK design rights, unfair competition, patent harmonisation/grace period and exhaustion of rights.

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<sup>1</sup> List of member companies annexed

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### ***IP Policy should balance the needs of all users***

4. Innovative UK companies are crucial to the country's well being. This country prospers as a result of the efforts of those companies, almost all of which are in the private sector, which trade their products and services to the rest of the world. The world market is highly competitive and our goods and services must be innovative and high quality. Innovation and quality are linked, since many improvements are concerned with enhancing quality and thus competitiveness. Most innovation results from the efforts of large companies.
5. While most of the member companies are relatively large, the Federation takes a keen interest in the problems of smaller enterprises and welcomes them as members. Indeed, many larger companies divide their operations into relatively self-contained small divisions, operating independently. Our larger member companies quite often deal with smaller IP owning companies and academic institutions, and develop and commercialise their innovations. They thus have a very real interest in the existence of a thriving SME sector. Very recently, at least one of our members has grown substantially from small beginnings on the basis of innovative products supported by IP rights.
6. Over the last few years it has become apparent that the government's national IP policy has been increasingly focused on assisting individual inventors and SMEs. Whilst this is an objective the Federation supports, we wish to add a note of caution. In particular we believe that the government must resist the temptation to allow policy to become driven solely by the needs of SMEs. This is particularly so when it comes to issues of accessibility to the system. Obtaining and defending IP rights is a costly business and it is attractive to see questions of accessibility simply as ones of cost. However IP rights are strong tools and careful thought needs to be given before reducing the cost of their acquisition and enforcement generally simply to help one section of the user community. The risk is that reducing the costs of IP will only lead to a proliferation of rights which may not be in the overall interest of the UK economy. Certainly we have a concern that a low cost system will be one of low quality, unfairly raising the expectations of the SME whilst at the same time adding cost to larger companies. The Federation believes that the real challenge here is for the government to find more creative ways of helping SMEs broadly, rather than seeking to cure the problems that smaller innovative companies can have within the narrow confines of the IP system. For example, consideration should be given to whether the system of R and D tax credits introduced in the Finance Act 2002 is being used by SMEs to optimum effect.

### ***The IP systems should be of high quality and cost efficient***

7. It is imperative that the IP system in the UK should be both of a high quality and cost efficient. By high quality we mean that the system can be relied upon to grant rights with a high presumption of validity, and that disputes should come before suitably expert courts where decisions are reached that are as fair as reasonably possible. A high quality IP system is important and often crucial in encouraging innovation, the transfer of knowledge and the taking of prudent business decisions. Investment running into millions of pounds, indeed tens and sometimes hundreds of millions, is needed to finance serious innovation and development. The investment will often not be made if it is at serious risk from a poor quality IP system. Our companies need a high quality IP system not just in the UK but throughout the world, to safeguard their innovations from copyists and their reputations from damage by counterfeits, and to learn from the information disseminated by others. Subject to the overriding need for quality, grant and litigation procedures should be as cost efficient as possible.
8. Cost efficiency in litigation is not just a need in IP cases of course, but is a problem for the whole judicial system in the UK. As regards IP litigation, it should be emphasised that it is highly desirable to maintain a separate Patents Court (preferably relabelled as an IP court), with its own suitably expert judges - who should be highly competent both technically and in IP law<sup>2</sup>. Whilst

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<sup>2</sup> See paper PP47/05.

we have reservations about the detail, the European Patent Litigation Agreement (EPLA) has the potential to play a part in reducing litigation costs across the EU<sup>3</sup>.

9. A particular way in which cost efficiency could be improved is the reduction or elimination of patent translations in Europe. The Federation believes that most of these could be completely eliminated with little or no practical effect on the general public. We therefore support initiatives such as the London Agreement and believe the UK should throw its political weight behind this initiative or seek to negotiate something less wide ranging although still conferring cost saving benefits to users. If it is to be the latter then the Federation would like to see the UK taking ownership and leadership of the activity<sup>4</sup>.

***The IP system in the UK and Europe is mainly good***

10. We welcome this review of the UK's IP system, provided that all evidence presented, e.g., to suggest that the system should be changed in some significant way, is thoroughly and impartially analysed. Examples of supposed problems must be adequate and clear, not just anecdotal. We are pleased that the introduction to the review starts from the position that the UK's IP framework is a critical component of our present and future success in the global economy and that it appears to recognise that IP is one way of giving incentives to people and firms to invest resources in creative or inventive activities. However, despite this promising start, a broad seam of distrust in the IP system appears to run through the rest of the introduction. Almost immediately there is reference to high cost to the economy, in terms of "limited competition, high prices and limited spill-over benefits". The introduction fails to emphasise that to obtain protection, innovative products must be new and inventive; they have not appeared before. (The grant of monopolies for basic products such as salt has long been abolished.) It should be acknowledged that competition is not limited by granting rights in a new product; rather, competitors can continue to market their existing product line or, better, should innovate on their own account. Relatively high prices can only be commanded if there is a strong demand for the new product, which in turn will depend on a clear advantage for the consumer. But market share is often of greater importance to an innovative company than high price. Moreover, it is hardly fair to describe "spill-over" as limited, since to obtain protection, full information about the innovation must be made public. This information informs other work and much of it will be immediately useable.
11. Later in the introduction, there are extensive references to "overly broad" patent protection, "restricted or restrictive licensing", the "widespread" practice in some fields of obtaining patents "defensively", and "increased barriers" to market entry for companies not involved in a cross licensing agreement. Overly broad protection is prohibited under patent law and overly broad claims should be resisted by the granting authority and the courts.
12. As for license agreements, it is the experience of our members that the vast majority of these work smoothly and satisfactorily for both parties. They are in any event subject to competition law. Small enterprises needing licenses are not heavily penalised by royalties, since these are normally a small percentage of turnover and a small price to pay for permission to take advantage of another's innovation. As regards "defensive" patents, the patent law provides that patented inventions should be worked to the fullest extent practicable on pain of compulsory licensing. As regards increased barriers to market entry, again it should be recalled that the market referred to is that for a new innovative product, not known before. It is not surprising that a company that puts nothing into the innovation may have trouble in securing permission to copy it.
13. We fully agree that if there is clear evidence of unfair practices that inhibit the ability of some companies to innovate and develop their businesses, then this needs to be carefully considered.

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<sup>3</sup> See appendices to paper PP11/06

<sup>4</sup> See paper PP11/06.

But the remedies, if any are needed, should lie outside the IP system, probably in the application of existing competition law.

14. The current IP system, like any other system, is not perfect, and there will inevitably be hard cases that appear to suggest that something is wrong. However, the system is in general very good. It has developed over many years to incorporate many checks and balances aimed at establishing the proper relationship between owners of IP, their competitors, consumers and the wider public interest. It would be wrong to rely on individual anecdotal hardship cases as a basis for making significant changes in what overall is a well balanced, carefully thought through, system. There should invariably be sound research, proper consultation and hard and strong evidence to justify any change.
15. We are not aware of any coherent body of evidence to suggest that the problems alleged in the introduction are widespread or have a significant impact. The IP system promotes innovation, which in turn promotes competition - thus IP favours competition, rather than acting against it.

*(a) Complexity*

16. The review document appears to be concerned about the complexity of the system. A system that covers a range of differing rights and that, in the interest both of users and of European cooperation, has to integrate with the wider European and international systems is bound to be somewhat complex. Moreover, with evolution over decades, indeed centuries, many checks and balances have been incorporated into the individual laws covering the different fields of IP to safeguard consumers and the public interest and to achieve fairness between competitors. These detailed provisions inevitably make the system seem complex to those unfamiliar with it, but to remove them would downgrade the system such that it would be of lower quality and less fair. Nevertheless, the individual IP rights are not particularly complicated.
17. Complexity often occurs in the litigation of individual cases, but this does not mean that the system itself is over-complex. It is often very difficult to apply the law to the particular facts of a technically complicated case in which complex evidence has been presented. In patent cases particularly, the language of the claims - which is often language appropriate to highly technical material - limits the scope of protection. Given the inherent limitations of language, determining whether an alleged infringement falls within the scope of such wording can be extremely difficult. Similar very awkward situations can arise under copyright law, particularly in software cases.

*(b) European and international considerations*

18. Except in relation to a small number of instances, the system, both within the UK and at the European and international levels, works well for the major IP rights in the vast majority of circumstances. It should not therefore be interfered with in any major way. It should be emphasised that European harmonisation on many substantive IP issues has been achieved after years of painstaking negotiation. This harmonisation covers not only the fields of copyright and neighbouring rights, trademarks and registered designs, in all of which the European Commission has taken an active lead, but also the field of patents. The introduction of the Community trade mark, for example, has been an outstanding success, and is increasingly regarded as the natural choice for trade mark registration by many companies. Both the UK and Community trade mark systems are linked to the Madrid registration system operated by WIPO<sup>5</sup> and a number of our companies are enthusiastically using this facility to obtain global protection more readily. The introduction of the Community registered design right has also been of significant benefit, so much so that the continued existence in the longer term of the national system may be in doubt (though we are not ready to see this disappear at present).
19. Substantive patent law throughout Europe has been heavily influenced by the European Patent Convention, of which all EU states including the UK are members, and by the resolution on the

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<sup>5</sup> World Intellectual Property Organisation

adjustment of national patent law agreed at the time of the 1975 conference on the Community patent.

20. The Federation would be greatly opposed to significant interference with these European achievements. Moreover, the Federation supports the significant achievements at the international level in the frameworks of WIPO and WTO<sup>6</sup>. However we counsel the government not to pursue harmonisation of IP laws merely for the sake of it. There must be some practical benefit to users especially those in the UK. Otherwise we risk creating a single system marred by political compromise and therefore legal uncertainty. A case in point is the negotiation of the Substantive Patent Law Treaty (SPLT) in WIPO where the politicisation of the debate has made progress difficult if not impossible. The government must resist the temptation to accept compromises which add significant complexity to the system (to the detriment of users) simply to chase the attractive ideal of a world patent system<sup>7</sup>. Similar considerations apply at the EU level to the Community Patent Regulation<sup>8</sup>.
21. To conclude these remarks on the present IP system, we emphasise that matters concerning domain names do not fall within it.

### ***The lack of a coordinated approach to IP within UK government***

22. There should be a coordinated and harmonised approach throughout the various parts of government in clear and strong support of UK innovative companies. Compared to countries such as the United States, China, and Japan, our perception is that the European Union remains suspicious of the IP system and that this suspicion permeates the way it reacts to the needs of innovative companies. In many parts of the European Commission, IP rights are often seen simply as a threat with only lip service being paid to the argument that they support the bringing of new goods and services to the market. Federation members who are world-class global innovators find themselves having to justify the system with monotonous regularity. All this creates a continuing climate of business uncertainty which chills innovation and undermines public confidence in what innovators are trying to achieve.
23. To a certain extent we believe that the EU approach is shared by various parts of the UK government. In recent years we have become aware of, though often we have not been formally consulted about, initiatives in several government departments which have reviewed the protection available from the IP system in ways unfavourable to those who rely on it. Proposals have been put forward, usually for "political" reasons (i.e., to serve some agenda unrelated to the needs of users of the IP system), that did not have support from our companies. A case in point was the government sponsored CIPR review. This was an example which started from the premise that IP policy was hampering third world development rather than looking at what could be done within the existing system to help.
24. No examination of the IP system, or parts of it, should be conducted without the full involvement of the UK Patent Office and only after full consultation with those UK private sector companies and organizations that might be affected.
25. We are seriously concerned about this lack of coordinated support for industry within government. We see addressing this issue as key to taking innovation in Europe and the UK forward. We believe that the government needs to articulate a single view around the benefits of the IP system which it can communicate in international fora in support of industry's needs and which can be used to rebut those who would seek to dismantle the system. Leadership for this task should be given to the Patent Office, which has a comprehensive knowledge of IP laws and their impact, and is a suitable focus for maintaining contact with industry.

### ***The importance of consultation in the field of IP***

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<sup>6</sup> World Trade Organisation

<sup>7</sup> See paper PP08/06

<sup>8</sup> See appendix to paper PP11/06

26. Because IP laws have a significant impact on business and the UK economy it is imperative that the government's approach to consultation is thorough and user focused. We emphasise that the record of the UK Patent Office as regards consultation on IP matters has, in general, been very good; indeed, it is one of the best national authorities in the world in this respect. Formal written consultation is normally well conducted and in recent years has covered most (though not all) of the matters that should be consulted upon. Nevertheless, we believe that the UK suffers from the fact that there is no formal body where users can interact with each other and the Patent Office in a way which enables issues to be debated and an expert consensus reached. In fact we would go further and say that this is missing at the EU level too. Currently the Patent Office conducts face-to-face consultation through "focus groups" but it is often not clear what status such groups have, how the participants are chosen and exactly who they speak for other than themselves. We see this as a major weakness in the system and that a formal body should be established. Other government departments should participate in this body, when appropriate, to increase their understanding of user concerns.
27. We also think there is a need for a properly resourced and staffed think-tank where long term IP trends and issues can be debated. Any such think-tank should build upon what has been learnt from the now disbanded Intellectual Property Advisory Committee (IPAC) At the end of 2005 the Federation wrote to the Chief Executive of the Patent Office setting out our thoughts in this area which we remain ready to discuss further<sup>9</sup>.

#### ***The need for an IP centre of excellence***

28. Because IP is strategic for innovation in the UK we believe that the government should create a centre of excellence which would be the authority on such matters and to which all government departments and divisions should be required to defer in matters of policy. We believe that such a centre of excellence should reside within the DTI and either be part of the Patent Office or have strong linkages therewith, e.g., through a common leadership. The centre of excellence should assume a high profile both within government and internationally and have responsibility for shaping and communicating the UK's IP policy. It should aspire to be a thought leader in the field (building on the Patent Office's existing expertise and understanding of the requirements of users) and should seek to punch its full weight in international negotiations. It should also be responsible for commissioning fit for purpose research in the field of IP (see below). Finally, consideration should be given to moving away from the title 'Patent Office' to reflect the fact that all IP would be covered.
29. The centre of excellence should be staffed by personnel having the seniority, experience, background and readiness to present the UK position in international fora, to ensure that the UK is clearly and persuasively heard in those discussions. At present, we fear that a clear UK position based on consultations with the interested organisations is not always put forward, or when it is, that it is not given the weight it deserves.

#### ***The importance of IP Research***

30. There is a real and urgent need for properly funded independent high quality research into the IP problems of the day. This would be the best way to produce evidence when considering the desirability of any change and would provide a counterbalance to what we believe are often ideological assertions. Other countries appear to recognise and take this need rather more seriously than does the UK. For example, in Germany there is at least one government funded Max-Planck institute devoted to research on IP matters, whilst in China, we are informed that there may be as many as 12 centres primarily concerned with IP matters.
31. The Federation has itself recently funded a small project concerned with representation and address for service rules around Europe, but a number of larger projects of significance to the general IP system of the UK immediately suggest themselves (a few are mentioned in this

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<sup>9</sup> See paper PP52/05.

submission). We consider that government should provide funds, e.g., from the Patent Office surpluses referred to below, to establish an independent body, or at least to assist some existing organization such as the Intellectual Property Institute, to carry out appropriate research. Such research needs to concentrate on economic and social consequences. It should be independent but also should be illuminated by reality. It must therefore have input from users - the owners of IP rights and those affected by IP rights. Any body responsible for carrying out such research should interface strongly with the centre of excellence referred to above.

### ***Increasing IP education and awareness***

32. There might be less concern about the complexity of the system, which is probably significantly less than that in many other fields of immediate public relevance, such as tax, insurance, social security and specialist matters such as mental health or the law of contract, if there was greater awareness of its basic features. So we believe it is important to take the Patent Office's current initiatives in the field of education and awareness further. For example, we consider that every degree and diploma level course concerned with technology, commerce and law, and indeed other subjects such as media studies and English, should contain a short IP module, where the basic principles behind the grant of rights in the various IP fields are covered. A joint strategy with the Department of Education could be fruitful here. Other educational initiatives aimed at all levels in industry and commerce should be developed. Strategic consideration needs to be given as to the extent which this work should be done nationally, regionally or through international bodies such as the European Patent Academy.

### ***The need for financial transparency in the UK***

33. The policy regarding the funding of the Patent Office, and meeting the costs of the registration activities for the different fields of patents, trade marks and designs, should be clearly set out by government. We consider that the Patent Office should break even, one year with another, on its fee income and that there should be no significant transfers of resources between the different registration fields. We are not convinced that the Patent Office merely breaks even. Large sums are collected as renewal fees for applications that were examined and granted by the European Patent Office (EPO) and on which very little work was performed in the UK. There is no transparency in the accounts of the UK Patent Office and we are not convinced that the fees paid by our companies are properly used.
34. Rather than pay the fees from the renewal of European patents (UK) to the Treasury, to offset the PSBR and thus to support general government expenditure, more of them should be returned to the EPO, to reduce the heavy procedural fees that apply in that office and which are burdensome on all companies, large and small, that seek European patents (see below as regards EPO governance). Those fees resulting from EPO work that are retained, in excess of the small sums needed to administer European patents (UK), should be clearly used to assist the IP system and innovation more generally, for example in improving public library and search facilities in technology and IP, and to help fund independent research into IP issues (see above).
35. As regards the fee structures for registered rights, we consider that it is correct that these should be heavily "back-end loaded", i.e., the pre-grant fees are relatively low and the bulk of income is derived from renewal fees. In the case of patents, annual renewal fees increase progressively. In this way, successful innovations pay for the system. Consequently, we are opposed to current proposals to substantially increase the pre-grant fees and to lower renewal fees. These proposals will impact most heavily on small enterprises, but all innovative companies will suffer an additional, unnecessary, strain on their IP budgets for making applications. (Keeping patent renewal fees relatively high, particularly in the later years of patent life, also ensures that many patents are given up, to enter the public domain at an earlier stage than they might otherwise have done.)

36. In addition, these proposals will damage the finances of the EPO and lead to extra costs in that organisation for our companies<sup>10</sup>.

### ***EPO governance and the role of National Patent Offices***

37. Since the European Patent Office is the principal grantor of UK patents these days, the Federation is anxious to see that its financial and operational health is good. Increasingly however we are concerned about how it is working and the difficulties associated with moving the strategic debate forward to deliver operational performance improvements. A significant problem lies in the governance model of the EPO where a number of national representatives (though by no means all of them) on the EPO Administrative Council are heads of national patent offices. This is the case for UK representation. With the best will in the world, it is difficult for such people to make decisions that have an adverse effect on their own organisations, such as can arise when contributions are set for the running of the EPO. In the past, the Council has made decisions adverse to the EPO and beneficial to the national offices, rather than the other way round, as when the contribution from national renewal fees on patents granted by the EPO was reduced from 60 to 50%. (See the section on financial transparency above. The EPO is entitled to a very substantial contribution from national renewal fees on European patents because it has done the work involved in granting the patents.) There have been other decisions against the EPO's interests, and therefore against the interests of its users. All our companies are serious users of the EPO, as they must be to market widely in Europe. While we consider that it is essential for the UK Patent Office (especially staff of the centre of excellence mentioned above) to participate in the UK delegation to the Council and to lead delegations to most EPO committees, to supply necessary expertise and to contribute to cooperative projects, we also consider that it would be better that the delegation to the Council should be led by someone less directly involved (though properly familiar with those issues of governance that go before the Council), who would discuss EPO affairs with representatives of UK users such as this Federation.

38. The UK Patent Office has a significant role to play in improving the standards of patents in Europe through its experience in running quality management systems. It must continue to be deeply involved in the strategic debate in this area both in Europe and internationally.

### ***The role of criminal penalties in the enforcement of IP***

39. The increased application of criminal penalties to IP infringements is currently under discussion. We are generally opposed to this. Whilst we are fully supportive of the government's 'IP Crime' initiatives, we consider that a clear distinction has to be made between counterfeiting (trade marks) or piracy (copyright), where the offender deliberately misleads the consumer by selling items bearing a precisely copied but unauthorised trade mark or that are unauthorised copies of a copyright work, and more general infringement, where what is being sold arguably comes within the scope of a right but is not a precise and deliberate copy of it. For the first group criminal sanctions are appropriate and currently apply. However, criminal sanctions are not appropriate for the second group, where direct copying is not a key feature of what is being sold and a claim of infringement can be disputed (e.g., because of possible invalidity or possible non infringement). In particular, criminal sanctions should never apply in patent infringement cases. The threat of criminal sanctions should not be used to discourage legitimate attempts to "innovate around" the IP of others. We believe that the government needs to seek to draw a bright line between these two groups and communicate it widely so that everyone understands where they stand.

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<sup>10</sup> See Paper PP10/06.



## ***Specific issues***

We wish to comment on the following specific matters highlighted in the call for evidence:

### *Copyright Exceptions - fair use / fair dealing*

40. The private copying exception in current UK copyright law, although seemingly narrow, strikes a careful balance between the interests of copyright owners and users of copyright materials, and is consistent both with the UK's obligations under the EU Copyright Directive and under TRIPS/Berne Convention, both of which impose strict limits (the so-called 'three-step test') on the scope of private use exceptions. The Federation considers that the best mechanism for managing private use is through individual licensing and there is no need to modify the scope of the current statutory private use exceptions. Indeed, the digital environment offers more flexible solutions for licensing consumers individually. Moreover, extending the scope of the current private use exception would beg the difficult question of 'fair compensation' under the Copyright Directive, which in turn raises the spectre of copyright levies in the UK at the very time when the European Commission has recognised that the levy system is an outdated and unfair system for compensating copyright owners, and is currently working on an initiative, expected to be published in the coming months, to encourage member states to phase out levies altogether in the digital environment to comply with the Copyright Directive.

### *Digital Rights Management (DRM) Technology*

41. DRM technologies enable content creators, owners and distributors to offer increased consumer choice, product variety and pricing options. All of this is ultimately beneficial to the general public so we consider that the government should continue strongly to support their deployment. This is something that it has done consistently to date in international negotiations, such as those in WIPO, and in relation to existing EU directives. Going forward, one of the government's concerns should be to ensure that a balanced and common sense approach to the protection of consumers' interests is followed when DRM protected digital content is sold. Failure to address such issues can lead to a major source of tension between content providers and the public which ultimately does not serve the IP system well. In particular, interoperability between DRM technologies needs to be ensured through industry led efforts. We consider that the government has an important supportive role to play in such activities.

### *Utility models*

42. Great care should be exercised when assessing whether any new rights, such as utility models, are needed. The introduction of a utility model or similar right that would inhibit the introduction of new products by others, which would be unexamined and which would require little more than bare novelty to be valid, would be a heavy burden on all industry, but particularly on small industry.

43. Current experiences in other countries with second tier rights are no guide to what might happen in the UK. No large scale economy having English as its first language has introduced any system similar to that proposed in the draft directive from the EU. We are relieved to learn that this directive has been withdrawn, at least for the time being. It can realistically be assumed that if the UK were to introduce a system of low price, unexamined rights, then there would be a flood of applications from companies in the United States and probably Japan, which already have documents prepared as US patent applications that would not normally be filed here. Furthermore, many companies in other countries prepare documents in English for reference and use elsewhere. These could be filed with little alteration as utility model applications. If the government is actively seeking to implement such an initiative we believe that a specific consultation should be held and a detailed independent economic impact study carried out<sup>11</sup>.

### *UK Design Rights*

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<sup>11</sup> See paper C131/01.

44. The Federation supports the continued existence of both the registered and unregistered UK design right for the foreseeable future, despite the success of the community design right, because its members are currently using and relying on both types of right.

#### *Unfair competition*

45. The UK is bound by the Paris Convention administered by WIPO, and by the TRIPS Agreement<sup>12</sup> administered by the WTO. Both of these international measures require parties to provide protection against unfair competition. There is no specific statutory provision directly concerned with this in the UK, though there are possibilities of action, depending on the act complained of, in respect of several statutory and non-statutory torts, one of which is the common law tort of passing off. Some companies consider however that there is inadequate scope for action in situations where product development work, market presentation and reputation are taken advantage of in some way by others. While the Federation has no position on this subject, it considers that research into whether the existing array of statutory and non statutory law is adequate, and the ways in which other countries deal with the issue of unfair competition, would be useful.

#### *Patent harmonisation/Grace period*

46. To the layman an unexpected feature of the patent system in Europe, and elsewhere in much of the world other than the United States, is that an invention should not be publicly disclosed by the inventor before making an application for a patent. This is because any prior public disclosure will invalidate the patent. A superficially attractive proposal that is currently under international discussion is that disclosures by the inventor should be graced for the 12 month period before making an application, so that the inventor can talk about the invention in public, write articles, address conferences and so on. There is considerable pressure to adopt this proposal in some form.
47. We consider this to be a dangerous suggestion for a number of reasons, one being that it will have a braking effect on development work as companies must wait for at least a year to find out whether what appears to be a public disclosure will actually be the subject of a patent. Furthermore, significant problems concerning what can and cannot be graced are likely to arise, leading to complicated legal battles. Nevertheless, we have been prepared to accept a carefully limited grace period, of six months before the actual date of filing of the corresponding patent application, with other safeguards, in return for acceptance by the United States of the patent system in effect everywhere else in the world, whereby the patent is granted to the first inventor, or his assignee, to file an application on the invention. However, the great experience of our member companies, as major users of the patent system here and abroad, confirms that this is as far as the UK and the rest of Europe should go. We do not accept that harmonisation with the United States is worth any price. The UK should stand firm in resisting the US (and WIPO) proposals<sup>13</sup>.

#### *Exhaustion of rights*

48. The Federation has in the past carefully considered the likely consequences of introducing "international exhaustion" in the field of trade marks in the EU, and has noted the results of a study by the National Economic Research Association (NERA). That study recognised that the effects of such a regime could include the relocation of production away from the EU and changes in product and distribution strategies which could have a negative economic impact.
49. We are opposed to the introduction of an international exhaustion regime. This would inevitably lead to a downturn in research and innovation, market development and introduction of new

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<sup>12</sup> Agreement on the Trade Related Aspects of Intellectual Property Rights

<sup>13</sup> See paper PP8/06.

products in the EU, as a result of lost sales at an “innovation” price. Parallel imports at lower prices will usually be from countries with relatively weak IP systems where sales are inevitably at lower, often “commodity” prices. The main beneficiaries will be trading companies that are often not based in the EU and do not devote profits to research and development<sup>14</sup>.

Attached papers:

2006 List of members of TMPDF.

PP47/05: Letter to the DCA re IP judges.

PP11/06: Submission to the Commission - McCreevy Review on patents in Europe (with two appendices).

PP53/05: Letter to UKPO on consultation.

PP10/06: Letter to UKPO re UK fees review.

C131/01: Submission to the Commission cc UKPO re Utility models.

PP08/06: Letter to UKPO re harmonisation of patent laws.

C57/99 & C61/99: Submissions to the Commission on exhaustion of rights.

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<sup>14</sup> See paper C57/99.