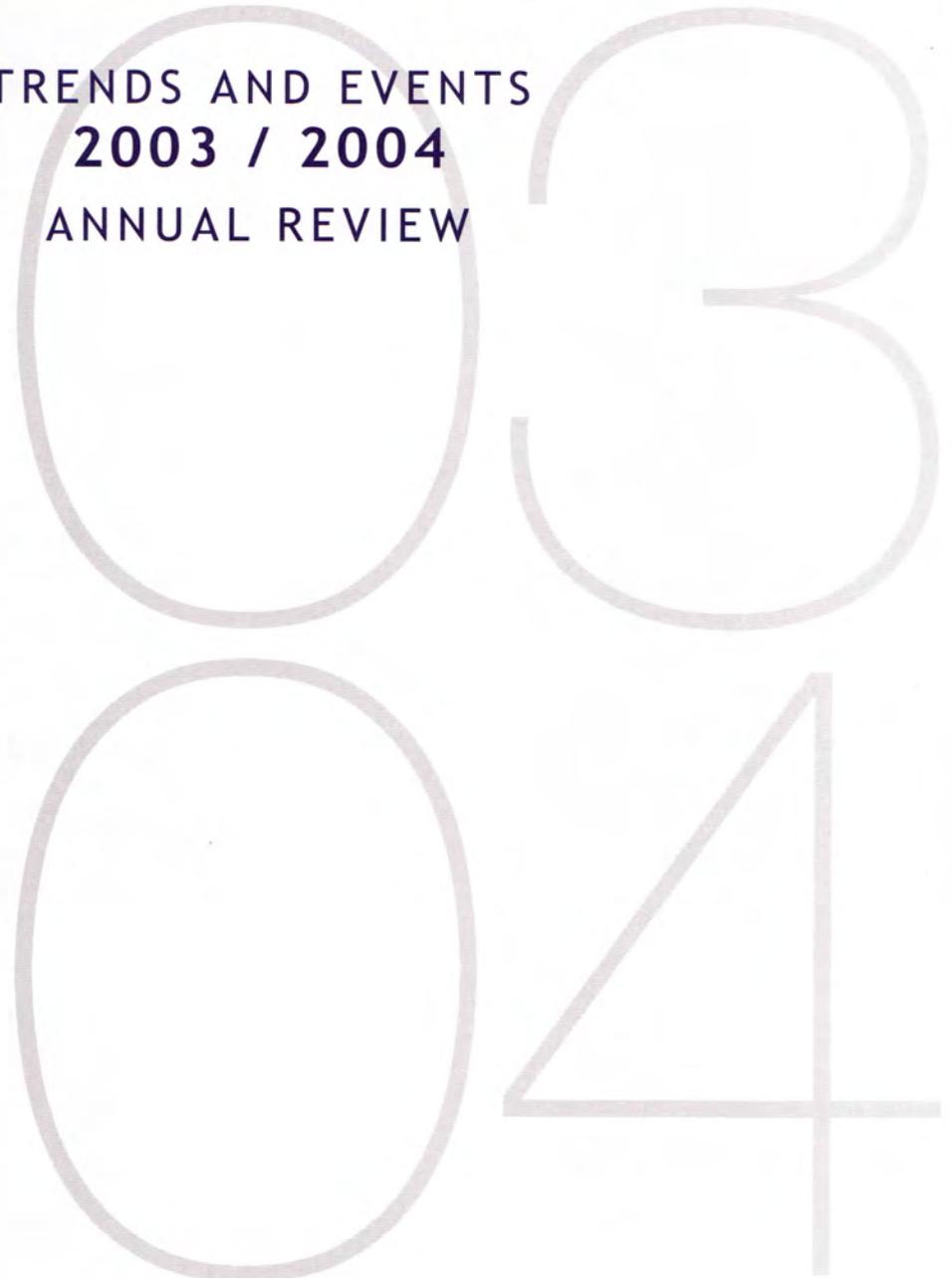




Advancing Industry's View On Intellectual Property Since 1920

TRENDS AND EVENTS
2003 / 2004
ANNUAL REVIEW





The Trade Marks Patents and Designs Federation was founded in 1920 in order to co-ordinate the views of industry and commerce in the United Kingdom, and to make representations to the appropriate authorities on policy and practice in intellectual property matters.

Objects

The Federation's object is to bring about improvements in the protection afforded by intellectual property rights throughout the world, to the advantage of inventors, manufacturers and consumers alike. Today the Federation has forty members and associate members, among which are many of the largest companies in the UK, as well as smaller companies. *[For a list of current members see inside back cover.]*

Most if not all industrial and commercial firms use or are affected by intellectual property rights, even if they are not particularly concerned with innovation protected by patents and designs. Nearly all firms own trade marks and copyright material. All are affected by competition law and the rights of others. The work of the Federation is therefore of value to everyone. While many firms leave day to day matters concerning the acquisition of rights to professional attorneys, it is still important to take a direct interest in the policy background, to ensure that proper rights are available, can be secured in a straightforward and efficient way and can be litigated without unnecessary complexity and expense. The Federation is very active in pursuing these needs.

Activities

The Federation initiates proposals and follows all developments at national, European and international levels across all fields of intellectual property. The Federation has a close relationship with the Confederation of British Industry (CBI) and provides much of the professional input on intellectual property matters to the Confederation, as well as representing it in meetings of the Union of Industrial and Employers' Confederations of Europe (UNICE) concerning intellectual property. TMPDF is also an invited observer at diplomatic conferences and meetings of standing committees of the World Intellectual Property Organisation (WIPO).

Contacts

The Federation maintains good contacts with the UK Patent Office, and members of its Council and committees participate in several Focus Groups and practice working groups which provide opinion to the UK Government and its agencies on intellectual property matters. TMPDF is also represented on other bodies which advise the European Patent Office. In the UK, it is represented on the Users Committees of the Patents Court and the Patents County Court.

TMPDF also maintains contacts with parliamentarians both in Westminster and in the European Parliament. In the UK, it has close contacts with the Chartered Institute of Patent Agents (CIPA), the Institute of Trade Mark Attorneys (ITMA), the Intellectual Property Institute and the IP Awareness Network. Internationally, TMPDF exchanges views and maintains good contacts with similar IP user organisations in other countries, notably in Europe, Japan and the USA.

Membership

The Federation has a Council, which agrees TMPDF policy, and six technical committees, to which detailed consideration of issues is delegated. These deal with Trade Marks, Patents, Copyright and Designs, Litigation, Licensing and Competition Laws, and Biotechnology. Voting members are entitled to a seat on Council, as well as any or all of the six committees. Committee members can join any or all of the six committees. An associate membership is available to those wishing to be informed about developments in intellectual property without joining any of the Federation's committees or Council.

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Review of

Trends & Events

in Intellectual

Property

June 2003 - May 2004

Contents

Introduction	Page
Trade Marks	1
The Community Trade Mark/OHIM	1
Trade Mark Cases	1
EU Origin of Marking Scheme	5
Internet	5
Access of the EU to the Madrid Protocol	7
Registration Practice Working Group	8
Patents	9
Patents Protection in the UK	9
EPO issues	10
PCT issues	10
The Community Patent	11
The London Agreement & the EPLA	13
Substantive Law Patent Treaty	14
Patentability of Computer-Implemented Inventions	15
Biotechnology	17
Copyright	19
Implementation of the Copyright Directive	19
Other developments in the UK	22
Other developments in the EU	22
Developments in WIPO	22
Designs	22
Community Design protection	22
Licensing and Competition	23
The Technology Transfer Block Exemption Regulations	23
The Lambert Review	26
The US FTC Report on Competition & Patent Policy	28
Litigation	28
Adoption of the IP Enforcement Directive	28
Rome II- the law applicable to non-contractual obligations	29
Statutory Appeals Procedure	30
Reports & Reviews	31
The DTI Innovation Review	31
The Patent Office: an overview	32
The Clementi Review	32
The EU Innovation Action Plan	33



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PRESIDENT'S INTRODUCTION

This year's *Trends & Events* once more shows how rapidly the law of intellectual property changes, both as a result of legislation and (particularly in trade marks) as a result of case law. I hope that readers will continue to find *Trends & Events* a concise, focused guide to what has happened in the previous year.

By "focused", I mean focused on the interests and concerns of users of the intellectual property system, *i.e.* companies like TMPDF members. The authors of *Trends and Events* are all people whose background is the management of company IP policy, strategy, and procedures. In addition, at least outside the trade mark area, their companies are, mostly, just as likely to be defendants as claimants in IP actions, so that their views and priorities are correspondingly balanced.

Some of the articles that follow primarily describe external events. Others describe not only external events but also distinctive and effective lobbying by TMPDF. The UK Patents Bill, the Technology Transfer Block Exemption, and the IP Enforcement Directive are examples of legislation that has been significantly influenced by TMPDF.

During the last year, consultations on definite proposals for UK and European law changes, and also more preliminary consultations, have come thick and fast. A high proportion of consultations of interest to TMPDF members have been led other than by the UK Patent Office. On several occasions, TMPDF has become aware of consultations only when the consultation period was mostly spent, so that members had to be consulted and responses prepared at short notice. It seems that some UK and Commission officials give less attention than formerly to alerting trade associations (and indeed each other) of consultations; perhaps, this is on the basis that any consultation is theoretically findable, once it is put onto the Internet. The TMPDF Secretary is doing her best to ensure that nothing is missed; however, any intelligence from members about consultations is gratefully received.

A most welcome development in respect of consultation has been the introduction of quarterly meetings between the Chief Executive of the Patent Office and the Presidents of TMPDF, CIPA, ITMA, and FICPE. These meetings have complemented more formal consultation on current issues. They have also allowed all parties to be more "proactive" and forward-looking on matters such as trade mark attorneys' litigator rights, privilege of patent and trade mark attorneys, appeals from the Comptroller, address for service, the London Translation Agreement, and SPLT/the Trilateral.

Of course, the most prominent event of 2003-2004 was the failure of the European Community to agree on a Community Patent. This did not surprise TMPDF, or (in the end) disappoint it. Any system that was likely to emerge would have been a compromise taking little account of users' needs. Such a flawed system might later have been made compulsory, or else competing EPC/national systems might later have been somehow "nobbled" to make them less attractive.

TMPDF and sister organisations in France and Germany are now focusing on the London Translation Agreement for patents. If ratified by the necessary number of countries, this would greatly reduce the cost of patenting in Europe. Not only would this be good in itself, but it would set a more rational and challenging baseline for any revival of the Community Patent project. A Community Patent, properly set up from the start, would be a great boon to users.

Beyond predicting activity on the London Translation Agreement, my only prediction for 2004-2005 is that it will be busy.

Mike Jewess

TRADE MARKS

1. Community Trade Mark (CTM)

In last year's *Trends & Events* we forecast that the CTM Regulation No. 40/94 might be amended, and that amongst many amendments would be changes to Article 39 thereof and the searching regime that is currently being operated by the OHIM. This forecast proved to be true and on February 19, 2004 new Regulation No. 422/2004 was adopted.

This new Regulation introduced many changes into the CTM Regulation, most of them comparatively minor, but all of them welcome. Some have come into force already, and some will come into force when the necessary implementing Regulation (or Rules) have been adopted. Among the former are a number of changes in procedure and practice, including -

- a more flexible approach to who may be the owner of a CTM.

Some of the more important changes yet to enter into force include -

- The possibility for a CTM owner to 'divide' an application or registration;
- Permission for the Office to cancel or revoke decisions which contain an obvious procedural error;
- Major changes in the practice of the Boards of Appeal, such as: the appointment of a President of the Board, and the power to have decisions taken by an enlarged Board or by a single member

The changes to the search regime will not come into force until March 10, 2008. After this date, although the search carried out by the OHIM against all CTMs will remain compulsory, the searches conducted by the national offices will no longer be at the option of the national office but at the option of the applicant himself. When filing a new CTM application, an applicant can decide whether he wants his application to be searched in all of the searching countries or none. She will not be able to pick and choose the countries. This is very much in line with the approach adopted by the Federation, but of course we would have preferred the change to come into effect sooner than 4 years hence.

At present, 3 out of the 15 EU member states have opted not to do a national search and,

out of the 10 new member states who joined the EU on May 1, 2004, we understand that 5 will do a search among their national records, 2 will not, and 3 have yet to decide.

The CTM system continues to be popular with applicants and the number of filings increased again in 2003. Some of this increase was accounted for by a huge surge in applications just prior to October 1, 2003 to take account of the fact that CTMs filed after that date would become open to possible attack by trade mark owners in the 10 new Member states.

2. Trade Mark Cases

Parallel Imports and Re-packaging of Pharmaceutical Products

Is necessity the mother of importation? In the long-running dispute between the pharmaceutical manufacturers *Boehringer Ingelheim*, *GlaxoSmithKline* and *Eli Lilly* on the one hand, and the parallel importers *Dowelhurst* and *Swingward* on the other, the test of necessity is threatening to split judicial opinion across the EU.

In the High Court, Laddie J. had found on the evidence that it had been necessary for the importers to re-package the products in order to obtain effective market access.

But he also felt, as did the pharmaceutical companies, that the necessity test should govern the type of re-packaging, i.e. whether the new cartons were co-branded with the original trade mark and the mark used by the importer, or de-branded by the importer, so that only the generic name of the drug appeared on the replacement outer carton (even if the original mark were still present on packaging inside the carton).

In a judgment in March 2004, the Court of Appeal rejected extending the test this far. Instead, it referred back to the principle of the essential function of the trade mark, i.e. as a guarantee of origin, and the conditions aimed at protecting that function, as originally set out by the ECJ in the *Bristol Myers* case many years ago. One of those conditions referred to damage to the reputation of the mark.

The Court of Appeal, led by Jacob LJ, found that co-branding might well cause damage to the reputation of the original mark, since it implied some sort of relationship between the manufacturer and the importer over and

above the normal one of manufacturer and dealer.

Such a misconception may be avoided by clear information on the carton relating to the respective roles of the two parties, and on the facts this was felt to be the case.

As to the de-branded carton, the court said there was no damage to reputation simply because the manufacturers had been deprived of the opportunity to have their marks displayed on the outside of the carton. Importantly, the court said there was no right which required the importers to re-affix the original mark to the new carton.

The Court of Appeal's view is thought to coincide with that of the European Commission, but it does appear to conflict with decisions in similar cases in other Member states, which have agreed with Laddie J. and the pharmaceutical manufacturers. The court has therefore referred the case to the ECJ.

This matter looks as though it will run and run, and in the meantime both sides in the industry, and indeed those in other industries which may be affected by the practice, are left in a state of considerable uncertainty.

Registration of Sounds as Trade Marks

In November the ECJ gave its decision in the *Shield Mark* case which had been referred to it by the Hoge Raad.

Going back to first principles, the court said that the list of signs given in Article 2 of the Directive is not exhaustive, and thus there is no reason in principle why a sound mark cannot be registered, providing it meets the basic requirements of the ability to distinguish the goods and services of its owner from those of others, and of unambiguous graphic representation.

This latter requirement could be met by conventional musical notation, but not by mere description.

This decision followed a similar one by the OHIM 4th Board of Appeal in August, which had considered the application by MGM for the registration of the sound of its signature lion's roar, as represented by a spectrogram. The Board felt that in principle such a representation is acceptable, although on the facts it had to refuse the application since the spectrogram was lacking in any indication of time and frequency, and therefore fatally imprecise and unclear.

Registered Trade Marks and Geographical Indications

There is an obvious potential for conflict between geographical indications of origin, particularly recently-adopted ones, and trade marks.

In January, the ECJ ruled in the case of *Gerolsteiner Brunnen v. Putsch*. *Gerolsteiner* was the owner of the German trade mark GERRI, registered for, inter alia, mineral water. It sued *Putsch* for trade mark infringement over the use by *Putsch* of the name KERRY SPRING for mineral water (according to a German analysis, GERRI and KERRY are similar). In fact, the water in the *Putsch* bottle was sourced in County Kerry, Ireland, and KERRY SPRING was included in a list of mineral waters recognised by the Irish government and accepted by the European Commission. The ECJ therefore found that *Putsch* was using the name as a geographical indication of origin.

It pointed out that the Directive provides that the proprietor of a registered trade mark cannot prevent a third party from using geographical indications in the course of trade, provided that such use is in accordance with honest practices in the trade. Geographical indications of origin could not be placed at risk by mere similarity with a trade mark - there had to be something about the way the indication was used which suggested a deliberate intention to confuse.

Interestingly, the court said it was reinforced in its belief by the prospect of EU enlargement - the addition of 10 new Member states (and 9 new languages) only increased the likelihood of such conflicts. This must be right, and this case will have helped to clarify the situation in the event of such disputes.

Invisible Infringement

Metatags are basically invisible to humans, but operate as signposts for computer search engines. Can you infringe my mark if you use it as a metatag to direct search engines to your website?

In March, the Court of Appeal gave its judgment in *Reed Executive (RE) v. Reed Business Information (RBI)*. RE ran a national employment agency, had registered REED as a trade mark for employment agency services, and had a website at www.reed.co.uk.

RBI is part of the Reed Elsevier group of publishing companies and runs the recruitment website www.totaljobs.com.

RE sued RBI in the High Court for infringement and passing off. Part of the complaint related to the use of the metatag 'Reed' by RBI.

Whilst at first instance the court found in favour of the complainant, the Court of Appeal (led by Jacob LJ) reversed the decision. In relation to metatags, it held that there was no infringement under S.10(2) TMA '94. Indeed, it was doubtful whether such use counts as use of a trade mark at all. Uses read only by computers do not convey any meaning or message to anyone, so they are not signs in the trade mark sense.

This case is undoubtedly helpful, but may have to be treated with caution, given the nature of the marks in question and if there is evidence of a deliberate intention to deceive by diverting potential customers to the site of a direct trade rival. It also leaves open the question of the position under S.10(1).

The Registration of Descriptive Words as Community Trade Marks

Article 7(1)(c) of the CTM Regulation forbids the registration of marks which consist *exclusively* of signs which *may* serve to designate characteristics of the goods.

In reversing the decision of the Court of First Instance, the ECJ in the *DOUBLEMINT* case went along with OHIM and the opinion of the Advocate General and confirmed that the provision is to be interpreted literally.

It said that the CFI had erred in asking itself whether the mark was exclusively descriptive, when the wording of the provision clearly envisage that it is sufficient if, having regard to the nature of the goods in respect of which registration is sought, the mark could be taken to be descriptive - even if there are other possible interpretations.

After the extreme of *BABY-DRY*, everyone (except perhaps Wrigley and their advisers) seems happy with this decision, which is so much more readily understandable. There was no evidence of the syntactically unusual here, thankfully.

The Anti-Dilution Provision in European Trade Mark Law

In January 2003 the ECJ in *Davidoff v. Gofkid* held that Article 5(2) of the Directive applied not only to prevent use of an identical or similar sign on dissimilar goods, but also to use of the sign on similar goods. In so doing, it ended the apparent anomaly that existed whereby the owner of a mark with a

reputation was almost in a better position where the goods were dissimilar, than if they were similar.

The development was of interest to *Adidas* in its dispute with *Fitnessworld*, in which *Adidas* alleged that *Fitnessworld's* double-striped clothing infringed its famous triple-stripe logo for clothing. *Adidas'* problem was that a Dutch court had concluded that *Adidas'* logo was so well-known that consumers would not be confused by the double-stripe, which was likely to be viewed as mere decoration. So *Adidas* failed under Article 5(1)(b). But if it could proceed under Article 5(2), which requires no evidence of confusion, it would prevail. The problem was, before the decision in *Davidoff v. Gofkid*, that Article 5(2) apparently only applied where the goods were dissimilar.

The Advocate General in his opinion followed the decision in *Davidoff v. Gofkid*. The ECJ agreed. Evidence of confusion was unnecessary - it was sufficient if there was evidence that the relevant section of the public established a link between the sign and the mark. If the evidence showed that the public viewed the sign merely as an embellishment, such that it did not call to mind the trade mark, then no link had been established and the trade mark owner could not succeed under Article 5(2). On the other hand, even where the public saw the sign principally as an embellishment, if it was nonetheless reminded of the trade mark, then the link was established and the trade mark owner could succeed under Article 5(2). A finding of decoration was not in itself fatal to the task of establishing a link.

It goes without saying that this is a most welcome development for owners of trade marks with a reputation.

Arsenal v. Reed: An Ongoing Saga

This season, *Arsenal F.C.* set a record by going through the entire 2003/4 Premiership fixture list without defeat. But its efforts in court signally did not match its success on the pitch....

The parties first found themselves in court at the beginning of 2001, and yet here they were in May 2003 still exchanging tackles.

As is by now well-known (due to the extensive media interest, if nothing else), the stallholder *Reed* sold goods aimed at football fans. These goods bore various registered trade marks belonging to *Arsenal F.C.* Not surprisingly, *Arsenal* sued *Reed* for trade mark infringement - and were shattered to find that

Laddie J. did not agree. *Reed's* use of Arsenal's trade marks was not trade mark use. He was not using them as an indication of origin, merely as a badge of allegiance. Fortunately for *Arsenal*, Laddie J. did agree that a reference to the ECJ was called for - fortunate, because both the Advocate General and the ECJ disagreed with Laddie J., and found that such use did affect the fundamental origin function of the trade mark.

Returning to the High Court, *Arsenal* must have been confident of a win - only to be shattered by Laddie J. once again. He decided that the ECJ had overstepped its powers and in making its decision had strayed into making an unjustified finding of fact. He had found that the use of *Arsenal's* marks by *Reed* was not perceived by the football fans as an indication of origin (hardly surprising, given that *Reed's* stall bore a prominent disclaimer, pointing out that it was not official merchandise), and it was not up to the ECJ to dispute that.

Arsenal was therefore left with little alternative but to appeal to the Court of Appeal, which must have been keenly aware of the awkwardness of its position - rather like a referee faced with a penalty decision in the final minutes of a drawn football match.

The Court of Appeal said that the question of whether or not it was trade mark use was not the right question. The issue was instead whether or not the use was likely to damage the mark. This was another way of saying what the ECJ had said : did it affect the essential origin-indicating function of the mark? The court reviewed the evidence presented in the High Court and decided that the judge had been wrong in his conclusion : the use was trade mark use.

Finally then, the equaliser - or is it the match winner? - for *Arsenal*, and trade mark owners everywhere breathed a sigh of relief. But: are the pockets of a stallholder deep enough to force extra time and an appeal to the House of Lords? It seems unlikely that there is any room left for manoeuvre, but this case has had its share of surprises ...

Parallel Imports : *Van Doren v. Lifestyle* Adds a Complication

After *Levi v. Tesco*, we thought the position had been clarified once and for all. But this case has caused some uncertainty by suggesting that there may be circumstances where the initial burden of proof is on the trade mark owner to show that he has not

consented to the importation, contrary to the usual situation.

Van Doren was the exclusive distributor of *STUSSY* clothing in Germany. It took legal action to prevent *Lifestyle* offering *STUSSY* clothing in Germany as well. It alleged that *Lifestyle's* goods had been sourced in the US, and that the American trade mark owner had not consented to their importation into Germany.

Lifestyle alleged that, to the contrary, its goods had been obtained from within the EEA, where they had been put on the market either by the trade mark owner or with its consent. Crucially, *Lifestyle* refused to reveal the identity of its supplier.

The burden of proof was on *Lifestyle* as the defendant, but the German court wondered whether this was entirely compatible with Article 28 and 30 of the Treaty of Rome. This struck a chord with both the Advocate General and the ECJ. Both were concerned that if the defendant in such a situation were to be in effect forced to reveal its source, the trade mark owner could use the information to plug any gaps in its distribution system and shut off the defendant's source of supply, thus helping him to partition the market and maintain price differentials between Member states. The court decided that in such circumstances, if the defendant can show that there is a real risk of such undesirable consequences, the burden of proof will shift to the trade mark owner - at least initially. It is then up to the trade mark owner to show that the goods were not placed on the market in the EEA either by it or with its consent.

The Advocate General suggested marking the goods in some way with an indication of their intended market. If the trade mark owner can discharge this burden, then the onus again falls conventionally onto the defendant parallel importer to show consent by the trade mark owner, or original marketing in the EEA by him.

Trade mark owners, even those not operating exclusive distribution systems, will find this case unwelcome and unhelpful. What does a parallel importer have to do in order to show that there is a risk of market partitioning? Most trade mark owners will be concerned that in practice it will be enough for the parallel importer simply to allege it. In such a situation, how far does the trade mark owner then have to go in order to shift the burden of proof back again? What sort of wording on the goods as to intended markets will be enough? If the trade mark owner in practice has to show that its distribution system is watertight, won't that encourage some traders to make an

allegation of market partitioning simply in order to go on a fishing trip to learn about the trade mark owner's distribution system and then exploit any potential weaknesses?

This decision is also to be deplored because it seems to equate the legitimate enforcement of trade mark rights with the illegitimate partitioning of the internal market. It should be emphasised that the latter does not necessarily flow from the former.

We await with interest to see how this will be applied in the next suitable reported case.

3. EU Origin of Marking Scheme

Just before Christmas, the European Commission presented its initial proposals for an EU origin marking scheme ('Made in EU').

The working document puts forward three different options:

1. a 'Made in' tag would be voluntary for both EU-made products and products imported into the EU from outside the Community. In order to bear the 'Made in EU' origin reference, products would have to conform to certain specified criteria (to be decided);

2. a 'Made in' tag would be compulsory for all imported products, but 'Made in EU' would be voluntary for products originating in the Community;

3. a 'Made in' tag would be compulsory for imported products, and 'Made in EU' would be compulsory for EU-made products.

The proposals immediately raised a question about the legality of compulsory origin marking for EU-made products, given that currently Community law prohibits any mandatory national origin-marking requirement.

Publication of the proposals more or less coincided with the close of the EU Italian presidency at the year-end. The Italians pushed for an early resolution, which was understandable given that the new Italian finance law, which came into force on January 1st 2004, provided a certain amount of protection for the 'Made in Italy' origin reference (but without mandating it).

However, quite predictably, there was a mixed and somewhat reserved response from the member states, with all of them

demanding time to consult more widely on the proposals. There seems to be a lot of scepticism about the advantages of such a scheme, which the Commission apparently sees as improving global awareness of the EU single market and also as a helpful marketing tool.

The CBI drew up a draft response to the DTI in which it stated that it could not see any merit in the proposals - in fact, quite the reverse, in that it risked confusing consumers who were used to the 'Made in the UK' tag, as well as adding to the administrative burden already facing industry. It also added that there seemed to be a conflict of principle between the proposals and the Commission's enthusiastic promotion of geographical indications of origin.

The CBI asked for the Federation's early reaction to its draft. In the time available, there was not much opportunity to conduct anything much more than a straw poll, but those companies that did respond indicated that they broadly supported the CBI view. At most such a scheme should not be compulsory. Also, there seems little value in such a scheme all the while some countries (such as the US) refuse to recognise 'Made in EU' as a valid statement of origin. These views were duly communicated to the CBI.

They seemed to coincide with those of UNICE's members, which felt that 'Made in EU' would conflict with valuable national origin references and impose too much of a burden on EU companies compared with any perceived advantage. UNICE has made its position known to the Commission.

In spite of all the negativity, the current position seems to be that the Commission has no official position - as yet. DG Enterprise wants to sound out the views of industry across all sectors and may yet suggest a sectoral approach (e.g. the proposals are apparently supported by some organisations within the ceramics, clothing and footwear industries).

4. Internet

ICANN

The Internet Corporation for Assigned Names and Numbers (ICANN) continues to try and bring about stabilisation and increased world-wide involvement in the management of various internet issues. Meetings in the last 12 months took place in Rome, (March 2004), Marina del Rey (December 2003), Carthage, (October 2003) and Montreal, (June 2003).

ICANN continues to attract criticism for the dominance within its organisation of the rich nations and in particular, the USA. Of particular interest to the IP community is the work ICANN is involved in within the areas of WHOIS, internationalised domain names and new sponsored top level domains. At the end of 2003, approximately 35 million gTLDs were reserved. Although still concentrated in the generic gTLDs, domain name registrations are already diffusing to country code TLD ownership throughout the rest of the world (source: zooknic.com)

Generic top level domains, sponsored domains and country code domains

At the Marina del Rey meeting, ICANN announced the commencement of the application period for new sponsored Top Level Domains (sTLDs). A sponsored top level domain is one where there are restrictions on ownership and for the IP community this type of TLD has so far been the most successful in providing some protection for trade mark owners. ICANN has received a number of applications for sTLDs including .asia, .cat, .job, .mail, .mobi, .post, .travel, .xxx, and .tel. It will be some time before ICANN evaluate these applications and it is unlikely that any will be announced as successful before the end 2004.

EURID (the registry appointed to manage .eu TLD) has still not opened for business. The European Commission published the Public Policy Rules for .eu on 28 April 2004 and EURID have indicated that they will begin to accredit registrars as soon as the Registrar Agreement is published and translated into the official EU languages. EURID have called for enquiries from suitably qualified bodies to run the SUNRISE validation exercise, likely to open around December 2004.

Country Codes

The Country Code Names Supporting Organisation (CCNSO) is an ICANN body set up to address ccTLD issues. The organisation is in the process of nominating candidates for its council. To ensure international diversity, there must be an even spread of candidates from all geographic regions. Elections will be held in June, with the first council meeting scheduled for 18 July 2004.

Dispute Resolution

Conflicts over ownership of domain names is now less of an issue for many trade mark owners who have developed policies for dealing with cybersquatting and typosquatting.

The number of complaints filed through the World Intellectual Property Organisation (WIPO), the most frequently used of the dispute resolution service providers, has reduced over the last few years with just over 1000 cases being filed in respect of generic top level domains (gTLDs) in 2003. A few country code top level domains (cTLDs) also subscribe to this Uniform Dispute Resolution Policy service, but there are significantly fewer disputes resolved using this procedure at country code level, with the average number of around 5 such cases being filed each month in 2003.

Mr Francis Gurry, Deputy General of WIPO, recently observed: "reducing the practice of cybersquatting is an important element in enabling the Internet to develop as a secure and reliable environment which inspires confidence on the part of the ever-growing number of Internet users. The fact that over 80 percent of the WIPO expert decisions went in favour of the trade mark holder, be it a large multinational corporation or a small or medium-sized business, underlines the bad faith inherent in this practice."

In addition to famous brands, (recent WIPO cases include the domain names pepsi-smash.com, calvinklein-watches.com, rolexgroup.com), celebrities continue to be targeted by cybersquatters. In such cases, their success was based on common law rights in their names rather than on a registered trademark. In 2003, WIPO received cases relating to movies, authors and books (jrrtolkien.com, thecatinthehat.com), pop stars (nsyncfilm.com, utadahikaru.com), television shows (oscartv.com, operaciontriunfo.tv), and movie stars (pliercebrosnan.com, victoriarowell.com). Sports personalities (terrellowens.com) and sporting events (torino2006.net, madrid2012.org) were also the target of cybersquatters.

There are still only a limited number of ccTLDs which utilise the Uniform Dispute Resolution Policy. Those such as Nominet (UK) which run their own dispute resolution service continue to develop principles for resolving disputes. Nominet receives an average of 48 new cases a month.

Internationalised Domain Names

IDNs are Internationalised Domain Names, sometimes referred to as multi-lingual domain names, which contain characters from outside the standard ASCII character set (a-z, 0-9 and the hyphen).

ICANN and a cross-section of leading Internationalised Domain Name (IDN) - implementing registries, have worked to develop a set of common-sense "Guidelines for the Implementation of Internationalised Domain Names". Version 1.0 of the Guidelines was published in June 2003. The Guidelines are a list of general standards for IDN registration policies and practices that are designed to minimise the risk of cybersquatting and consumer confusion, and respect the interests of local languages and character sets. The Guidelines call in IDN-implementing registries to employ language-specific registration and administration rules that are documented and publicly available. Registries seeking to deploy IDNs under their agreements with ICANN have been authorised to do so on the basis of the Guidelines. As a result, most of the major registries now offer some level of IDN capability. Those that don't currently are expected to do so in the future. The registry responsible for operating each of the domain names or suffixes decides which, if any, additional characters they will offer. For instance, .com and .net offer all major character sets including Arabic, Hebrew and Han (Chinese, Japanese, Korean ideographs); whereas many of the European suffixes, such as .de and .dk, only offer non ASCII Latin characters including accents (à, á, â etc). Generally, country code Top Level Domains (ccTLD) that offer IDN capabilities, will, as a minimum, support the characters required for the local languages used in that particular country (e.g. Swedish for the .se suffix and Japanese for the .jp suffix).

WHOIS

As in previous years, the main issue regarding registration of domain names has been the inaccuracy or unavailability of WHOIS data on ownership of domain names. WHOIS is the name, email, street address, phone and other information about the registrant and the other contacts of the domain name. Accurate and searchable data is seen as essential to all interested parties, but in particular to the IP community, who may need to trace owners of websites selling counterfeit or pirated goods, those sending fraudulent emails and infringers and cybersquatters etc. The ability to "reverse lookup", i.e. look for patterns of cybersquatting behaviour, is especially valuable.

Towards the end of 2003, the Generic Names Supporting Organisation (GNSO) of the Internet Corporation for Assigned Names and Numbers (ICANN), commissioned a task force to look into WHOIS and to ensure that groups with interests such as law enforcement, intellectual property, internet service providers and consumers can continue to

retrieve information necessary to perform their functions. The task force needs to ensure that any access restrictions do not restrict the competitive provision of services using WHOIS information; nor must they restrict the transfer of domain name records between registrars.

The work of the new task force is divided into three areas: a) restricting access to WHOIS data for marketing purposes, b) a review of data collected and displayed (privacy), and c) improving the accuracy of collected data. The task force has sought input via survey questionnaires on the ICANN website: <http://gns0.icann.org/issues/whois-privacy> but initial indications from the results seem to suggest that strongly opposing views remain on the privacy v intellectual property ownership interest debate. An absence of useful data and facts distinguishable from opinion in the survey results also hampers the work of this task force.

5. Accession of the EU to the Madrid Protocol

In October the European Council approved the accession of the European Union to the Madrid Protocol and the corresponding proposal that the Community Trade Mark Regulation should be modified accordingly.

The European Commission, which first proposed the link some seven years ago, has now published the necessary implementing Regulation (27th April).

The projected timetable is for the instrument of ratification to be deposited with the WIPO by mid-year, with entry into force three months later, i.e. October 2004.

The link should prove popular with users of the Madrid system, further enhancing its efficiencies and cost-effectiveness, now that agreement has been reached on the so-called 'opting-back' provisions which enable refused CTM applications to be converted into national designations under the Protocol.

The Council also agreed to adopt Spanish as the third working language of the Madrid system. It is expected that this will make it easier for many South American countries to join. The continent is the last major no-go area for Madrid and hence if a number of its countries were to sign up WIPO would finally be able to claim it was a global system.

6. Registration Practice Working Group

Over the year, it was notable that the number of trade mark applications being filed at the Registry showed a slow but steady decline overall. For the first quarter, domestic applications were down by 5% and Madrid applications by 17% compared with the same period in 2002. By the final quarter, domestic applications were still down while Madrid applications had slightly overtaken the level of the previous year, but there was no evidence that the accession of the USA to the Protocol had led to any significant increase in numbers.

The informal consultation on the reform of the opposition process, which had just been launched when the last issue of *Trends and Events* was published, had been welcomed by the interests and the majority of the responses had been positive. This was followed up by a formal consultation in the Autumn and the Rules were finally agreed without any substantial changes in early 2004. The consequential changes to the Work Manual would be discussed with the interests. A slight disappointment was the introduction of an automatic cooling-off period ending 12 months after publication, which TMPDF had felt was too long and would encourage dilatoriness by the parties.

Changes in Law Section have also been in progress, the most significant being the appointment of case work examiners to work closely with and support the principal hearing officers. The case work examiners will be responsible for ensuring that cases progress through the system as expeditiously as possible. To clear the way for the new procedure it was reported that by the end of 2003 backlogs of cases awaiting a decision had been cleared, as a result of hearing officers reaching a decision from the papers in as many as 35% of cases.

The new Director of Trade Marks and Designs, Mr Robin Webb, was appointed in early December, and attended the RPWG for the first time in February, having already held working lunches with representatives of the interests to hear their views on topical issues. TMPDF appreciated this initiative and wished Robin well in his new post.

Practice Amendment Notices have been issued on a number of important topics, following consultation with the interests. TMPDF submitted detailed comments where appropriate. Subjects have included Series Marks, Graphical Representation of Colour Marks, the effects of the "Doublemint"

decision, Foreign Words, and Names of Famous People. (Subsequently a draft revision of the new "Examination" chapter of the Work Manual has been circulated, incorporating this and other new material.)

The accession of the European Union to the Madrid Protocol finally happened in late 2003. The Registry anticipates that once this option is taken up fully by applicants, it could result in a reduction of some 50% in Madrid Protocol filings designating the UK.

Enhancements to the Registry's IT infrastructure have continued throughout the year. An "electronic caveat" system was trialled with a number of volunteer users and was considered a great success. As a result the system is now live and allows users to set up and tailor caveats to their own requirements, free of charge. Work continues on electronic filing, but take-up by users has been disappointingly low, probably due to compatibility problems with in-house IT systems. However, work is in progress on a "web-form" which is expected to be a more straightforward option. The Registry's public website continues to gain praise from users, being highly informative and user-friendly. This may account for the rise in the number of applications filed by "private applicants", currently running at about one-third of total applications. The Registry has also expanded the information in its search database for Madrid Protocol registrations and is working on providing a similar level of information on Community Trade Marks. Provision is also being made in the budget for a searchable database of emblems and symbols protected under Art 6^{ter} of the Paris Convention. Despite all this activity and expenditure it appears the Patent Office is now generating an inappropriately high return on capital and is reviewing its overall fee structure with a view to reducing its profits. A number of options have been put forward for changes in trade mark fees, but a final decision has not yet been made.

The proposed abolition of national searches in CTM applications was debated and once the decision had been announced that the search would be optional in future the interests were encouraged to submit their preferences on the format of the search to both the Registry and the Commission. TMPDF did so, arguing that searches would only be of value if they contained full details of goods/services of cited marks, the applicant, and preferably the parameters used for the search. No final decision has yet been published. TMPDF also submitted its comments on various proposals for changes in the International Classification of Goods and Services, discussed at the WIPO Preparatory Working Group in April 2004.

PATENTS

1. UK Patent Issues

Patents Bill

In early 2003 the Patent Office began consultation on a new Patents Bill. The purpose of this was principally to modify the Patent Act 1977 to give effect to certain changes arising from the revision of the European Patent Convention in 2000. However the Patent Office also decided to use this as an opportunity to consult on a range of other issues including certain deficiencies in the Act that had become apparent over time. The Federation submitted detailed comments on the issues in the spring of 2003 and was represented in a number of open meetings held by the Patent Office over the summer. The Patent Office provided its response to the consultation in the autumn.

On 16th January 2004, the DTI published the proposed Bill. Other than the EPC revisions, the most significant proposed changes were:

- Amendment of section 40 (right of an employee inventor to claim compensation) so that the 'outstanding benefit' threshold for an award relates to the patented invention and not simply the patent itself.
- Extension of section 70 (threats proceedings) to enable a patent owner to approach an indirect infringer who is first in a supply chain if there is no other method of identifying the direct infringer
- A new provision (section 74A) allowing the Patent Office to give non-binding opinions on patent infringement and validity (novelty and inventive step only).

The Bill was introduced into the House of Lords by Lord Sainsbury at the end of January and it had its second reading shortly after. Prior to the second reading, a number of amendments were proposed by the various opposition parties. As a consequence, TMPDF submitted a brief to the Patent Office and the parties concerned setting out the Federation's view on both the Bill and the proposed amendments. The CBI submitted a similar brief. On the three points mentioned TMPDF objected to the section 40 change (on the basis that the successful commercialisation of an invention depended on a team, not just an inventor, the inventor's contribution being better defined by the patent), welcomed the changes to section 70 and objected to the new

section 74A on non-binding opinions (on the basis that the Patent Office was not in a position to give opinions on infringement and such opinions might prejudice the future progress of any litigation). The TMPDF brief was followed up with meetings with Earl Attlee of the Conservatives and the leader of the Bill team in the Patent Office, where these views were discussed and reiterated.

After the second reading, the Bill progressed to the Grand Committee stage of the Lords and thereafter to the House. Ultimately it was passed with improvements in section 70 (threats) and in section 24 (concerning inventor confidentiality). Moreover, a major improvement in section 23 (filing abroad) was introduced (see below), but no changes were made in the Bill's proposals for sections 40 and 74A. The next step is for the Bill to be considered by the House of Commons.

Regulatory Reform (Patents) Order 2004

Almost contemporaneously with consideration of the Patents Bill, a regulatory reform order to amend other sections of the Patents Act 1977 has been under consideration. The order is to be made under the provisions of the Regulatory Reform Act 2001.

Under the order, the Act is amended so as to (a) align with the WIPO Patent Law Treaty (2000) (which affects requirements concerning filing date and other formalities), (b) make it easier to comply with application formalities and priority claiming, and (c) improve arrangements for extending time limits and securing reinstatement.

The Federation supported the proposed changes and offered comments on the detailed provisions.

National Security provisions of the UK Patents Act (Sections 22 and 23)

The regulatory reform order discussed above, as originally drafted, also contained provisions to amend sections 22 and 23.

For many years it has been apparent that Section 23 of the UK Patents Act 1977 created unnecessary criminal penalties. Under Section 23, any United Kingdom resident who without permission files his first patent application for an invention outside the UK is guilty of a criminal offence. This applies to all inventions, however remote in technical subject matter from national security.

Section 23 thus exposes those making harmless errors to the risk of criminal prosecution.

More importantly, Section 23 presents an inconvenience to company groups performing R&D internationally. In particular, if an

invention has both UK and US inventors, considerable care is needed if neither country's law is to be infringed (Section 184 being the relevant section of the US Act). The UK Patent Office Security Section is very considerate and helpful to companies that find themselves in this position, but nevertheless both they and companies are wasting time and money as a result of the present Section 23.

The Patent Office, acting on advice from the Ministry of Defence, made the welcome proposal in 2003 that Section 23 should be restricted in its application to inventions in only certain technologies. However, TMPDF objected to the complex schedule which defined the technologies. In addition, TMPDF objected also to a proposal that Section 22 should be strengthened so that all patent applications within the defined technologies would, in effect, have an immediate, unconsidered Section 22 order, prohibiting publication or disclosure of inventions. This would multiply the number of cases subject to Section 22 prohibitions by a factor of five or so for companies in the defence industry. On the proposed schedule, it would create considerable uncertainty in other industries.

Originally, it was proposed that the Section 22 and 23 amendments would be made by an order under the Regulatory Reform Act 2001. The Federation expressed the view that the Section 22 amendments were not allowed in such an order (the Act allows amendment of primary legislation by a simplified procedure, but only for the overall purpose of deregulation).

After the TMPDF submissions, the government decided not to amend either section 22 or 23 by means of the Regulatory Reform Order. A provision liberalising section 23, so that only those applications relating to military technology or which might otherwise prejudice national security have to be cleared by the authorities before filing abroad, has been included in the Patents Bill. This provision, moreover, establishes that only those applicants who contravene the rules knowingly or recklessly, will be liable for prosecution.

Patents Practice Working Group

TMPDF continued to be represented at the UK Patent Office's working group on patent practice. Issues discussed included the project on electronic filing (which will be available for use from this summer) and payment of certain fees by credit card.

2. EPO Issues

At the end of 2003, the EPO announced the succession plan for the Presidency of the Office. Upon retirement in July 2004, Dr Kober will be succeeded first by Alain Pompidou (a former French MEP), for three years, and thereafter Alison Brimelow (former Chief Executive of the UK Patent Office) will take charge. During the Pompidou presidency Alison will continue to participate in the work of the Administrative Council and the Strategy Group of the EPO.

During 2003/2004 the EPO has implemented its 'Mastering the Workload' project designed to overcome its backlog difficulties and to improve its service further. A key element of this is the creation of 'joint clusters' for search and examination, different subject matter areas each having autonomy as to how they operate and interact with users. It is probably too early yet to judge the effectiveness of this initiative but already TMPDF members are beginning to detect differences in approach: for example some clusters are now regularly making use of e-mail to interact with applicants.

During Autumn 2003 the EPO Administrative Council proposed to reduce the EP filing fee where the filing was made electronically and to increase the search fee the EPO charges as a PCT International Search Authority. TMPDF opposed both these developments.

There has been much discussion over the last year about convening a further Diplomatic Conference to make further changes to the European Patent Convention. Although this was principally aimed at enabling the European Patent Office to grant Community Patents, further proposals have been made seeking to strengthen the authority of the EPO Boards of Appeal. Given the difficulties with the Community Patent Regulation, plans for holding this Diplomatic Conference are currently shelved.

3. PCT Issues

From 1st January 2004, a number of changes to the PCT have come into effect. Perhaps the most significant has been the introduction of the Enhanced International Search and Preliminary Examination (EISPE) system. Under this system applicants will, at the time they receive the International Search Report, also receive an opinion on patentability. This system does not replace International Preliminary Examination under Chapter II of

the PCT but is designed to give applicants a clear idea of the issues well before entering the national phase. This, combined with the extension of the Article 22(1) time limit (entry into the national phase under Chapter I) from 20 to 30 months which was implemented in April 2002, is designed to make the International phase of the PCT as flexible as possible.

From January 2004 a new PCT fee structure has been implemented with a flat international filing fee replacing the existing basic and designation fees.

Recent work on PCT reform has centred on establishing a right to restore priority within the two months following the end of the Paris Convention year. For the time being it remains to be decided whether such a change requires amendment of the PCT Articles.

4. Community Patent Whence and Whither the Community Patent?

Introduction

The most recent attempt to create a Community Patent received its impetus in November 1996 from the grandiosely named "First Action Plan for Innovation in Europe". The Commission issued a Green Paper in 1997 canvassing views on what form a Community Patent might take. Extensive consultation followed and a Communication announcing proposed initiatives was adopted in February 1999. The Lisbon Council of March 2000 underlined the importance of introducing a Community Patent without delay. A proposal for a Regulation to create the Community Patent was published in June 2000 and negotiations have continued since then. However, for reasons which follow, the project might now have ground to a halt.

History

The idea of a unitary patent for Europe has been around since the 1960s when the creation of a patent system applicable to the then six-state European Community was considered. The work led first to the European Patent Convention, which also included potential EC states such as the UK, Denmark and Austria, together with Switzerland. The Convention enabled a number of national patents to be obtained through a single application to the European Patent Office. The practical defects of this system (e.g. costs of translations, need to litigate in all EPC members) are well-known.

A further attempt to create a Community Patent led to the signing in 1975 of the Community Patent (or Luxembourg) Convention. This was amplified in 1989 by the signing of the Agreement on Community Patents, which included not only the 1975 Convention, but also a Protocol on Litigation. Many of the substantive provisions of the 1975 Convention have been incorporated into the national laws of EC member states. However, neither the 1975 Convention nor the 1989 Agreement were formally ratified by all member states and thus a unitary Community Patent has never come into effect. This failure is generally attributed to (a) the perception that due to translation requirements under which the patent would have had to be translated into all official EU languages, it would have been too expensive and (b) concerns about the judicial system under which national judges would have been able to revoke a patent with Community-wide effect.

How familiar these concerns must seem to those who have been involved with the Community Patent over the last 4 years.

Aims of the Federation

The Federation has been actively involved in discussions on the Community Patent proposals, both within UNICE and in direct interaction with UK Government. It has consistently argued that the Community Patent system must be seen as a complete package which must:

- Provide for a patent of unitary effect throughout the Community
- Provide for a patent which is cost-effective to obtain and maintain
- Provide a satisfactory substantive law
- Provide a high quality, speedy and cost-effective system of pan-Community enforcement by a Community Patent Court with judges who are experts in patent litigation
- Provide an option which is additional to the existing options of filing nationally or seeking the EPC "bundle"

The Federation would strongly welcome a Community patent which meets these tests; however, it has also consistently argued that it would rather have no Community Patent than an unsatisfactory one.

Since the June 2000 proposal, much progress has been made on many of the substantive issues and several industry concerns, including some politically contentious ones, have been met. The Commission in particular is to be applauded in having taken so many industry concerns on board.

Key issues

However, and very unfortunately, member state political sensitivities over use of languages have led to a proposal which, if adopted, would make the system unattractive to much of industry.

The issue which has been debated most strenuously over the last year (and more), and which has led to delays in finalising the Community Patent Regulation, concerns patent translations. The Commission originally proposed that after grant in one official EPO language, all that would be necessary would be to file the claims in the other 2 official EPO languages. Translation of the patent (including the claims) would only be necessary when litigation was contemplated. That regime, despite certain drawbacks, would have been satisfactory to the Federation and other parts of European industry. However, it was not satisfactory to many member states, which believed it to be discriminatory.

After much negotiation, a compromise was reached under the Greek Presidency in March 2003. A Common Political Approach was adopted under which the Community Patent would be granted in one official EPO language but the claims would subsequently be translated into all others (a further 19 languages after the recent Enlargement). This compromise was reached despite industry's protestations. The Greek Presidency compromise became a Trojan horse acceptance of which, though superficially attractive, would defeat the project.

Since the Common Political Approach was agreed, European industry has been firmly against the Community Patent principally because the requirement for 19 translations of the claims introduced unnecessary bureaucracy and made the system unattractive from a cost perspective. In fact for many companies, the cost of using the Community Patent would have been greater than obtaining sufficient national protection through the EPC bundle patent route. Industry's concern as to cost has not, however, been the key issue at political level. The translation regime set out in the Common Political Approach has not in itself been revisited. Instead, discussion at political level has focused on what the effect of translations should be.

Certain member states led by Germany were adamant that these translations should have no legal effect because the Community Patent is a unitary legal instrument. Others were equally adamant that they would have a legal effect so that if, for example, because of a translation error the Spanish language claims

were narrower than the granted English, French or German authentic version, the narrower Spanish claims would control in Spain. This of course led to the possibility of the scope of a Community Patent varying between EU member states which was not consistent with a single market approach and could have led to much legal uncertainty.

In 2004, the Irish Presidency sought a compromise solution to this problem by proposing a package of measures apparently comprising (a) allowing patent owners to correct translations of this sort at any stage, (b) giving parties who have exploited such errors a window to continue what they had been doing after the correction is made and (c) the ability of the patent owner to obtain compensation for such continuing acts. Two proposals as to how (b) and (c) would work were made: one defining the window as 30 months with a statutory right to compensation, the other being a window of 24 months with the compensation being at the Court's discretion. Neither proposal found unanimous support from Governments or industry.

It is worth noting that, as proposed, the Community Patent will remain optional, thus meeting a key industry requirement. Why then has industry taken such a strong line? It is perhaps a sad reflection of a lack of trust between various stakeholders that despite assurances received from the Commission and Governments that the system will remain optional, significant parts of industry are concerned that, if the Community Patent fails to be attractive (as industry predicts), its optional character will eventually be abolished and industry will be forced to use it.

Community Patent Court

During the course of the last 12 months, the Commission has also published proposals relating to the structure and operation of the Community Patent Court. These proposals raise a number of very significant issues which could render the system unsatisfactory. The Federation has provided detailed comments and members have participated in the Patent Office Litigation Focus Group discussions on the proposals.

The issues include the manner in which complex technical issues will be handled, by judges who may have no technical background, and the rules of procedure of the Court (which have not been drafted but which will, it is assumed, include details of how evidence will be gathered, given and challenged). The latter issue may be of more concern to UK industry used to an adversarial process than to the rest of European industry which is used to an inquisitorial process.

Sadly, the languages issue is also key to the proposed Court system as it is proposed that the language of proceedings should be that of the defendant (with no provision for the possibility that there may be more than one). This could lead to immense practical difficulties and cost implications, both for the court and for litigants.

It is clear that detailed, and contentious, discussions will be needed before the enforcement system can be regarded as attractive. However, it is unlikely that these discussions will occur until the Regulation itself is agreed and it is by no means clear that this agreement will be reached.

Failure of negotiations

The Common Political Approach was agreed over a year ago. Although the issue has been discussed in the last three Competitiveness Councils, including most recently in May 2004, and despite significant efforts by the Commission and some others to find a route through the logjam, it has proved impossible to reach agreement on the effects of translations.

The debate about the legal effect of translations, together with concerns about the costs and quality of the judicial system, has served to harden industry's views throughout Europe. UNICE and French, German and Dutch industry groups have all written to the Commission and their governments urging that the whole project should be abandoned. The Federation and the CBI have expressed the same views to the DTI.

However, the concern of large parts of industry, the potential users of the system, that the languages regime agreed in March 2003 is unacceptable does not seem to be the reason that the politicians have been unable to agree.

Instead, what Commissioner Bolkestein has described as "narrow, vested interests", entirely unconnected to users' views, appear to have caused the impasse. At least one country appears concerned that the Community Patent would undermine its own patent litigation system and adversely affect its national lawyers; it may be using the translations issue as a smokescreen to disguise an objection to the Community Patent system itself. Another country appears to want more translation in order to provide work for its translations industry.

After so much failure to agree, few voices are heard calling for another try. Even Commissioner Bolkestein has said that withdrawal of the proposal will be considered.

Ironically, that is exactly what industry is calling for.

[The new draft EU constitution calls for uniform intellectual property rights protection throughout the Union with centralised Union-wide authorisation, coordination and supervision arrangements.]

So whether the Community Patent? After more than 30 years one might have expected a mature, full-bodied system which would be a pleasure for those who would use it. Instead, it may have withered on the gnarled old vine of national sensitivities.

5. London Agreement and European Patent Litigation Agreement (EPLA)

London Agreement on Translations (of European Patents)

The London Agreement, dated 17 October 2000, relates to the application of Article 65 EPC. It is a common political goal to reduce the cost of the European Patent system. This has benefits for all industries. The London Agreement (made at the Second Intergovernmental Conference in October 2000) provides an opportunity to reduce cost as ratifying States will dispense with the need for translations of granted Patent Specifications under Article 65 EPC. This also reduces administration procedures by patentees and Patent Offices as fewer translations need to be filed.

With the stalling of efforts on the Community Patent and the present uncertainties surrounding EPLA (see below), ratification of the Agreement will provide a very simple and effective way of reducing costs to industry. Ratification of the Agreement does not depend on progress in any other area.

This Agreement has been signed by at least 11 states including France, UK and Germany. It needs to be ratified by at least 8 states including France, UK and Germany. Denmark, Monaco and Slovenia have ratified already. Sweden and Switzerland are believed to be in the process of ratifying. Germany has a conditional statute whereupon they will ratify once 7 states (including France and UK) have ratified. Therefore at least 6 states have taken or are taking necessary steps to make this Agreement effective.

The UK Patent Office may shortly be consulting with industry on possible UK ratification. TMPDF has already informed the UK Patent Office that it would support immediate ratification by the UK, and that it understands French industry to be urging its own government likewise. In the event that there

were nevertheless insufficient ratifications, the possibility of a sub-group putting the provisions of the Treaty into effect could be considered.

EPLA

The European Patent Litigation Agreement (EPLA) is the optional agreement under which European Patent member states could elect to have litigation centrally handled.

On the EPLA, the path forward is less clear than on the London Agreement as it remains somewhat uncertain as to which amongst the Commission and the member states has competence to negotiate and adopt such an optional agreement. There will be an opportunity to revisit this subject in December when the Working Party responsible for this project next meets.

6. Substantive Patent Law Treaty (SPLT)

Negotiations

The Federation has always supported global patent law harmonisation as being in the interests of its member companies. If patent laws were wholly harmonised, the work of applicants and their representatives in preparing applications for and filing in different countries would be simplified and patent offices would be under more pressure to accept each other's search and patentability determinations thus reducing costs, delay and aggravation for applicants and uncertainly for third parties.

Negotiations in the World Intellectual Property Organisation (WIPO) with the objective of harmonising patent laws across the world have been proceeding painfully slowly for the last twenty years. The only true success so far in the negotiations has been the conclusion at the Geneva Diplomatic Conference in 2000 of the Patent Law Treaty, which will, when it comes into force, harmonise some patent obtaining formality requirements. Since then, WIPO's Standing Committee on the Law of Patents has been meeting bi-annually to discuss the Substantive Patent Law Treaty (SPLT), a draft of which was considered at a

meeting of the Committee in Geneva in May 2003. This meeting was disappointing because it confirmed the existence of deep divisions on many aspects of the draft treaty between developed and developing countries as well as between the USA and the European countries. The meeting of the Committee planned for November did not take place but the Committee met in May 2004.

After the disappointing meeting in May 2003, many involved felt that the present negotiation of the deep harmonisation of substantive patent laws was unlikely to result in the conclusion of a Treaty at a Diplomatic Conference in the foreseeable future. However opinions at present differ on what aspects of the current draft Treaty should be included in a reduced scope Treaty.

The Trilateral Conference of the European Patent Office, the Japanese Patent Office and the US Patent and Trade Mark Office met in Tokyo in November 2003 and issued at that time a Memorandum of Understanding. It suggested amongst other things that the Treaty should now be negotiated in two packages and it asked a Conference working party to discuss this subject in detail. A first package likely to achieve agreement in the near future should deal with (1) prior art issues, including the Hilmer doctrine, anti self-collision, prior effect art of PCT applications in the International phase and prior effect of earlier applications for inventive step; (2) grace period; (3) novelty; (4) inventive step/non-obviousness; (5) sufficiency of disclosure (including best mode); (6) claim drafting (including claim interpretation regrant but not in litigation); (7) restriction/unity of invention; (8) amendments/correction. Preventing double patenting would be discussed under both items (3) and (4). The working party will initially concentrate on items (1) to (4). The second package to be addressed later should be first-to-file/first-to-invent, patentable subject matter/technical character and utility/industrial applicability but the Memorandum suggests that since "it is accepted that the item on grace period and first-to-file/first-to-invent are linked, grace period, although included for discussion in the first package is subject to movement on first-to-invent" by the USA. The US and Japanese governments and the EPO have now sent a paper to WIPO formally making the above suggestion.

In November, representatives of a total of 24 non-governmental organisations (NGOs), including the Federation, as well as WIPO officials met in London to discuss the future of SPLT. This Roundtable, which was organised

by CIPA and the American Intellectual Property Law Association, has now issued a summary of the discussions. A majority of the NGOs believed that the negotiations of SPLT would better achieve its objective if limited to an indivisible and unitary package containing just four topics, i.e. first-to-file/first-to-invent, international grace period (item 2 above), prior art (including the first two parts of items (1) and (3)) and pending applications as prior art (the remainder of item (1) above). A new body, called the Industrial Trilateral (AIPLA, UNICE, the Intellectual Property Owners Association of the USA and the Japan Intellectual Property Association), has recently issued a paper taking a similar line.

As already indicated, the Standing Committee met in Geneva on 9-14 May 2004. However, the meeting failed to make progress as the member states could not agree on what issues should be included in the first package. The developed countries supported the proposal from the USA, Japan and the EPO while the developing countries led by Brazil and India wanted to add other issues especially the requirement for a patent applicant to indicate the source of any biological material involved with the invention and that the applicant had prior informed consent to use that material. The outlook for the negotiations is now very uncertain.

Grace period

In the various discussions concerning a Substantive Patent Law Treaty, described above, the introduction of a grace period has been an important issue. The grace period would be a period before the filing of a patent application during which the disclosure of the invention by the inventor or someone who obtained the information from the inventor would not prejudice the validity of the application. The Federation has always opposed the introduction of a grace period, because of the added uncertainties for 3rd parties, the potential for troublesome litigation and the danger that the patent system would be turned from "first to file" to "first to publish". Nevertheless, the Federation has accepted that the introduction of a grace period in some form will be the price for acceptance by the United States of an international treaty in which the US "first to invent" system is replaced by the more straightforward "first to file" system used by most other countries.

The Federation has been active in submitting its position on the details of an acceptable grace period provision, in the context of an international treaty, to delegates to the

various fora in which discussions are taking place. This position reflects the Federation response to the UK government consultation on grace period early in 2002 (and described in detail in that year's *Trends & Events*). The Federation considers that disclosures to be graced should be treated in the same way as the other non-prejudicial disclosures that are covered in Article 55 EPC, i.e., the grace period should be six months before the filing of the application concerned (not before the priority date) and, as is the case with other non prejudicial disclosures, the applicant should state on filing that he intends to rely on the grace period (possibly allowing a short period thereafter in which to supply details). There is no case for treating disclosures by the inventor more generously than disclosures resulting from evident abuse.

Other features of the Federation's proposals include: publication of the application 18 months after the graced disclosure (as first proposed by French negotiators); 3rd party rights to continue use started or prepared in the grace period; and the onus to prove the origin of a disputed graced disclosure always to be the responsibility of the applicant. The right of a 3rd party to develop further inventions from information in the graced disclosure and to seek patents for them must not be restricted in the grace period.

Such provisions would ensure that the grace period would only be resorted to as a safety net and would not be relied on routinely. (Loss of priority rights in particular would call for rapid action in respect of foreign filings, though use of the PCT could help with these.) In the Federation's view, no prior exclusive rights should be established by the graced disclosure, so that the patent system does not degenerate into a first to publish system in which the first publication is in an uncontrolled form and may not contain any idea of what constitutes the invention, or provide an enabling description of it, or indicate that rights might be based on it.

We will endeavour to stay in touch with developments and encourage others to adopt our position.

7. Proposed EU Directive on the Patentability of Computer-Implemented Inventions

Since the report in last year's *Trends & Events* there have been two important milestones in the legislative process on the proposal for a Directive on the patentability of computer-implemented inventions (CII). Firstly, on 24

September 2003, the European Parliament adopted a version of the text which, if it became law, would dramatically change the legal landscape for CII in Europe. Secondly, on 18 May 2004 the Competitiveness Council reached a "Political Agreement" on the Common Position which more closely reflects the current state of EPO jurisprudence. At the time of writing, the Common Position had not formally been adopted, although this was expected merely to be a formality. As this is a "co-decision process", agreement has to be reached between the Council and Parliament before enactment.

The open source software community has continued an extremely active, high profile lobbying campaign against CII patents, targeting virtually every possible pressure point in the legislature, both at European and member State level. The effectiveness of the opponents' campaign is evident most especially in the result of the European Parliament vote in September 2003, but their influence has also been felt increasingly in the evolving Council position, particularly in the run up to the Competitiveness Council meeting on 17-18 May 2004, as discussed below.

The version of the Directive adopted by the European Parliament in September 2003 was based on the McCarthy Report (named after the Rapporteur, Arlene McCarthy) of the Legal Affairs Committee, but introducing a large number of amendments proposed by opponents of CII patents, which had the effect of significantly changing the thrust of the original McCarthy Report. The result is a text which would be extremely damaging for all innovative digital technology industries in Europe, and all businesses reliant in any way on software-related innovation, not just the traditional computer and software industries. Particularly catastrophic are Articles 5(1b) and 6a. Article 5(1b) renders unenforceable all patents to do with information handling, processing, distribution or publication. Art. 6a is considerably more far-reaching even than the objectionable version that appeared in the original McCarthy report. The data exchange/conversion scenario is now merely exemplary. The adopted version says that using any "patented technique" for a "significant purpose" is not an infringement. By definition this seems to encompass all useful patents (if there isn't a significant purpose there is probably no invention) - rendering them unenforceable. Both these provisions appear to impact existing patents too, because infringing acts would be exempt. This could undermine existing licence agreements possibly giving licensees cause to call for existing licences to be renegotiated.

Even pending licence negotiations could be impacted as potential licensees may try to rely on this provision to adopt a 'wait and see' approach.

On the other hand, the "Political Agreement" reached by the Competitiveness Council in May 2004 was based on the earlier so-called "Common Approach" proposed by the Council Working Party under the Danish Presidency in November 2002, which industry had generally welcomed. In preparation for the Competitiveness Council meeting in May 2004 the current Irish Presidency had prepared a series of evolving proposals. The first version dated 29 January 2004 introduced a significant number of the most harmless amendments adopted by the European Parliament.

On 15 March 2004 Luxembourg presented a formal proposal for the re-introduction of the infamous Article 6a to do with "conversion of conventions". This was narrower than the Parliament's version, and followed the unacceptable amendment 20 of the McCarthy Report. Essentially it would exempt infringement when a patented technique is needed for the purpose of ensuring conversion of conventionsto allow communication and exchange of data" between two different computer systems or networks.

At the same time the Irish Presidency was putting the finishing touches to its so-called "Consolidated Proposal" dated 17 March 2004, which instead of including Article 6a in the body of the text, proposed a new Recital 17 spelling out that Articles 81 and 82 of the Treaty remain available to deal with any abuse that occurs by reason of a dominant supplier refusing to allow the use of a patented technique needed for data exchange. In other words, it clarified that the Directive would not override competition law. This was a considerably better solution than the Article 6a proposal.

The introduction of new Recital 17 was something of a breakthrough not only in the Council Working Party, but it also reportedly satisfied the Commission's requirement for addressing the competition aspect in the Directive. Furthermore, this would be sufficient for the Commission to concede on Article 5.2 (allowability of program product claims) on which it had formally maintained a strong reservation. For this reason, although Article 5.2 is not ideal in that (a) it is permissive rather than prescriptive, and (b) requires two categories of claim, industry was generally pleased to see this trade-off eventually captured in the May 2004 Political Agreement.

Several last minute amendments, not previously on the table, were introduced during the 18 May Competitiveness Council meeting in order to secure the necessary qualified majority. Firstly, "Technical Contribution" in Art. 2b is now defined as "a contribution which is new and not obvious. Secondly, Recital 7a was deleted and the text incorporated at two different places in Article 4a, as follows: (i) A new Art. 4a(1) states: "A computer program as such cannot constitute a patentable invention."; and (ii) the original Art. 4a is renumbered as 4a(2) and is amended to read: "Accordingly, inventions involving computer programs, whether expressed as source code, object code or any other form, which implement...". Additionally, recital 13 (which said that a sequence of actions performed on a computer may make a technical contribution and hence constitute a patentable invention) is deleted.

Although more limiting than the pro-patent lobby would have ideally liked, the May 2004 Political Agreement has generally been welcomed as acceptable to industry.

Once the "Political Agreement" is formally adopted as the "Common Position" (and, at the time of writing, this is expected to happen without further discussion in Council), it will go back to the new European Parliament in the autumn for the second reading. There is a three month period from adoption of the Common Position for the Parliament to complete the second reading stage. Because it will be a new Parliament (after the elections in June 2004) there is also a possibility that the new Parliament could opt to start the whole process from scratch and return to a first reading.

It has to be said that the May 2004 Political Agreement is an important stake in the ground for industry. For most of its passage through Council the member states had largely been taking a position aligned with industry's views. However, in the weeks leading up to the May 2004 Competitiveness Council meeting, governments and ministries of the member states were becoming increasingly influenced by the anti-CII patent campaign.

The Political Agreement was in fact achieved with only a slim qualified majority. In the final analysis Austria, Italy and Belgium abstained, and Spain voted against. Germany was expected to at least abstain, but voted in favour on the day as a result of the last minute compromise amendments. Had Germany not changed position on the day, the Common Position would probably have been blocked

As this is a "co-decision process", agreement has to be reached between Council and the Parliament. As has been pointed out, the damaging version of the text adopted by Parliament in September 2003 is dramatically different from the Political Agreement reached by Council in May 2004. If Council and Parliament are unable to reach agreement at the second reading, it will trigger a short conciliation procedure. If conciliation fails to secure agreement, the Directive proposal would die naturally. However, it is understood that the conciliation process rarely fails to produce an outcome.

Education and lobbying of the MEPs is clearly now going to be vital in the months ahead of the second reading in Parliament expected in autumn 2004. It will need broad, cross-industry support for a high-profile pro-CII patent campaign if MEP views are to be changed.

USA Fair Trade Commission Report on Competition & Patent Policy

See Licensing & Competition

8. Biotechnology

European Biotechnology Patent Directive Implementation

The implementation deadline for the Directive on Legal Protection of Biotechnological Inventions (Directive 98/44/EC) was the 30th July 2000. Since the last report, Norway and Portugal have joined the UK, Denmark, Finland, Greece, Eire and Spain in implementing the directive. In the remaining states, progress is slow but more positive, with the exception of Netherlands and France where the draft legislation remains incompatible with the directive. In Germany the patentability of genes has been acknowledged in the draft Bill which has now had its first reading. This indicates a new movement in Continental Europe towards focussing on the impact on research where hitherto the objections have been on an ethical basis.

In July last year the European Commission decided to refer the remaining states to the ECJ for failure to implement Directive.

Following the establishment by the EU Commission last year of an expert group to consider the scope of protection for human genes the Commission's report under Art.16 was expected at the end of 2003 and it is

understood to be ready to be published but has been delayed for unknown reasons.

Access to Genetic Resources and Benefit Sharing

Discussions have been taking place within WIPO and WTO this year regarding the access to genetic resource/benefit-sharing issue, including traditional knowledge. The WIPO Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore (IGC) discussed the issue during its March 2004 session. In June 2003 Switzerland proposed that patent applications declare the source of genetic resources and traditional knowledge. In December 2003 the European Commission published a Communication regarding the implementation by the EC of the "Bonn Guidelines" on access to genetic resource and benefit-sharing. These guidelines had been adopted at the 6th conference of the Parties of the Convention on Biological Diversity in April 2002. The Communication proposes the introduction of a stand-alone disclosure requirement for patent applications involving genetic resources, the legal consequences of which would lie outside patent law. The Commission also suggests that the EC and its Member states should be ready to discuss the possibility of making this disclosure requirement a formal condition of patentability, the penalties for non-compliance falling both within and outside the field of patent law.

The rationale for introducing such a provision is ostensibly to facilitate the objectives of the Convention on Biological Diversity (CBD), in particular the principle of benefit sharing. There is some concern about the way in which such a provision might be formulated, so as to encompass human genetic material and not be restricted to plant material as is the focus of the CBD. This can already be seen in proposed legislation drafted in Switzerland and South Africa. This is a developing situation which requires close monitoring.

The issue of genetic resources and traditional knowledge was also considered by the TRIPs Council in March and the EC proposed that in order to avoid duplication, the Council should await the outcome of the WIPO IGC discussions. However there are also proposals for traditional knowledge to be addressed by WTO via Art. 27(3)(b) and that it be introduced as a protocol to TRIPs.

Research Exemption

Each of last year's reports from the Nuffield Council, Commission on Intellectual Property

Rights, OECD and the Royal Society made proposals for the clarification or extension of the research exemption in patent law. Consequently there have been a number of separate initiatives around the world under this head this year:

- The EU Commission asked the Nuffield Council to work with them in undertaking some research into the effects, if any, of gene patenting in Europe on research.
- The Expert Group appointed by the Commission to report on scope of protection for human genes will soon be considering the scope of the available research exemption within Europe.
- In the UK, an analysis undertaken by the Intellectual Property Institute of UK law and practice relating to gene patenting and its impact on research has been commissioned by the DTI and should be available soon, see

(<http://www.ip-institute.org.uk/research.html>)

- In Germany the bill to implement the Biotechnology Directive has included a modification to the research exemption of German law.
- In Switzerland, the research exemption is being debated in the context of the general revision of its law, which at present does not have such an exemption, and issues under consideration include those categories of research and researchers which should be exempted.
- The Royal Netherlands Academy of Arts & Sciences (KNAW) has published a response to the Dutch governments request to advise on the implications of gene patenting on scientific research, see

<http://www.know.nl/publicaties/pdf/20031057.pdf>

- The Australian Law Reform Commission published an Issue paper on Gene Patenting and Human Health and following consultation, the Commissioners issued a discussion paper, see

<http://www.austlii.edu.au/au/other/alrc/publications/dp/68/>

which, among many topics, discusses the research exemption. Separately, the Australian Advisory Committee on Intellectual Property has published an Issue paper on Patents and Experimental Use, see

<http://www.acip.gov.au/library/patentsexpuse.pdf>

UK Patent Office Biotechnology Examination Guidelines

The UKPO has published Examination Guidelines on Biotechnology (updated) and Medical Inventions (new) which can be found on the patent office website <http://www.patent.gov.uk/patent/reference/biotechguide/index.htm>
<http://www.patent.gov.uk/patent/reference/mediguide/index.htm>

Case Law Developments

Europe

The *Myriad Genetics* European Patent on the BRCA1 ("breast cancer") gene was recently revoked by the opposition division for lack of inventive step.

In the *Edinburgh* patent (stem cells) case, the patentees have appealed the opposition division decision thus allowing reconsideration of whether the opposition division is correct in broadly interpreting patentability exclusion for inventions contrary to morality.

USA

In the case of *Integra Life Sciences v. Merck* the CAFC ruled in June last year that the drug-research safe harbour under 271(e)(1) for activities that reasonably relate to the generation of information or data to be used in a submission to the FDA, does not protect general biomedical research to identify new pharmaceutical compounds. Merck has requested the Supreme Court to take an appeal from this decision.

The CAFC in the *University of Rochester v. Searle* case affirmed the lower court's decision that the written description requirement is independent of the enablement requirement, and applied the written description requirement to invalidate a method claim (in this case a mechanism of action claim relating to the selective inhibition of cox-2 enzyme).

The Supreme Court denied the petition of Duke University to review the 2002 CAFC ruling in *Duke v. Madey* which held that the common law research exemption is not available to academic researchers merely because they have not-for-profit status. This decision was greeted with much dismay amongst the academic community, but as reported in last year's *Trends & Events*, if the facts were transposed to Europe, it is unlikely that Duke would benefit from the broader research exemption that is available. Duke

based its defence not on its research into or about the patented invention but simply on its not-for-profit status.

COPYRIGHT

Implementation of the Copyright Directive

The belated implementation of the Copyright Directive¹ in the United Kingdom took place on 31 October 2003, when the Copyright and Related Rights Regulations 2003 came into effect to amend the Copyright, Designs and Patents Act 1988.

Implementation had been due by 22 December 2002, but that date was met by only two states, Greece and Denmark, who were the incoming and outgoing Presidencies of the Council. Although the Commission is normally fairly relaxed about delays in implementing intellectual property Directives, in this case it moved swiftly into infringement proceedings, taking the first steps against the UK and ten other countries in July 2003 and announcing in January 2004 that it was referring eight member states to the ECJ for failing to implement the Directive. Although the UK had implemented by then, it was also included in the proceedings because it was held responsible for Gibraltar's failure to implement.

One possible reason for the Commission's relative haste in starting infringement proceedings is discomfort that EU member countries have not yet ratified the WIPO Copyright Treaty. The EU has committed itself to ratifying as a bloc and will not be able to do so until all member states have brought their legislation into line with the treaty, achieving which is one of the objects of the Copyright Directive.

The Patent Office had issued a consultation paper on implementation in August 2002. Although its overall approach was to make as little change to UK law as possible, the paper was nonetheless complex, as it sought to map the structure of British restricted acts and their particular exceptions onto the requirements of the Directive. It contained drafts of key sections but left many details to be worked out later.

¹ Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society

The Patent Office received a mass of responses and spent nearly a year digesting them. When the final version of the Implementing Regulations was published, in October 2003, the main principles set out in the consultation paper had been retained, but there were a number of changes of detail and some redrafting.

The main features of the amendments made to UK law are:

- The creation of a new restricted act of *communication to the public* by electronic means, to implement Article 3 of the Directive. It has two listed sub-categories:
 - (a) broadcasting, defined as an electronic transmission receivable by members of the public and transmitted at a time determined by the sender; it includes not only wireless broadcasts but also broadcasts of a similar nature over a cable network or the internet, and
 - (b) making a work available to the public by electronic transmission in such a way that members of the public can access it from a place and at a time individually chosen by them - in other words, the making-available right of Article 3 set out effectively verbatim.

In the original 1988 Act broadcasting had been limited to transmissions by wireless and both analogous transmissions over cable and a sort of proto-making-available right had been put together, not altogether comfortably, under the separate restricted act of including in a cable programme service. That restricted act has been abolished, together with the concept of cable programme as a separate type of copyright work. The new structure is simpler and more straightforward than the original and has the advantage that broadcasting is now defined in a way that is technologically neutral as to the mode of distribution.

Though that approach had been foreshadowed in the consultation paper, the original drafting was notably obscure and was admitted from the start to be open to improvement. The definition of "broadcasting" was conditioned by its not being "interactive", but that term was neither defined nor necessitated by the Directive. Confusion was exacerbated by official explanations that one of the central copyright acts of the Information Society, namely putting up a web page, was to be seen as falling under the act of broadcasting, even though the process of causing a page to be downloaded so that

it would be received by the user appears inherently interactive. Not only was treating the act of putting up a web page as broadcasting counter-intuitive but it also exposed the work to totally unsuitable exceptions, for instance for time-shifting. The Federation urged clarification of this aspect. The revised version is a great improvement and makes it clear that putting up a web page will be an exercise of the making-available right, as it should be.

- There are changes to the *exceptions*.

Many amendments trim the existing exceptions to comply with the requirements of the Directive, for instance to require an acknowledgement of the source. One which the Federation has consistently regretted because it will increase costs for research-based industry, is the loss of the exception under Section 29 for fair dealing for research when the purpose of the research is non-commercial. That change was needed to implement Article 5.3(a), which in turn was forced on the UK because of its unfortunate acceptance of the same approach under the Database Directive.²

Apparently there were inputs to the Patent Office urging that the UK should follow most continental countries and introduce levies on equipment or media capable of making copies in order to provide the "fair compensation" required by the Directive for the exercise of various exceptions, most notably for private copying. None has been introduced and the UK will remain a levy-free zone. The UK's care in making sure that the Directive explained that fair compensation need not necessarily require extra payment and its caution in remaining with narrow private-copying exceptions should allow it to succeed with that approach.

The Directive's one mandatory exception, for certain technically necessary transient or incidental copies - the contentious Article 5.1 of the Directive - has been introduced practically verbatim as a new Section 28A. Here and elsewhere, despite representations to the contrary, the Patent Office has held to its view that it did not need to introduce specific Berne three-step test language to satisfy Article 5.5 of the Directive, because the UK's exceptions inherently comply with the

² Directive 96/9/EC of 11 March 1996 on the Legal Protection of Databases

Berne test. It would appear that the Commission concurs with this approach.

- There is a complicated series of new provisions, Sections 296ZA to 296ZG, to implement Articles 6 and 7 of the Directive, which provide legal protection against the *circumvention of technical protection measures and the alteration of rights-management information*. In Section 296 the UK already had a carefully bounded provision that made supplying devices to overcome technical protection of a copyright work the equivalent of a copyright infringement, but only when the supplier knew or had reason to believe that it would be used to make infringing copies. But the new provisions go much further, because they catch the act of circumvention itself and make it the equivalent of a copyright infringement even if the resultant copy would not itself be a copyright infringement, for instance because it fell within an exception. They also make it a criminal offence to supply devices or services to circumvent.

The Patent Office rejected demands that it should make the mere act of circumvention a criminal offence as well as subject to civil remedies, even when carried out by a private individual. But it did modify the language in places so that it corresponds more closely to that of the Directive. Owners of intellectual property in the protection technology have also been added to those able to take action against the supply of devices or services for circumvention.

A limited exception from the restrictions on circumvention has been introduced for the purposes of cryptographic research. It is only tenuously justified by the Directive but does appear accepted by the Commission.

The very powerful right under the Directive to stop circumvention even when the resultant copying would be legitimate has been generally accepted as necessary in the digital world, where perfect copying is so easy. But it could make it impossible for the public to get the chance to enjoy various of the exceptions. It has therefore been balanced by a requirement under Article 6.4 to make the benefit of various socially desirable exceptions available to the relevant users even when the work is technically protected. In the UK that requirement is implemented by a code permitting the thwarted beneficiary (or, now, a representative organisation) to apply to the Secretary of State for an order requiring the right-holder to make

the means of carrying out the permitted act available to the complainant. How - whether for instance by the supply of an unprotected copy or a key to overcome the protection - is left unstated. The UK has also exercised its option under the Directive to apply the same regime to exceptions permitting private copying. It had been sensitised to the potential barrier technical protection could offer to the exercise of exceptions because it had thought through the issue in its earlier consultation paper on exceptions for the visually impaired³.

- The Directive preserved the provisions on *computer programs* under the Software Directive⁴ and on databases under the Database Directive and they take precedence where they deal with a topic also covered in the Copyright Directive. The Software Directive has its own provisions on technical protection, and as Recital 50 makes clear they need to be preserved rather than subjected to the new regime because it could adversely affect permitted acts need for interoperability. Consequently the original Section 296 is preserved for computer programs (and slightly reworded to correspond more closely to the Software Directive, to which it is all that it now applies) and computer programs are excluded from the new sections 296ZA to 296ZF which implement Article 6. Though the intention of the Directive is clearly to ensure reverse engineering of programs as permitted by the Software Directive will always be possible, there is room for doubt as to how the implementation will work if the same method is used to protect both a computer program and an ordinary copyright work, especially if they are recorded on the same medium.

The fact that the Software Directive has its own set of exceptions means that Article 5.1 cannot apply to computer programs, which are excluded from it. That is a less logical result.

One unheralded change that first appeared in the final regulations is a re-implementation of Article 5.3 of the Software Directive, which ensures that, when a computer program is being run by someone entitled to do so he cannot be prevented from carrying out acts of observation or testing of the program to

³ Copyright and Visually Impaired People: A Possible Exception to Copyright for the Benefit of Visually Impaired People

<http://www.patent.gov.uk/about/consultations/visual.htm>

⁴ Directive 91/250/EEC of 14 May 1991 on the Legal Protection of Computer Programs

determine the underlying ideas and principles. It appears in a new Section 50BA. It is justified as being consequential upon the changes to Section 29 on fair dealing for research, but the fact is that the original implementation was defective and the new one is a decided improvement. It is interesting that there appears to be a continuing power under the European Communities Act to re-implement earlier directives by statutory instrument.

- In the consultation paper the Patent Office had decided that there was no need for a specific provision to implement Article 8.3, which requires *injunctions to be available against intermediaries* who are used by a third party to infringe copyright. It accepted representations that a specific provision was needed because, for instance, Article 5.1 (the new Section 28A) specifically exempts intermediaries. Now injunctions will be available against the intermediary, but subject to a knowledge requirement (Section 97A).

Contact Committee

The Contact Committee established under Article 12 of the Directive to provide a forum for Member states and the Commission to discuss the workings of the Directive met twice in 2002 and again in March 2004. Initially the Commission concentrated on urging Member states to implement the Directive. Later, the greatest single topic of debate appeared to be how best to implement the safeguard of Article 6.4 ensuring that beneficiaries of various exceptions should not be prevented by technical protection from enjoying the benefit of the exception. There had been a range of approaches, from doing nothing by way of explicit implementation to introducing a draconian regime that would include fines on non-compliant right-holders. Most member states, however, were following a middle-of-the-road course, for example by requiring mediation if beneficiaries were shut out of enjoying the relevant exception. The Commission felt the best policy was to encourage the sides to get together, but to have teeth in reserve. The UK considers that its light-touch approach is exactly in line with that view and is hopeful that right-holders will in practice be co-operative, knowing that the powers are there to be used if required.

Other developments in the UK

Work continues on implementation of the *Droit-de-Suite Directive*⁵, which gives artists and their heirs rights to remuneration when their works are resold. It is due by 1 January 2006.

More urgent is the need to provide moral rights for performers to permit the UK to ratify the WIPO Performances and Phonograms Treaty. Work on that topic is also proceeding.

Other developments in the EU

The Commission has issued a Communication on the Management of Copyright and Related Rights in the Internal Market. It follows earlier consultations and announces an intention to propose legislation that would harmonise aspects of the law on collecting societies, including their governance, their obligation to grant licences, the transparency of their operations and the ability of users to contest tariffs and licensing conditions. The paper is still open for consultation.

Developments in WIPO

Work has continued in Geneva on the WIPO Treaty on the Protection of Broadcasting Organizations and Cablecasting Organizations.

DESIGNS

Community design protection

The new Community Designs Regulation provides designers with both an unregistered Community design (UCD), which comes into existence automatically on being made publicly available, and the option to apply for a registered Community design (RCD). As in the UK, the UCD is effective only against products resulting from copying, whereas the RCD is a true monopoly that is effective even if the alleged infringement results from independent creation. The UCD has been available since 6 March 2002, whereas the Office for Harmonisation in the Internal Market, Trade Marks and Designs (OHIM) in Alicante opened its doors to applications for RCD on 1 January 2003, though all those filed

⁵ Directive 2001/84/EC of 27 September 2001 on the resale right for the benefit of the author of an original work of art

in the first three months were given a filing date of 1 April 2003.

The Community Designs Regulation provides unitary and uniform protection throughout the EU. For an UCD this is for 3 years from the date the design is made available to the public and for a RCD for up to 25 years from the filing date.

A RCD gives an exclusive right to use that design within the EU. "Designs" that are registrable include the outward appearance of products or a part of a product which results from the lines, contours, colours, shape, texture, materials or its ornamentation. OHIM has indicated that this means applicants will be able to secure protection for both product designs and also designs that have been difficult otherwise to protect such as Trade Dress and Branding. The RCD also allows for the registration of multiple designs from a single application, providing the products belong to the same Eurolocarno class.

Recent statistics from OHIM show that to date approximately 15,000 applications have been received, of which approximately 7,500 are for multiple designs. Over 40,000 individual designs have been registered. The top three users of the CD system are the UK, Germany and France, with the UK now filing the highest number of applications.

Other areas of EU design law that have been addressed over the past year include formalising the Guidelines for the proceedings relating to a declaration of invalidity of a RCD and now the contentious spare parts dilemma is at issue once again.

At present the Designs Directive⁶ stops short at harmonising member states' laws on the protection of spare parts. It contains the so-called "freeze-plus" solution, under which member states are not required to harmonise their laws on the design protection of component parts that must match the appearance of the original, but if they make any change it can only be in the direction of liberalising the market for replacement parts. However, the Commission is obliged, by latest 28 October 2005, to propose a new solution to the problem of the protection of spare parts which will harmonise protection across the EU. A draft of the forthcoming proposal is now circulating. It proposes the same approach as already applies in the UK and for the RCD, namely that design protection for must-match component parts would be available and the design would be enforceable against original equipment suppliers such as

vehicle manufacturers but it would not be enforceable in the aftermarket against the supply of parts for replacement purposes.

For further information about Registered Community Designs, see the OHIM website at <http://oami.eu.int/en/default.htm>

LICENSING AND COMPETITION

The European Technology Transfer Block Exemption Regulation 2004

Summary

The new European Technology Transfer Block Exemption Regulation (the "TTBER") came into force on 1 May, and replaced the existing Regulation 240/96 on that date. It is accompanied by extensive official Guidelines.

The text of both Regulation and Guidelines can be seen on the Commission website at <http://europa.eu.int/comm/competition/anti-trust/legislation/entente3en.html#licensing>.

The TTBER exempts from the provisions of Article 81(1) technology transfer agreements between two undertakings and relating to the production of products using licensed technology. It applies to licences of patents, know-how, copyright in software, and a mixture of any of these.

The exemption does not apply if the parties have a market share in excess of defined thresholds, which differ according to whether or not the parties are competitors. It also does not apply to agreements which contain listed "Hardcore" restrictions. The lists of Hardcore restrictions are different for competitors and non-competitors. The exemption also does not apply to certain kinds of "Excluded Restrictions" which are separately listed. In the case of the Excluded Restrictions only those specific provisions are outlawed, the remainder of the agreement can still benefit from the block exemption.

As with the previous Regulation, the benefit of the TTBER can be withdrawn by the Commission in particular cases where an agreement is held to be incompatible with Article 81 (3).

⁶ Directive 98/71/EC of 13 October 1998 on the legal protection of designs

Agreements already in force that are exempted under Regulation 240/96, will remain exempt during a transitional period ending on 31 March 06.

The Guidelines run to 66 pages, and offer assistance in the interpretation of the TTBER, and also on the application of Article 81 to technology transfer agreements that fall outside the scope of the TTBER, for example because the parties fail the market share tests.

The TMPDF and many others made representations at two stages during the consultation process on the draft. As a result the provisions are much improved, although certain problems remain, especially in relation to the market share tests.

Main Provisions

Market Share

The exemption applies to agreements between competitors only if their combined share of the relevant market is not more than 20%. As between non-competitors the upper limit is 30% of the relevant market for each party separately. Because of the market share tests, and related uncertainties inherent in the tests, the value of the TTBER to industry, especially (but not only) larger companies, is considerably diminished. These problems were summarised in the submission made by the Federation through the DTI in February, as set out below. Similar points were earlier made by the Federation and many others directly to the Commission. However, the Commission has not moved at all on this aspect.

The principal difficulties remaining as seen by the Federation concern market share thresholds and related matters, because:

- (a) We are against market share thresholds in principle, especially at the low levels set in the draft, and particularly for agreements between competitors. We do not in any case believe that the Commission has made out a convincing case of the need for market share tests.
- (b) Recital (4) speaks of the need for legal certainty and simplifying the regulatory framework. The approach taken by the draft moves away from these objectives because of the difficulty in

ascertaining the scope of the relevant market with any certainty. For this reason, market share is thus also extremely difficult to ascertain, especially as the relevant statistics may be unavailable. For example, a particular gun may fire only particular ammunition available from one source and his licensees. Other weapon systems may be possible substitutes, but the user would have to make considerable investment in order to switch. What then is the relevant market for ammunition - the one specific design, or all possible substitutes. How is a licensor to gather statistics for market share when the data may be a commercial or national security secret?

(c) For similar reasons the question whether or not parties are competitors is difficult to ascertain in the absence of clarity as to the relevant market, in other words the need to make the competitor/non-competitor distinction compounds the uncertainty.

(d) Because of these uncertainties, for a large company the only safe assumption will be that it is a competitor of the other party and that it cannot be safely concluded that they jointly have less than 20% of the market. The market share test, especially with the threshold at such a low level, compounds the problem still further.

Hardcore Restrictions - Competitors

A distinction is made between "reciprocal" and "non-reciprocal" agreements. A reciprocal licence is one where each party licences the other for competing technologies or products.

The hardcore list for competitors, not surprisingly, includes price fixing although it is difficult to see why setting maximum prices should be hardcore. It also includes output limitations, although output limitations are

permitted if applicable to the licensee in a non-reciprocal agreement, or if applicable to only one party in a reciprocal agreement.

Most restrictions on the allocation of markets or customers (e.g. sole or exclusive agreements), as between the parties are now permissible in a non-reciprocal agreement, although in the case of a reciprocal agreement the permissible categories are much more restricted.

Finally under this heading, restrictions on the licensee's ability to carry out R&D are always hardcore, unless the restriction is "indispensable to prevent the disclosure of the licensed know-how to third parties". TPDF had submitted that it was unreasonable that the licensee could not always be prevented from using for its own R&D purposes technology that was licensed only for manufacture, but the Commission was not prepared to take this point.

Hardcore Restrictions - Non Competitors

Here again, price fixing is hardcore, although maximum or recommended sale prices are generally permitted. Certain restrictions on passive sales are also outlawed, as are certain restrictions on sales to retailers who are a member of a selective distribution system.

Change in Status from Non-Competitors to Competitors

If parties are non-competitors at the time of concluding an agreement, they will continue to enjoy the benefits of the TTBER applicable to non-competitors, even though they may subsequently become competitors, unless the agreement is subsequently amended in a material respect. This represents a concession which TPDF had sought from the Commission, including the addition of the word "material" (although there is no guidance as to its meaning).

Excluded Restrictions

Certain Excluded Restrictions are set out in Article 5 of the TTBER. Such restrictions are not exempted, but their presence does not prevent the application of the TTBER to the remainder of the agreement. Excluded restrictions are:

- (a) Any obligation on the licence to grant an exclusive licence for its own severable improvements.
- (b) Any obligation on the licensee to assign its severable improvements.

- (c) Non-challenge provisions (although the licensor is permitted to terminate the agreement in the event of a challenge to validity).

Additionally, as between non-competitors, it is an Excluded Restriction for the licensee to be restricted in its ability to exploit its own technology, or for either party to be limited in its ability to carry out R&D (unless indispensable to prevent disclosure of licensed know-how to third parties) - cf the similar hardcore provision for competitors outlined at 10 above.

Market Share Thresholds

Article 8 contains provisions relating to the determination of market share thresholds, and Article 8.2 covers the possibility that parties may initially be non-competitors, but become competitors during the term of the agreement. TPDF has made representations to the Commission that these provisions place an almost impossible burden on the parties to monitor a changing situation, and that parties who are initially non-competitors should retain that status. The Commission did not fully accept that submission, but the impact of this provision is considerably diminished by the amendment to Article 4.3, which provides that if the parties are non-competitors when an agreement is concluded, the agreement will continue to be subject to the hardcore list applicable to non-competitors even if they subsequently become competitors.

Transitional Period

As first published, the draft TTBER would have withdrawn the benefit of Regulation 240/96 from agreements existing before the date stated in that Regulation, which had been entered into in good faith. TPDF submitted that this was unreasonable, and the Commission have accepted this point. Agreements that were exempt under Regulation 240/96 will now remain so until 31 March 2006, which was the original termination date of that Regulation.

Conclusion

The TTBER contains many welcome provisions. However, their value is diminished by the market share tests and by the associated difficulties outlined in paragraph 9 above. However, the Guidelines contain helpful indications suggesting that the TTBER and the Guidelines can be applied by analogy to agreements that fall outside the safe harbour limits defined by the market share tests, or

otherwise fall outside the TTBER. It is clear, however, that agreements containing hardcore restriction will almost always be considered contrary to Article 81.

Lambert Review

The Lambert Review was commissioned in November 2002 by the Treasury, the DES and the DTI. Its objective was to review business - university collaboration in the UK, and in particular:

- To illustrate opportunities arising from changes in the ways business undertakes R&D, and universities are offering new forms of collaboration with business.
- To highlight successful collaborations between business and university research departments as role models.
- To offer a range of ideas to stimulate debate and recommendations to help shape policy.

Richard Lambert published and presented his independent review of Business-University Collaboration to the Government in December 2003. The full report can be found at:

<http://www.hm-treasury.gov.uk/searchresults.cfm?textToSearch=Lambert+Review>

In Chapters 3 and 4 Lambert made a number of recommendations in relation to intellectual property and technology transfer. In particular, he recommended the establishment of an agreed protocol of the ownership of IP in research collaborations and that universities should normally own any resulting IP, except where industry made a significant contribution. Industry could negotiate a licence for the IP in cases where it was not the owner. Another key recommendation was the establishment of the establishment of a set of model research collaboration agreements, as a means to reduce the length and cost of negotiations on the terms and conditions for IP ownership and exploitation.

The Federation made a written response to the Treasury in respect of the IP-related recommendations. The members of the Federation agreed that universities potentially had much to contribute to the technology base of industry, and anything that could be done to encourage and simplify cooperation in this respect was to be welcomed. Having said that, we felt that the Lambert Review in some

important ways took an oversimplified or impractical approach to intellectual property ("IP") and the IP-related issues involved especially since IP is the principal or only result from the expenditure of money and effort in R&D activities.

IP-Related Provisions of the Review

Definition of IP

Paragraph 4.1 of Lambert's Review stated that "the four main types of IP rights are patents, copyright, designs and trademarks. Most technology transfer from universities involves patents, so this Review uses IP to refer to them". We felt that this statement betrayed an unduly narrow view of IP. In the experience of TMPDF members, an exceedingly important part of R&D results was in the form of confidential information of a technical character, indeed there would frequently be no patentable invention within the results. Nevertheless, the confidential information may be of considerable value - for example production processes or test methods, critical aspects of ingredients of novel compositions such as particle size or purity, heat treatment processes, criticality of dimensional tolerances. These aspects could all remain confidential even after a product was put on the market, and so fully retain their value. Even aspects which enter the public domain with the first product sale could be of substantial value in providing market lead time.

The Federation commented that, "The Review is unduly narrow in not giving proper consideration to confidential information as a form of IP".

Ownership of Results

Members of TMPDF considered that ownership was an important issue and that ownership should preferably reside with business. In its formal submission the Federation concentrated on user rights, and we pointed out that the Review should have examined the question of user rights as a means for satisfying the needs of both parties. In particular we said that at least the following should be considered when agreeing the balance of user rights between industry and university: 1. The balance of funding as between university and industrial partner; 2. The background IP which is brought by each party to the collaborative effort; 3. The contribution in kind of each of the parties to the programme (e.g. contribution of hardware, R&D effort, research facilities, trials facilities); 4. The need of the university

to use the results for further research; 5. The (sometimes conflicting) need of the industrial partner to maintain an advantage over competitors by preventing their access to the results; 6. The need of industry to use the results for manufacture and sale of products; 7. The possibility of using field of use restrictions to give both parties the rights they need without unduly inhibiting exploitation by the other.

Standardised IP Conditions

The Lambert review, Paragraphs 4.19 to 4.27 discussed the advantages of having standard ground rules and as noted in the introduction above, recommended proposed some fairly hard and fast rules for a protocol. The recommendation by implication again assumed that ownership of IP was the most important aspect - and that the university should normally be the owner unless industry "makes a significant contribution". The Federation felt this was an oversimplification. In any real life situation there will be many variables, not least the respective contributions of the parties in terms of money, effort, background IPR, facilities, materials etc, and the different aspirations of the parties. These and other considerations lead to so many possible permutations that even a set of model agreements (Paragraph 3.37) would not be adequate. The Federation suggested that, as a preferable alternative a checklist might be provided as an aid to the parties in deciding what are the critical aspects in relation to any given collaborative effort. A suitable agreement could then be "tailor made" for each different programme.

Additional comments

The Federation felt that the proposal in Recommendation 4.1 that "the university should not be restricted in its future research capability", stated as broadly as this, was unwarranted. From the viewpoint of the industrial partner, it might be of vital importance, (and reasonable in the circumstances), to prevent the results which it had funded from becoming available to its competitor. Practical solutions might be possible which allowed the university to carry out further research on the results while avoiding unacceptable benefit to the industrial partner's competitor - e.g. the ability of the university to pass on to third parties the results of further research might be limited by technical field and/or time. It had to be recognised that industry would be unlikely to contribute to R&D collaborative effort if the results could be made available to its competitors by the university.

It also felt that the proposal in Recommendation 4.1 that "the substantive results of the research are published within an agreed period" was not always appropriate. The results would often have commercial value. Also certain avenues of exploitation (without publication) may be possible without damage to the interests of the industrial partner. To recommend that publication should always occur after a fixed time would be needlessly to introduce the possibility of damaging the interests of both the university and the industrial partner.

The Federation concluded that a checklist of points to be considered, or even a standard proforma agreement could be useful, especially where SME's are involved, but only as a starting point to negotiations. However, as noted above, any agreement would depend greatly upon the specific circumstances. It should therefore be made clear that any such checklist or proforma would be made available as a guide only, and should not constrain the parties in any way.

Implementation of the Review

The Treasury has invited representatives of universities and of industry to take part in a working group having "inner" and "outer" sections, which will examine the Lambert proposals on IP in further detail. Some Federation members will be actively involved. The first meeting of the inner working group took place on 4 May 2004, and its stated purpose was two-fold. Firstly to put together a range of best practice model research collaboration contracts for voluntary use by universities and businesses in joint research collaborations (Lambert Review Recommendation 3.5). Secondly, to work towards agreement on how the proposed intellectual property protocol would operate in practice (Lambert's Recommendation 4.1). This working group meeting was a large one, and it is intended to take things forward through a smaller inner working group which will make detailed recommendations, and a larger outer group which will be kept informed and have the opportunity to comment as matters progress, but would not normally attend meetings.

It is to be hoped that the working group will:-

(i) broaden its terms of reference so as to endorse and develop a checklist approach as an alternative to a set of standard or model agreements; and

(ii) develop a protocol that does not follow certain Lambert recommendations e.g. as to any presumption that universities would

normally own resulting IP, that the university should not be restricted at all in its future research capability, and that the results will be published within an agreed period.

US Fair Trade Commission (FTC) Report on Competition and Patent Policy

This Report was published in October 2003 following the taking of evidence. The Report recommended changes to the US patent system on the basis of competition considerations. A second Report (jointly between the FTC and the US Department of Justice) will make recommendations for complementary changes in the anti-trust system.

Even in advance of the second report, the general direction on anti-trust seems to be clear. This is that an overzealous application of anti-trust (competition) law to contracts for patent licensing can damage innovation and competition; an example given was of the hostile attitude of 1970s US antitrust enforcers to "grant-back" clauses.

However, the Report concluded that patents and patent licences were beneficial only to the extent that the patent grants were justified in the first place. In particular, it asserted that undesirable anti-competitive effects resulted from the following features of the US patent system (among others):-

(i) The legal standard of obviousness in USA is too low.

(ii) The US Patent Office grants too many patents whose claims are invalid even under the existing law.

(iii) The US Courts presume validity of granted US patents, requiring "clear and convincing evidence" from the person challenging their validity.

(iv) The existing means for third parties to challenge patent validity after grant are inadequate: re-examination is too restricted, and litigation too slow and expensive unless the challenger is already a defendant in an infringement suit.

(v) US patents with no foreign equivalents are published only at grant, rather than at 18 months from the priority date and can therefore become "submarine patents".

(vi) The circumstances in which triple damages for wilful infringement can be awarded are too broad.⁷

TMPDF was not one of the parties which gave evidence to the FTC and the DOJ, although member companies with strong US interests may have done so. However, the Federation urged the US approach to competition law described above on OFT, DTI, and the Commission in the course of its discussions with them on the Technology Transfer Block Exemption.

On the specific points of US patent law above, most TMPDF members would probably agree with the FTC on at least (iv), (v), and (vi) above, and would probably add to the list the use of juries in US patent cases.

LITIGATION

1. IP Enforcement Directive adopted

The Directive of the European Parliament and the Council on the Enforcement of Intellectual Property Rights (Directive 2004/84) was formally adopted by the Council of Ministers on 26 April 2004. Its provisions must be incorporated into the national laws of Member states within two years.

Origin of Directive

Publication of a Commission Green Paper on the fight against counterfeiting and piracy in October 1998 was followed, after consultations with interested parties, by an action plan published in November 2000 which proposed adoption of a Directive to improve remedies in the fight against counterfeiting.

In January 2003, the Commission published its proposal for a Directive on enforcement of IP. The proposal would have applied to infringements of IP rights (including patents) on a commercial scale. In that respect, it went beyond what some regard as counterfeiting and piracy.

Controversies

⁷ The FTC received evidence that some companies forbade their employees to read competitors' patents out of concern for triple damages liability. This of course defeats one of the public policy objectives of the patent system (the dissemination of technical knowledge).

Some aspects of the proposal were controversial and gave rise to some press coverage, much of which was ill-informed. Controversial issues included:

- Whether the Directive should be limited, as originally proposed, to infringements for commercial purposes or those which would cause significant harm to the right holder. Most of the Directive as finally adopted applies to all IP infringements. However, limited parts of the Directive (those relating to disclosure of confidential information and pre-trial asset seizures) apply only to infringements on a commercial scale.
- Whether the Directive should apply to patent infringement. A Parliamentary Committee recommendation that patents should be excluded because of their complexity was not adopted.
- Whether the Directive should require that IP infringements, including patent infringements, should be subject to criminal sanctions. No such requirement was finally included although member states are free to impose criminal sanctions. The Commission has indicated that this issue may be revisited in future.
- Whether safeguards for Internet Service Providers would be eroded. This appears to have been addressed by expressly preserving the safeguards of the E-Commerce Directive.

Impact of Directive

It is important to note that the Directive does not widen the scope of IP rights; it has no impact on what acts constitute IP infringements. Instead, it seeks to harmonise, and in some respects strengthen, civil procedures for proving infringement and the availability of pre- and post-trial remedies. The procedures and remedies which it requires to be available in Member states include disclosure of evidence held by the parties, preservation of assets and evidence, seizure, disclosure of financial records and details of supply and distribution chains, pre- and post-trial injunctions, destruction of infringing goods and materials used in their manufacture and financial remedies.

In some respects the provisions of the Directive as finally adopted go beyond what is required by TRIPs. In many respects, the Directive cherry-picks best practices of member states. Much of what it requires is familiar to those who litigate in the UK courts.

Indeed, at least arguably, it requires no changes to UK law (whether by primary or secondary legislation) or UK judicial practice.

Where it is likely to be of most importance is in those member states that do not have a culture of strong protection for IP and/or strong enforcement procedures. This includes several of those which have recently acceded to the EU.

Strengths and weaknesses of the Directive

The Directive provides a framework which will enable and might encourage use of strong IP enforcement measures. However, it is not without its weaknesses. For example, although damages can be measured by the loss of the IP owner's profits, member states may, in "appropriate" cases award damages based on the amount of royalties which would have been paid if the infringer had obtained a licence. Depending on how this provision is applied, this could significantly reduce the compensation received for infringement.

Perhaps the greatest potential weakness of the Directive, albeit probably an inevitable one, is that it provides for the remedies and procedures which must be available BUT there is no guidance as to when they must be implemented by national Courts. Thus, there is scope for different Courts to implement or not implement the procedures and remedies according to different principles. If this occurs, the Directive may not achieve much practical harmonisation. It will be interesting to see the extent, if any, to which this becomes a problem and how, if at all, the Court of Justice might become involved in dealing with the problem if it does arise in practice.

Nevertheless, the Directive is to be welcomed. Member states and the EU institutions are to be congratulated on showing the political will to adopt it a mere 16 months after the first proposal was drafted.

The Federation has actively participated at all stages of the development of the Directive and many of its objectives are reflected in the Directive as adopted.

2. From Brussels to Rome

Consultation on a draft Regulation on the law

applicable to non- contractual obligations

Introduction

The Brussels Regulation sets out the rules which determine the country in which civil and commercial cases must or may be brought and, as will be known to many, has caused significant complexity and uncertainty where patents are concerned. Indeed some patent litigation has had more to do with where a case should be brought, heard and stayed than it has about validity and infringement.

The Commission has proposed a Regulation which is intended to determine which law should be applied in disputes concerning non-contractual civil obligations by the Courts in which the litigation is brought. Known imaginatively in shorthand as "Rome II" (it follows a similar Regulation on contractual obligations known as "Rome I"), it is apparently aimed at reducing forum shopping in cross-border disputes.

In essence, a somewhat unclear "general rule" is proposed which will be subject to certain "special rules", including a special rule for IP. The law applicable to IP disputes would be the law of the country "for which the protection is sought".

TMPDF view

The Federation submitted comments as part of a consultation initiated by the Department of Constitutional Affairs. In essence, its submissions were along the following lines:

- No case had been made out for having such a Regulation at all - no real problem had been identified and it was not clear that the proposed Regulation would solve any problem.
- If there were to be a Regulation at all, IP disputes should be excluded from it. Although the Commission had considered excluding IP disputes from the scope of the Regulation, it had instead decided to adopt a special rule for IP without explaining why or canvassing the pros and cons of the alternative approaches.
- It was unclear how the proposed Regulation would apply to certain types of disputes, including passing off and breach of confidence disputes.
- It was difficult to reconcile the principles in the proposal with the rule in the Brussels Regulation that disputes concerning the validity of

registered rights must be heard by the country of registration. Further, the opportunity should be taken to revisit the manner in which the Brussels Regulation applies to national registered rights.

The House of Lords European Union Committee delivered a very detailed Report on the proposal in April 2004 which referred to the Federation's submission. It appears that many of those who submitted evidence took a view similar to that of the Federation on many issues.

Like the Federation, the House of Lords Committee questioned the need for the Regulation, noting that the Commission's justification is "unconvincing and fails to pay due regard to the views of industry, commerce, the media and legal practitioners" - in other words, those who would be affected by it. It raised concerns as to the uncertainty caused by some of the provisions that had been highlighted by TMPDF and called for them to be removed. Importantly, it also invited the Government to consider, "in the light of the views of our witnesses", whether IP should be excluded from the scope of the Regulation.

It is by no means clear whether, and to what extent, the DCA will take these views into account. Preliminary indications are that it may not even question the need for a Regulation at all. It seems to feel that to do so would have undesirable ramifications in other (perhaps unconnected) areas. This suggests that a decision on this issue had in fact been made before the consultation; if that is indeed the case, it would have saved a lot of unnecessary effort if that had been made clear.

It remains to be seen whether attempts will be made to exclude IP from the scope of the Regulation altogether. If not, we must hope, but not necessarily expect, that the lessons of Brussels are learned and that the draft Regulation is clarified so that the uncertainties, problems and litigation which the Brussels Regulation has given rise to are not repeated and compounded by Rome II.

3. Statutory Appeals

In February the Department of Constitutional Affairs (DCA) consulted on a proposal to "rationalise" procedures for appeal from, and review of, decisions of statutory tribunals. The DCA noted that under most statutes providing for contested matters to be decided by a

tribunal, leave to appeal to the court from the tribunal decision is not required. This is also so when requesting review, under those statutes that provide for review. The "rationalisation" would be that leave to appeal or seek review would always have to be obtained (as it does already for appeal from a lower to a higher court). The consultation covered also a number of subsidiary issues, such as the time period for appeal and whether or not 3rd parties should be able to participate.

The Federation responded that, as regards intellectual property, leave to appeal against the decisions of either the Comptroller or the Copyright tribunal should not be required. It pointed out that the applicant has the right to challenge official decisions under the WTO TRIPS Agreement (e.g., in Articles 32, 41 and 62). IP rights are often of considerable commercial importance, while decisions concerning their validity involve the application of generally worded law to the circumstances of each individual case, against a complex background of case law. The Federation considered that it would be unfair to applicants and other parties, and detrimental to confidence in the IPR system, if there was no automatic right to appeal against the Comptroller's decisions, or, *mutatis mutandis*, those of the Copyright tribunal, as a safeguard against arbitrary or inequitable decisions. Frivolous or vexatious appeals were rare and could be struck out by the court under its inherent jurisdiction.

As regards statutory review, the Federation noted that the IP statutes do not provide for review. Permission for judicial review under general principles of law, though needing the court's permission, should not have to be obtained from the Comptroller. As regards the time limit for appeal, the Federation had no objection to the proposed common limit of 28 days. As regards third party intervention in statutory appeals, the Federation considered that this should be a matter for the court to permit, provided there were good grounds for doing so and the intervention was not primarily aimed at increasing cost and delay. With the increase in the Comptroller's powers under the Patents bill currently before parliament, the possible need for 3rd party intervention might increase.

Jurisdiction of the proposed Community Patent Court

See Patents section 4

REPORTS & REVIEWS

1. The DTI Innovation Review

The present government is very concerned to foster innovation. In the established technology strategy jargon, "innovation" refers to the *commercial exploitation* of new ideas.

In 2003/2004, no less than three consultation exercises were undertaken -

- (i) the DTI Innovation Review;
- (ii) the Lambert Review of Business-University collaboration; and
- (iii) a joint HM Treasury, DTI, and DfES document "Science and innovation: working towards a ten-year framework".

Of these, (iii) was essentially too broad in scope to render a TMPDF response appropriate, but TMPDF responded to (i) and (ii). (ii) is dealt with under Licensing and Competition Law, and (i) is dealt with here.

The DTI Innovation Review had a specific intellectual property "workstream". Respondents to the consultation were invited to say what should be done over the next 10 years to maintain and improve the IP system. TMPDF restated its established positions on this, in particular -

- (a) its opposition to a "petty patent" or "utility model" system that would protect minor improvements in technology;
- (b) the advantage of international harmonisation and of international systems provided these are properly done;
- (c) the importance of patent protection for computer-implemented inventions; and
- (d) its concern that the Commission would replace the Technology Transfer Block Exemption Regulation 240/96 by a new Regulation and Guidelines that would inhibit technology transfer.

On all these matters, the Patent Office, OFT, and DTI were acting in a way that TMPDF generally supported, but it was considered important to counter any contrary views that might be expressed in such a broadly-based consultation.

The final DTI Report, published (after the consultation exercise) on 17 December 2003, was essentially silent on these issues. This represented a satisfactory outcome.

In the IP area, the main effect of the Review so far has been an IP-awareness programme initially called "IP BOOM" sponsored by the Patent Office and supported by CIPA and ITMA, targeted at SMEs. In addition, the Patent Office and other government agencies are working on a strategy to deal with commercial piracy.

Taking a broader view, principal conclusions of the Report were (a) that the government would simplify and reduce in number the schemes for financial support of innovation, and (b) that it would use public procurement more actively to foster innovation.

The Lambert Review

See under *Licensing and Competition*

2. UK Patent Office

Coinciding with the departure of the Chief Executive to the European Patent Office, new appointments have been made in all of the operational Directorates in addition to the Chief Executive. All of the appointees were already senior members of the Patent Office staff and have moved seamlessly into their new posts. The various appointments have been welcomed by the Federation.

Over the period, the DTI has established an Innovation Group, of which the Patent Office is part, charged with supporting all forms of innovation. The £100 million surplus in the Patent Office Reserve Fund arising from the Patent Office share of renewal fees of European patents (UK) is being transferred over a period of three years to the Innovation Group. It remains to be seen what effect this will have on Patent Office finances and the services giving extra assistance to private applicants.

Whilst there were slight decreases in the number of UK patent and trade mark applications, in line with the trends world wide, designs applications showed an increase - possibly as a spin-off from the publicity generated by the Community Design Regulation, even though it is anticipated that applying for a registered Community design will become the preferred option in the future.

Various focus and working groups now exist to facilitate consultation by the Patent Office with users - as is mentioned in the preliminary pages to *Trends and Events*, representatives from member companies of the Federation participate in all of these groups. However, consultation on the desirability of UK government intervention on various

intellectual property cases brought before the European Court of Justice is somewhat patchy, seemingly due to the difficulty in the communication of details of the cases from Brussels.

3. The Clementi Review: IP Attorneys' right of privilege

An independent Review by David Clementi was commissioned in the spring by the Department of Constitutional Affairs (DCA) to consider what regulatory framework would best promote competition, innovation and the public and consumer interest in an efficient, effective and independent legal sector. Further details of the Review can be accessed at:

<http://www.legal-services-review.org.uk/content/consult/review.htm#part9>

Chapter F of the Review was concerned with the possible establishment of multi-disciplinary practices (MDPs). IP attorneys in industry effectively already work in MDP environments and we made a submission to the Review that patent and trade mark attorneys should enjoy the same legal professional privilege as that of solicitors and barristers, recognising, of course, the professional obligation of patent and trade mark attorneys only to advise on matters where they are adequately trained and experienced.

Moreover, we regarded such a broadening of protection of privilege as desirable in itself, even if such mixed practices did not come into existence, bearing in mind that IP attorneys are expected to advise on matters not clearly covered by their present privilege, such as the law on copyright and related rights, databases, ownership of IPR, criminal law concerning IP infringement, law of confidence, competition law and other related matters.

[Readers will recall that while solicitors' clients enjoy relatively generous protection, patent attorneys' clients only benefit from the narrower protection set out in Section 280 of the Copyright, Designs, and Patents Act 1988. Trade mark attorneys' clients only benefit from the still narrower protection set out in Section 87 of the Trade Marks Act 1994.]

We also pointed out that when a private practice or in-house patent or trade mark attorney received a request for advice in an IP matter, it did happen that he would involve a solicitor purely so as to ensure that the advice given was privileged, *i.e.* without any improvement in the quality of the advice. This increased the cost for the client (or employer, in the in-house case), not least because the solicitor involved would feel professionally obliged to check the work that had been done by the patent or trade mark attorney. This increase in cost would still occur in mixed practices, if these were allowed to exist but the law on privilege were not changed, so the value of MDPs would be greatly reduced if privilege were not extended.

4. EU Innovation Action Plan

At the end of May, the Federation responded to a public consultation exercise by the European Commission (Enterprise Directorate-General) on an EU Action Plan for Innovation, particularly because the value of intellectual property rights in fostering innovation was highlighted.

The action plan has six objectives, which are: "1. Innovate everywhere; 2. Get innovation on the market; 3. Knowledge everywhere; 4. Invest in innovation; 5. Skills for innovation and 6. Efficient innovation governance". The Federation generally approved of these objectives and focussed on objective 3, which included action 3.1; "Make the most of intellectual property opportunities". This includes raising awareness of IP as an information source and of the real and potential value of IP rights. It is proposed to create "first line assistance services" for training, advice on representation before the EPO and on professional management services, particularly for SMEs. It is also proposed to reinforce activities in international organisations such as OECD, EPO, OHIM and

WIPO and with national patent offices. Action 3.3 "R & D programme for innovation" also refers to IPR in the context of technology transfer and the management of IP portfolios.

The Federation welcomed the positive approach in the plan to the benefits of IP rights and IP information and noted that patent protection in particular is very important in encouraging technical innovation, especially in that it can give an SME the opportunity to get established against larger competitors. It pointed out that the costs of the IP parts of the action plan would inevitably be borne by users (through e.g., the fees paid to patent offices), so costs should be kept to modest levels and details of the plan should be discussed with industry. In particular the creation of "first line assistance services" could be expensive and possibly in competition with existing professional services. The commission intention to benchmark costs was approved.

The Federation urged the Commission, in implementing the plan, to encourage acceptance and support for the EU Council's common position on patent protection of computer implemented inventions, noting that protection for innovation in this field is as important as in any other. It also warned against the promotion of utility model systems, which could generally be expected to hinder rather than help innovation, by creating a mass of unexamined rights in low level innovation, especially as they would enable US companies to monopolise much low worth material in Europe, while European companies would not be able to act similarly in the United States. Finally, the Federation pointed out that despite the fine aspirations for technology transfer under the plan, the reality was that the recently adopted technology transfer block exemption regulation would inhibit technology transfer by large companies and would, because of its obscure complexity, also inhibit SMEs.

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June 2004

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