ADVANCING INDUSTRY'S VIEW ON INTELLECTUAL PROPERTY SINCE 1920

TRENDS & EVENTS

Intellectual Property: Current Events and Future Prospects

December 2012

Since 2009, the IP Federation has been the operating name of the Trade Marks, Patents and Designs Federation (TMPDF). It was founded in 1920 in order to coordinate 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 (IP) matters.

Aims

The IP Federation's aim 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 thirty-eight IP-intensive members operating in a wide range of sectors and product groups, among which are many of the largest companies in the UK, as well as smaller companies. [*For a list of full members see 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.

Activities

The IP 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 professional input on intellectual property matters to the CBI, as well as representing it in certain meetings of BUSINESSEUROPE, the Confederation of European Business, concerning intellectual property. The IP Federation is also an invited observer at diplomatic conferences and meetings of standing committees of the World Intellectual Property Organisation (WIPO).

Contacts

The IP Federation maintains good contacts with the UK Intellectual Property Office (IPO), and members of its Council and committees participate in several focus groups and practice working groups which provide expert opinion to the UK Government and its agencies on intellectual property matters. The IP Federation is also represented on other bodies which advise the European Patent Office (EPO). In the UK, it is represented on the user committees of the Patents Court and the Patents County Court.

The IP Federation 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 Attorneys (CIPA), the Institute of Trade Mark Attorneys (ITMA) and the Intellectual Property Institute (IPI); it is a member of IPAN (the IP Awareness Network). Internationally, the IP Federation exchanges views and maintains good contacts with similar IP user organisations in other countries.

Membership

The IP Federation has a Council, which agrees IP Federation policy, a Governance Committee, and a number of technical committees, to which detailed consideration of issues may be delegated. Voting members are entitled to a seat on Council, as well as any or all of the committees. Committee members can join any or all of the committees. If you would like to join, please contact the Secretariat at the address which follows.

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Intellectual Property: Current Events and Future Prospects

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PRESIDENT'S INTRODUCTION

I am delighted to be able to introduce the December 2012 edition of *Trends and Events*, the annual journal of the IP Federation.

Intellectual Property (IP) today has gained an unprecedented level of attention both in the boardroom and on the policy agenda in the UK, EU and internationally. 2012 has proved to be another highly eventful year in the world of IP.

The big issue that has continued to dominate IP Federation Council meetings, and its Policy Papers, is reform of the patent system at an EU level. There have been ground-breaking developments in this area of policy since the last edition. Very recently, the European Parliament voted the Patent Regulation through on 11 December 2012. The European Council accepted the first reading and the two Regulations (namely, Regulation EU/1257/2012 on the Unitary Patent and Regulation EU/1260/2012 on Translation Arrangements) were formally adopted legislatively on 17 December. The Competitiveness Council is due formally to sign the Court Agreement establishing the Unified Patent Court on 18 February 2013. We have consistently maintained that whilst the principle of creation of a Unitary Patent and Unified Patent Court is laudable, the proposed reform package should only be accepted if it creates a system which is truly better than the one we have now. We will thus continue to call for improvements to be made to the reform package as necessary in the interests of UK Industry, focussing on those areas where we believe progress still can and must be made prior to ratification. There will be further work needed to specify the Rules of Procedure.

In the UK, in September, the Rt. Hon. Lord Jonathan Marland was appointed as Parliamentary Under-Secretary of State for IP in the Department for Business, Innovation and Skills, responsible for IP and the UK Intellectual Property Office (IPO). [Post-note prior to publication, as of 8 January 2013: Having been in the role for only 4 months or so, Lord Marland resigned. The Viscount Younger of Leckie has been announced as his replacement as the new Minister for IP.] With John Alty's recent temporary upward move in Government, Sean Dennehey has assumed the new Acting Comptroller and Chief Executive role of the IPO. He has made an excellent start in engaging with users of the IPO. Recognising the critical importance of IP to business in the International marketplace, the UK Government have now appointed IP attachés in Brazil, China, and India, and a further IP attaché for SE Asia, based in Singapore, is being appointed. Following the Hargreaves Review of IP and Growth, the IPO assessed the evidence from the consultation on copyright, and an announcement was very recently made on copyright exceptions covering a wide range of exceptions, including a limited personal private copy exception for format shifting without introducing levies. Also, the IPO launched a consultation on the reform of the designs legal framework, and its results are eagerly awaited in the New Year. Notably, the UK Government approved legislation on the Patent Box tax incentive to encourage business innovation in the UK. The Patent Box comes into effect in April 2013. It is expected that the Patent Box regime will make patenting in UK / Europe more attractive to certain companies which previously had little reason to do so.

The IP Federation successfully discharged its key tasks in 2012. I am grateful to all our Members for enabling this to happen. I am particularly indebted to the Members of the IP Federation Governance Committee (Carol Arnold, immediate past-President James Hayles, David Lewis, and the Chairman Kevin Scott) with valuable support from Mike Jewess and David England, and to the IP Federation Secretariat, David England (Company Secretary) and Gilly Webb (Admin Assistant), for their

tremendous dedication and hard work in ensuring the effective running of the IP Federation. We also wish the former Admin Assistant, Connie Garrett, well for the future, and thank her for all her hard work and contributions to the IP Federation. A big thank you is due to the current three Solicitor Associates, namely Allen & Overy, Bristows and Wragge & Co., for their tremendous contributions to date. Allen & Overy and Mike Jewess are due a special thank you for drafting the new Articles of Association for the IP Federation. These new Articles were duly adopted, and all our Directors apart from the President retired on 18 October, by resolution of the IP Federation Council passed on 13 July 2012.

In November, the IP Federation together with CIPA, ITMA and LES Britain & Ireland (the Licensing Executives Society) supported for the first time the US Federal Circuit Bar Association in hosting a business IP event at the Guildhall, London. This collaborative event involving US and UK Judges and pre-eminent IP practitioners from across the world proved to be a success.

Looking ahead to 2013, the IP Federation aims to build on its relationships with key stakeholders, and to grow its membership. I expect 2013 to be an intensely busy year. For example, in addition to further work needed on the EU Patent Reform package, there are the proposed consultations by the European Commission on trade secrets, and on the efficiency and effectiveness of civil proceedings in cases concerning infringements of intellectual property rights. The IP Federation continues to be ready and willing to contribute fully to these matters, based on a consensus approach in the clearest, most balanced way it can.

Finally, I would like to thank the following contributors to this edition for giving up their valuable time to pass on their expertise:

- Carol Arnold
- Ivan Burnside
- David England
- Tim Frain
- Mike Jewess
- David Lewis
- Vicki McKinney
- Gill Smith
- Steve Ward
- Richard Wilding

and also our Solicitor Associates:

- Huw Evans of Allen & Overy
- Alan Johnson of Bristows

and a special thank you to our guest contributor:

- Patrick Keane of Buchanan Ingersoll & Rooney PC

for his latest article on US developments following the ground-breaking America Invents Act (AIA) coming into law.

Dr Bobby Mukherjee
IP Federation President
31 December 2012

IP FEDERATION

The Federation's activities

One of the IP Federation's chief lobbying tools is its policy papers. These are all available on the website at:

http://www.ipfederation.com/

The policy papers on the website represent the views of the innovative and influential companies which are members of the Federation. Members are consulted on their views and opinions and encouraged to debate and explore issues of practice and policy. Only after consensus is achieved are external bodies informed of the collective views of industry via the Federation.

The policy papers are also submitted to the relevant third party consultative bodies, e.g. the Standing Advisory Committee before the European Patent Office (SACEPO), and the Patent Practice Working Group (PPWG), at the:

- European Patent Office (EPO)
- Office of Harmonization for the Internal Market (OHIM)
- World Intellectual Property Organization (WIPO) and
- UK Intellectual Property Office (IPO)

as well as, in appropriate cases:

- BUSINESSEUROPE
- the European Commission
- ministers and
- judges.

Policy papers 2012

Policy papers submitted in 2012 are as follows:

January

PP 1/12 WIPO pilot projects on collaborative search and examination
Statement in support of WIPO's Collaborative Search and Examination (CS&E) Pilot Project

PP 2/12 Unitary Patent Regulation and Unified Patent Court Agreement
Views in favour of a properly designed and implemented Unitary Patent and Unified Patent Court for the European Scrutiny Committee

PP 3/12 Quality of Search and Examination of International Applications
Views in favour of the proposal to modify the International Search and Preliminary Examination Guidelines in order to provide further guidance to International Authorities on the inclusion of observations on clarity and support, as set out in Annex I to Circular C.PCT 1326

PP 4/12 Review of the Supplementary International Search System
Views on the Supplementary International Search System urging all IP5 Offices to become SISAs, in response to Circular C.PCT 1329

February

PP 5/12 Revision of the rules for the assessment of licensing agreements for the transfer of technology
Response to the European Commission's public consultation for the revision of the current framework for the assessment of technology transfer agreements, including the Technology Transfer Block Exemption Regulation and its corresponding Notice, scheduled to expire in April 2014, with closing date 3 February 2012

PP 6/12 Court of Justice Case C-661/11 (Martin y Paz Diffusion SA v. David Depuydt)
Request urging UK intervention in Court of Justice Case C-661/11 (*Martin y Paz Diffusion SA* v. *David Depuydt* and *Fabriek van Maroquinerie Gauquie SA*)

March

PP 7/12 IPReg Second Consultation on Litigators' Rights
Response to the IPReg Second Consultation on Replacement of the CIPA Higher Courts Qualification Regulations and the ITMA Trade Mark Litigator and Trade Mark Advocate Certificate Regulations, urging IPReg to reconsider its second round of proposals

PP 8/12 Consultation on copyright following the Hargreaves Review
Response to the consultation seeking views on the Government's proposals for implementing a number of the recommendations, relating to Copyright, which

it accepted in its response to the Hargreaves Review of IP and Growth, with closing date 21 March 2012

PP 9/12 Role of Government in Protecting and promoting Intellectual Property
Response to the All-Party Intellectual Property Group's inquiry into the role of Government in protecting and promoting intellectual property

April
PP 10/12 Rules of Procedure for the Unified Patent Court
Comments on the first draft of the Rules of Procedure of the Unified Patent Court (UPC) issued by the drafting committee following the last meeting of the Commission's judges and lawyers expert group

May
PP 11/12 Proposed Unitary Patent and Unified Patent Court
Letter to the Prime Minister pleading for more discussions to build on the progress that has been made so far towards a better patent system in Europe

PP 12/12 Indian decision to grant a compulsory licence with no local manufacture of the patented product
Letter to John Alty expressing concern about the recent decision in India to grant a compulsory licence on the ground that the patented product was not manufactured by the patentee or its licensee in India

PP 13/12 Unitary Patent Regulation and Unified Patent Court Agreement
Letter to Kerstin Jorna highlighting the Federation's concerns about the present proposals for the Unified Patent Court, making points among other things on Articles 6-8 and bifurcation

June
PP 14/12 Trade Secrets, Patents and Rio+20 Developments
Letter to Liz Coleman at the IPO, in the context of negotiations for the Rio+20 sustainable development conference in Rio de Janeiro, asking the IPO to ensure that UK and EU negotiators enter the final stages of the negotiations well prepared and with a very clear technology-related brief

July
PP 15/12 Enforcement of IP rights – Portuguese Law 62/2011: Patent infringement and dispute resolution on medicines
Letter to the British Embassy in Portugal, requesting that every effort is made to influence the Portuguese government to effect the removal of Law 62/2011 in favour of a Law/legal system for enforcement of IP rights that is applicable in all technical fields (including pharmaceuticals)

September
PP 16/12 Consultation on Expansion of the IPO Patent Opinions Service
Response to IPO Consultation on Expansion of the IPO Patent Opinions Service closing 4 September 2012

PP 17/12 Consultation on proposed amendments to Arts. 9(1) and 11(b) RFees
Response to SACEPO consultation on proposed amendments to Arts. 9(1) and 11(b) RFees

PP 18/12 IPReg ABS (alternative business structures) – Licensing Consultation
Response to IPReg ABS (alternative business structures) licensing consultation

PP 19/12 Consultation on potential EU-US trade agreement
Response to consultation on how to expand EU–US trade and investment closing 27 September 2012

October
PP 20/12 Consultation on Reform of the UK Designs Legal Framework
Response to consultation on Reform of the UK Designs Legal Framework closing 2 October 2012

PP 21/12 Unitary Patent Protection – Articles 6-8 of the proposed Regulation
Letter to Members of JURI urging to call for the deletion of Articles 6–8 from the proposed Regulation of the European Parliament and Council

November
PP 22/12 Collaborative Search and Examination Project
Response to the consultation on Collaborative Search and Examination by the EPO closing 23 November 2012

December
PP 23/12 Court of Justice case C-463/12 (Copydan Båndkopi)

Request urging UK intervention in Court of Justice case C-463/12 (Copydan Båndkopi)

Work in progress

Work in progress includes the following campaigns:

a) for improved patent search quality, in the interests both of patentees and potential infringers of patents;

b) for the retention of an iterative examination process at the EPO;

c) for the UK to remain involved in the process for establishing the unitary patent package in the European Union;

d) for harmonisation of substantive patent law and renewed efforts to find common ground for international agreement on a number of aspects;

e) for resistance to widespread imposition of criminal penalties in IP cases; and

f) for an improved process for filing observations at the Court of Justice of the European Union (CJEU), to allow UK organisations to participate fully.

See also the Activities tab on the IP Federation website for the latest news.

Benefits of being in the Federation

As set out on the Federation's website, membership benefits include:

- Authoritative representation at national and international level
- Access to legislators and officials
- A non-sectoral forum to exchange ideas and opinions on key intellectual property issues as they relate to IP
- Excellent networking and learning opportunities, for new and established IP attorneys
- Advance notice of forthcoming legislative proposals and practice changes
- Regular alerting service, newsletters and policy papers.

Social networking

As well as having its own website, the Federation has web presence through social networking sites, with a page on Facebook, a profile on LinkedIn and most recently a Twitter feed – @ipfederation. In a few months we have acquired over sixty followers, including some notable figures in the IP world, and this is the easiest way to be notified of any new policy papers and other news items on our website. Why not join our followers today?

David England, 31 December 2012

COMPETITION

Revision of the rules for the assessment of licensing agreements for the transfer of technology under EU competition law

On 6 December 2011, the European Commission launched a public consultation for the revision of the current framework for the assessment of technology transfer agreements, including the Technology Transfer Block Exemption Regulation (TTBER) and its corresponding Notice, scheduled to expire in April 2014.

The Commission invited comments on the application of EU antitrust rules for the assessment of technology transfer agreements, i.e. patent, know-how and software licensing. The aim is to strengthen the incentives for research and innovation, facilitate the diffusion of intellectual property and stimulate competition. The closing date was 3 February 2012.

IP Federation response

The IP Federation believes the Block Exemption Regulation and Guidelines are essential to a well-functioning system. Our Policy Paper No. 7/10 contained comments on the Draft Commission Regulation on R&D Agreements and the Guidelines on Horizontal Cooperation Agreements.

On 3 February 2012, we submitted a response to the specific questions in the new consultation with Policy Paper No. 5/12, as follows.

Licensing sector

Our members are concerned with both licensing in and licensing out of technology, in a wide range of sector and product groups.

A well-functioning system for assessing technology transfer agreements

The IP Federation believes the Block Exemption Regulation and Guidelines are essential to a well-functioning system. The system provides a degree of business certainty and a legal framework in which to conduct business that would not exist without them, especially with the lack of case law in this area. For this reason we would urge caution before any changes are considered or made to the Regulation which would undermine established business practice.

Indication of the impact of the current competition

Providing legal certainty is a great advantage to business when entering into licensing arrangements.

This positive impact of the current system is hampered by the Market Share test. The difficulty in establishing the market in question and whether the parties to a potential agreement are competitors undermines any legal certainty. It is very difficult to evaluate a Technology market (as compared to product market) and subsequently establish the Market Share of the parties. Establishing if parties are competitors is fundamental to applying the regulation correctly due to the differences in Hardcore Restrictions in Article 4.

One potential solution to this uncertainty would be to increase the threshold levels to allow some room for error in establishing Market Share. The IP Federation does not believe such an increase would have a negative impact on competitiveness in the Market and could enhance it by making the transfer of technologies simpler.

Problems raised by the application of the Block Exemption Regulation or Guidelines

The Market Share Test is the major problem in application of the regime, especially when applied to Technology Markets as compared to Product Markets.

Certainty is also undermined by the ability for an agreement when signed to be fully compliant with the Regulation but at a later date due to changes in Market Share (Art. 8(2)) to fall outside the safe harbour created by the Regulation.

Clarifying the concepts or terminology used in the two instruments

The IP Federation urges extreme caution when considering amending concepts or terminology, especially in the case of terminology. Certainty of the operation of the Regulation has been established over the years and this would be destroyed if minor changes were made to the Regulation calling into question the meaning of terminology.

Unsatisfactory provisions that need to be updated owing to developments

The Market Share Test is subject to developments in the application of Article 102 which has altered how Markets are defined. In many cases, narrowing the definition of a Market has led to the applicability of the Regulation being correspondingly narrowed.

Specific competition "issues" related to technology transfer agreements not currently addressed

The IP Federation does not believe there are any specific competition "issues" not currently addressed. The Regulation could usefully be extended to cover multiparty agreements such as patent pools.

The need to keep a Block Exemption Regulation

The IP Federation believes there is a need to keep the Regulation, as it provides a template for business to work with. It highlights key competition concerns and acts as an executive summary of the Guidelines.

List of hardcore restrictions in Article 4 and excluded restrictions in Article 5

The list of hardcore restrictions should not be extended. Grant-back provisions are fundamental to the willingness of business to consider technology transfer agreements and such provisions for non-

exclusive licenses should be looked upon more favourably in any new regime. The IP Federation members would be delighted to participate in further work in this area.

Practical difficulties in calculating the relevant market shares

Calculating Market Share is an imprecise science and causes many difficulties. Following developments in Article 102 application and understanding the Market in question especially in Technology Markets leads to uncertainty as to the correct calculation of Market Share.

Commission study on competition law and patent law

When looking at Competition issues and Technology Transfer, the IP Federation believes there is much merit in the US approach that IP should be viewed largely in the same way as other forms of property for competition law purposes and that technology transfer arrangements are generally procompetitive. Encouraging transfer of technology by licence, even with some restrictions on how the IP is used, increases competition.

Cross-licensing and grant backs are fundamental to commerce in this area and current arrangements work well in the vast majority of cases. As the report highlights, more research in this area would be required before any changes are proposed.

The IP Federation agrees with the report that Patent Pools can aid the workings of a competitive market and believes these could be brought within the scope of the Regulation.

In the report, we found the discussion of pass-through very theoretical, asserting with only minimal evidence that there is a problem arising from the structure of patents and variation in national law,[1] and ignoring the fact that the free negotiation between licensor and licensee will in any case tend to avoid anti-competitive results.

Consider, by way of example, a licence under a new patented catalyst for the manufacture of sulfuric acid which provides for -

(a) the licensee to make the catalyst and sell it to customers (sulfuric acid manufacturers) in return for a royalty paid to the licensor;

(b) the licensee's customers (sulfuric acid manufacturers) to use the catalyst for making sulfuric acid, and to sell the acid, without infringing the patent;

(c) the customers of the sulfuric acid manufacturers to use the sulfuric acid (e.g. for making sulfonate detergents) without infringing the patent; and

(d) all customers further down the chain to use what they buy without infringing the patent (e.g. for making sulfonate detergents with the sulfuric acid).

We consider that the pass-through described above (whether explicit, or implicit in the existing law on patent infringement, exhaustion of rights, or sale of goods) cannot be anti-competitive in practical terms, and indeed, depending on the parties' business models, may be commercially necessary if an agreement is to be made at all. On the other hand, there are restrictions on pass-through that would equally not be anti-competitive, such as restrictions on the know-how used for manufacturing the catalyst (not to pass beyond the licensee), or on use of the catalyst for purposes other than the manufacture of sulfuric acid.

One can apply the general wording of the present TTBER and Guidelines to such a situation, and also to differently-structured situations arising, for example, with semiconductor products and computer software. To prescribe detailed rules for pass-through in the TTBER and Guidelines covering all possible situations

[1] In relation to patents at least, the law in the EU is in fact remarkably harmonized. Thus the law on patent validity is virtually fully harmonized. The majority of national patents are obtained under exactly the written law and via the same procedure (i.e. under the European Patent Convention and via the European Patent Office), and therefore have exactly the same text. The law on infringement insofar as it is likely to relate to licensing is also very similar between member states (compare, for instance, Sections 60(1) to 60(3) of the UK Patents Act with Articles L613-2 to L613-4 of the French Intellectual Property Code, both of which were inspired by the wording in the Community Patent Convention).

would, the Federation believes, limit their value without achieving any competition law objectives.

The IP Federation would also like to note that aligning regimes is not practical and would lead to more uncertainty. Patent Thickets are outside the scope of the Regulation.

Other observations or suggestions for improvement of competition policy in this area

The Regulation could usefully be extended to cover multiparty agreements including patent pools. If this was an area the Commission believed merited further work, IP Federation members would be delighted to assist.

Alignment with the pertinent competition rules that govern distribution, in particular the permissibility of sales restrictions into a territory/customer group, would also merit further work.

Review of the treatment of non-competes, preventing a licensee from competing using his own technology, is a hard-core for agreements between competitors (Article 4(1) (d)) and excluded for agreements between non-competitors (Article 5 (2)). We believe that if a licensee begins to use his own technology to compete with the licensed technology, the licensor should have the option to terminate the licence and seek a licensee who will be committed to exploiting it effectively, increasing competition between the different technologies.

Conclusion

As indicated above, the IP Federation is broadly in favour of the Block Exemption Regulation and Guidelines as they stand. Providing legal certainty is a great advantage to business when entering into licensing arrangements.

Certain aspects of it, such as the Market Share test, could usefully be reviewed. Market share is a difficult thing to measure precisely, particularly in Technology Markets, and is subject to change over time. As one solution, we propose that the limits on combined market share currently set (20% for competing undertakings, 30% for non-competing) could be raised. Even so, business favours certainty over most other things, and we would urge caution before any changes are considered or made to the Regulation which would undermine established business practice.

The Federation looks forward to the outcome of the consultation. Nothing more has happened on this since it closed in February 2012. This could be because everyone is reasonably happy with the current Exemption and Guidelines, but if they plan any kind of overhaul, they will need to move quickly (by EU standards) to replace the current Technology Transfer Block Exemption Regulation (TTBER) by 14 April 2014.

Steve Ward, 11 December 2012

Patent Enforcement – Portugal enacts law mandating arbitration for pharmaceutical patent disputes between innovators and generics

In December 2011 the Portuguese government enacted Decree Law 62/2011 which for the first time moved certain IP disputes, in particular patent disputes, in the pharmaceutical sector away from the Jurisdiction of the court and mandated that they are handled exclusively through arbitration. The reasoning underlying this controversial and unprecedented change is clearly political but has not been unambiguously expressed. It has been implied that it is linked to austerity measures in Portugal and indeed a Memorandum of Understanding on Specific Economic Policy Conditionality was concluded between Portugal and the Troika (European Commission, IMF and ECB) in May 2011. However, whilst the Memorandum of Understanding contained a section on the Portuguese Judicial system and mentioned arbitration within the context of alternative dispute resolution as a way to facilitate resolution of backlog cases and out of court settlement, there was no mention of its mandatory use, or any contemplation of its use in IP law, and certainly not in a specific sector. The only reference to IP in the

Memorandum of Understanding was to make a speciality court on IP fully operational by Q1 2012. What is plain, however, is that the specific IP disputes selected by the Law to be handled in arbitration are the critical innovator vs generics disputes that effectively govern when a generic copy-cat medicine can legally be commercialised in Portugal.

In essence, Law 62/2011 demands that the Portuguese medicines agency (Infarmed) publish a notification when they receive an application for regulatory approval of a generic copy of an innovator product (relying on the clinical research submitted by the innovator). Within 30 days from that publication by Infarmed the innovator, if it wishes to assert its IP rights to the pharmaceutical product, is obliged to file a request for arbitration invoking those rights including evidence substantiating the infringement. The arbitration can be through the Portuguese institutional arbitration system or can be a request for non-institutional arbitration. The applicant for generic marketing authorisation then has 30 days from the notification for that purpose by the arbitration panel to enter a pleading, otherwise it will be legally estopped from commencing commercialisation. It is important to note that this second deadline in respect of the brief from the applicant for generic marketing authorisation runs from the notification by the arbitration panel which means that the arbitration panel has to have formed in order to issue such notification. Experience shows this can take a considerable amount of time, sometimes many months, during which there is no certainty for the right holder. This uncertainty is compounded by the fact that there is no mention whatsoever of preliminary or precautionary relief in the new Law. Within 60 days of receipt of the defendant's pleading the arbitration panel need to conduct a hearing to establish the evidence. Aside from that there is no time limit on the rendering of a decision in the matter and no restriction on the further procedure including further hearings for evidence or legal argument. Furthermore, Law 62/2011 served to amend other Portuguese laws including Law 176/2006 (on the regulatory approval of medicinal products) and 48A/2010 (on state reimbursement of price of medicinal products) – which have the effect of excluding the use of the courts system to prevent the authorization, price and reimbursement of medicines from being altered, suspended or revoked, due to IP rights; and to place boundaries on what can be disclosed under freedom of information rules in relation to product authorization applications for medicines.

This gives rise to a number of high level immediate concerns, namely:

i. By requiring intellectual property disputes relating to generic medicines to be resolved using arbitration it denies access to the courts for such disputes.
ii. Because of the short initial deadline combined with the lack of means for gathering of evidence from Infarmed or the applicant for generic marketing authorization, Law 62/2011 cannot allow patent infringement cases to be fully elucidated and heard – even in the non-judicial forum. Thus, a party's right to be heard is not met.
iii. It is unclear whether the new law provides for preliminary injunctive relief at all. This is critical as there is potentially a tacit permission to proceed with commercialization if a pleading, regardless of merit, is filed by the defendant party, and the deadline for that pleading is, practically, only after the arbitration panel has formed, which takes a considerable amount of time.
iv. If the new law intends for preliminary injunctive relief to be provided by the arbitration panel then, immediate and timely relief will not be available since, as mentioned above, it takes a considerable amount of time for an arbitration panel to form. Thus, there is no means for stopping infringing generic activities on short notice if and when needed to prevent irreparable harm.
v. This law is in clear violation of European law, specifically EC Directive 2004/48/EC.
vi. This law is in clear violation of International law, specifically GATT TRIPs.

On 30 March 2012 the specialised IP Court (required by the Memorandum of Understanding on Specific Economic Policy Conditionality of May 2011 between the

Portuguese government and the Troika) came into operation in Portugal. However, this court was not and has not subsequently been given adequate resources (it consists of a single sitting Judge) and is reportedly overwhelmed. In any event there was and has been no visible movement to have this new specialist court handle pharmaceutical patent cases and so this was evidently not a 'temporary measure'.

The Federation is concerned that if the Law 62/2011 is allowed to continue unchallenged in Portugal it may inspire other countries both inside and outside of the EU to institute similar laws that clearly contravene the European and International Law and is discriminatory to particular industries. The Federation made a significant submission to the UK IPO and the UK embassy in Lisbon setting out in detail the Federation's concerns and substantiating its view that Law 62/2011 violates European and International law. The Federation encouraged the UK Government to make every effort to influence the Portuguese government to effect the removal of Law 62/2011 as soon as possible in favour of a Law / legal system for enforcement of IP rights that is applicable in all technical fields (including pharmaceuticals). The system should be operated by a state court and the new Law / legal system for enforcement of IP rights must be compliant with National, EU and International Legislation and agreements.

In more detail the Federation, in its official correspondence, sought the UK Government to support the following specific requests which have been formulated to avoid a legislative vacuum being caused by immediate abandonment of Law 62/2011:

- that Portugal act to ensure that the specialized IP Court will be able to hear all IP cases including patent and supplementary protection certificate (SPC) cases, within a reasonable time frame (1-3 years), and in this connection ensure the court be staffed with a sufficient number of IP competent judges;
- that Portugal act to repeal Law 62/2011 once the specialized IP Court is operational and able to hear pharmaceutical IP infringement cases;
- that responsibility for hearing requests for preliminary injunctive relief based on patent infringement is immediately transferred to the specialized IP Court (and ensure it is resourced to enable timely decisions of high quality);
- that Law 62/2011 is retained until the specialized IP Court is ready to take all patent infringement cases, but change the following:

    - Change the 30 days period for submitting the petition and defence, respectively. There should be a possibility to extend as needed for each party to present its case in sufficient detail for full elucidation of facts.
    - Enable means for collecting of evidence, for instance by allowing access to documents at Infarmed that would be needed to verify patent infringement.
    - Establish clear appeal procedures, including define which court will hear appeal cases from the arbitration panel.
    - Clarify that responsibility for preliminary injunctive relief be with the specialized IP Court and ensure that such can be timely granted.

Moreover, the Federation informed the UK Government that European Federation of Pharmaceutical Industries and Associations (EFPIA) had made representations on the point to the European Commission and encouraged the UK Government through its Embassy presence, to become part of a growing wave of collaborative outreach activities between the Embassies of a number of member states in Lisbon.

The UK Embassy was grateful and offered the Federation to join the group of 'Strategic Partners'. However this has not, so far, been taken up (a significant fee is apparently required). The Federation stands ready to assist the UK Government through the IPO and the UK Embassy in Portugal in the pursuit of change to this Law in 2013.

Ivan Burnside, 13 January 2013

COPYRIGHT

Copyright & Levies

Copyright: UK

In December 2011, the Government published proposals for implementing a number of the recommendations relating to copyright which it had accepted in its August 2011 response to the Hargreaves Review of IP and Growth. Simultaneously Baroness Wilcox, the IP minister at the time, launched a Government consultation seeking views on these proposals.

The consultation included 114 questions addressing a broad range of topics in five key areas: Orphan Works, Extended Collective Licensing, Codes of Conduct for Collecting Societies, Exceptions, and Copyright Notices. The consultation also included a programme of meetings around the country.

Specifically the Government proposed widening copyright exceptions with a view to modernising and opening them up to the maximum extent permitted under EU law. This would include allowing limited private copying (for format shifting), widening the exception for non-commercial research, widening the exception for library archiving, and introducing an exception for parody and pastiche.

In responding to the consultation the Federation broadly supported the Government's objective of improving the copyright system as a contributor to growth, emphasising that it is important to balance the interest of rightholders with those of companies who may wish to achieve strong, sustainable balanced growth through the development and launch of products on the UK and worldwide markets.

The Federation's response to the Consultation focused on specific areas of direct interest to members, endorsing the response made by Intellect, the UK trade association for the ICT (information and communications technology) and consumer electronics sector. On private copying the Federation pointed out that the exception should, on the one hand, be drawn as broadly as possible to embrace all those acts of format shifting that most reasonable people believe already are, or should be permissible. On the other hand, it is imperative that the exception remains narrow and sufficiently limited so that it causes no more than minimal harm to rightholders and as such does not give rise to a requirement for payment of compensation in accordance with the EU Copyright Directive 2001/29/EC.

The Consultation included a question on whether contract should be able to override exceptions. On this point the Federation explained that it would be harmful to the licensing model generally if rights owners were unable to license acts of private copying for the benefit of consumers. It must remain possible to include within a commercial licence all uses embraced within the private copying exception, and hence the private copying exception should not be afforded so-called 'imperative status'. (Note: the question whether authorised reproduction exhausts entitlement to levies is currently before the CJEU in combined cases C-457/11 to C-460/11, discussed below.)

The Federation also responded to the Consultation questions on parody, caricature and pastiche pointing out that in the case of *Schweppes Ltd and others v. Wellington Ltd* [1984] FSR 210, Falconer J found on summary judgement that a parody of a Schweppes tonic water label used in the packaging of bubble bath was an infringement of copyright, there being no defence based on parody. The Federation urged that no change of the law should have the effect that, on facts similar to those in *Schweppes v. Wellington*, a different decision might be made by the court.

Despite expectations that legislation on the private copy exceptions would follow quickly and perhaps be announced in the Queen's speech in May as one of the flagship initiatives flowing from the consultation, at the time of writing (early November 2012) nothing has materialised.

However, in June, the Government did publish a summary of the 471 responses to the consultation (plus 14 late re-

sponses), but did not at that time publish the responses themselves. This somewhat unusual measure was felt necessary because some respondents had openly criticised activities of others in the sector, and the Government did not want to publish any potentially defamatory material. In July the responses themselves *were* published but inappropriate or defamatory comments were redacted. Signatures and personal telephone numbers and email addresses were also omitted for information security purposes. This just goes to show how emotive copyright can be among vested interests, and it may help to explain why legislation has not followed as quickly as the government initially intended.

But in July the Government did publish a policy statement on modernising copyright in the light of the consultation. This indicated an intention to legislate "as soon as possible" to allow schemes to be introduced for the commercial and non-commercial use of 'orphan' copyright works and voluntary extended collective licensing of copyright works, subject to a number of important safeguards. It also proposed creating a backstop power to require collecting societies to adopt codes of conduct based on minimum standards. Once the necessary legislation is in place, there would be further consideration of the details of all these measures, generally through consultation, before the final schemes are laid before Parliament for approval.

It was also indicated in the July statement that policy decisions on other issues covered by the consultation – including plans to make changes to the UK's copyright exceptions and the proposed copyright notices scheme – would be set out in a subsequent document later in the year (2012). At the time of writing (early November) nothing more had materialised.

However, in late October the Government did publish a set of minimum standards to underpin the self-regulatory framework for collecting societies. The minimum standards, which cover fairness, transparency, and good governance, are intended to form the basis of collecting societies' individual codes of practice. An initial review of these codes will be undertaken by an independent code reviewer in November 2013, a year after launch.

Also back in July, Richard Hooper who is leading the feasibility study into a Digital Copyright Exchange published the Phase 2 final report, making a number of recommendations on how copyright licensing could be simplified including the establishment of an industry-led Copyright Hub based in the UK but linked to the growing national and international network of digital copyright exchanges, rights registries and other copyright-related databases.

Copyright Levies: EU – Brussels

The first phase of the much-heralded EU mediation process eventually got under way in April in the form of bilateral talks with a broad range of stakeholders including manufacturing companies, trade and consumer organizations, collecting societies and rightholders. Additionally the mediator received a significant number of written submissions.

This was followed in early October by a second phase of the mediation process comprising a series of roundtable stakeholder meetings. At this stage the net was cast even wider and included for example representatives of retailers and wholesalers.

The mediation process is being run by Mr António Vitorino, a former EU Commissioner, who was appointed by internal market Commissioner Barnier as the high level mediator in November 2011.

During the mediation the key message from DIGITALEUROPE, the European trade association for the ICT and consumer electronics sectors, which has members in common with the IP Federation, was that the levies system is fundamentally broken and is beyond repair. There is no point in trying to fix it. The priority must be to find alternative forms of compensation for private copying in the digital era.

Immediately after the second round of talks, DIGITALEUROPE launched a paper on alternatives to the device-based levy system, and simultaneously issued a press release calling for a proper public debate on alternatives and the new and emerging concepts in this space. The paper articulated some initial ideas as a catalyst for debate.

The next stage in the mediation process is that Mr Vitorino is expected to deliver a report with formal recommendations to Commissioner Barnier around the turn of the year. The report will be in the public domain. The Commission will then decide next steps.

The mediation process has so far been confidential, but it has been acknowledged publicly that Mr Vitorino has demonstrated a willingness to consider alternative models to device-based levies, recognizing that some Member States (notably Spain, Netherlands, Finland and UK) are already going down this path, and this trend cannot be ignored. Mr Vitorino also understands the trend towards access over ownership, i.e. cloud based consumption over copying, and he is acutely aware of many of the practical problems with the current levies system.

Realistically, however, Mr Vitorino will not recommend any kind of 'big-bang' approach, i.e. a sudden abolition of device-based levies, but is more likely to concentrate on a few specific improvements in the functioning of the existing levies system, which would be less politically controversial, and – as he sees it – completely in line with his official mission. Nevertheless industry is hopeful that Mr Vitorino will also see his report as an opportunity to lay the seeds of a longer-term EU-led transition away from device-based levies towards alternative and fairer compensation solutions fit for the digital era.

Copyright Levies: EU – Member States

At Member State level, we are seeing a growing number of initiatives emerging around alternative, fairer approaches to rightholder compensation – but the situation is volatile.

In December 2011 Spain suddenly abolished levies with effect from January 2012, replaced by a payment of euros 5 million from the state budget by way of 'fair compensation' for harm to rightholders under the terms of the EU Copyright Directive. However, as this amount is less than was being collected through the former levy system, the collecting societies have retaliated and have filed a Complaint with the EU Commission. In October a new draft regulation surfaced (supposedly produced by the collecting societies in liaison with the office of the Secretary of Culture). This not only defines the method for determining the amounts to be compensated by government funds, but also has retroactive implications requiring companies to pay levies allegedly due under the former system. Industry is mounting a coordinated opposition.

The Netherlands has for some time been proposing the formal abolition of levies, and since 2008 there has been in place a Government "freezing" order preventing levies being applied to new devices. Part of the Government's proposal to end the levy system was to amend the law to make it clear that unauthorized downloading of protected works was illegal. Unfortunately, this proposal came to Parliament at the time when there was a loss of confidence in the Government and new elections were planned. Therefore, there was no appetite in Parliament to upset their voters by placing a "restriction" on their perceived downloading rights. The Dutch Government then pulled back from their plans to end the levy system due to the inability to push forward the illegal downloading law. In parallel NORMA, the author's rights organization, won a judgment against the Dutch Government invalidating the freezing order. That judgment also suggested that the Government would be liable for paying fair compensation if the freeze was maintained. Consequently, in order to protect itself from further exposure, the Dutch Government took steps – albeit reluctantly – to reinstate a new device-based levies system which will extend to tablets and smartphones, due to take effect in January 2013. This may only be a temporary measure because in late October it became clear that, after the elections, the same minister who was pushing to abolish levies will remain in office and is likely to reinstate plans to phase out levies. Again industry is coordinating its efforts to challenge the re-introduction of levies in 2013.

In the UK, as reported above, the Government consultation following the Hargreaves Report on IP and Growth, included proposals to introduce a narrow private copying exception for format shifting of content, but without introducing levies on the basis that this would cause no more than minimal harm to

rightholders recognising that the ability to make private copies of music, for example, is already priced into the purchase. The UK 'priced into purchase' model is regarded as an alternative to device-based levies.

In December 2011 the Finnish Government had announced it would have a new, alternative system in place by 2013, following a report earlier in the year commissioned by the ministry of Culture which recommended moving away from device-based levies to alternative sources of compensation for private copying and cultural funding. A second report in May 2012 proposed expanding the current system, but that met with a critical backlash. The political steering group in Finland is understood to be still looking at alternatives as the preferred way forward, although a renewed system is unlikely before 2014 now. In an interesting development in May, key stakeholders Nokia, Teosto (the Finnish Composers' Copyright Society), Sanoma (a leading European media group) and IFPI from different sides of the debate jointly made a public statement supporting use of the TV fee (YLE-payment) as an alternative to device-based levies for compensating private copying.

CJEU cases

During 2012 two new cases were referred to the CJEU, bringing the total number of CJEU cases on levies to six. Two of these have now been decided, namely the *Padawan* case C-467/08 which, among other things, confirmed that devices solely for professional use are not subject to levies, and the *Opus* case C-462/09 concerning cross-border 'distant' sales which confirmed that foreign web shops have to pay levies.

In September the Dutch Supreme Court asked whether illegal downloading is entitled to be compensated by levies (*ACI Adam et al* case C-435/12). Then, in October in *Copydan* case C-463/12 the Danish Østre Landsret referred questions concerning levies on memory cards for mobile phones, specifically seeking guidance on the *de minimis* rule which says that compensation may not be due when any private copying causes no more than minimal harm to rightholders.

Other cases pending before the CJEU look at possible double payments in cross border sales (*Amazon* case C-521/11); and in the context of reprography whether or not levies can be claimed when use has been authorised *Fujitsu, Canon, HP et al* case C-457/11 to C-460/11.

This continuing trend of cases coming before the CJEU may itself have positive effects not only in the evolving jurisprudence on levies in Europe (in terms of favourable interpretation of the Copyright Directive), but it also helps to demonstrate that the levies system is not working and so provide a platform for eventual legislative change.

Tim Frain, 4 November 2012

DESIGNS

Reform of the UK Designs Legal Framework

Background

In 2010–2011, there were three official consultations on UK design law (*Trends and Events*, 2010, at pages 12–13; *Trends and Events*, 2011, at pages 11–12 and 12–13). In July 2012, the IPO published *Consultation on the Reform of the UK Designs Legal Framework*, this time with specific proposals for change. Further comment was invited. Legislation is likely in the 2013–2014 Parliamentary session.

Among various proposals was the non-contentious one to retain the UK registered design system. While UK businesses with an international outlook (such as the Federation's members) tend to prefer the Community Registered Design system, the Federation's view is that applicants (including locally-focused SMEs) should still have the option of using a national system.

However, two of the IPO's proposals were of especial concern to the Federation. The rest of this report will focus on these.

Criminal penalties for "deliberate" registered design infringement

Despite attempts by the Federation to "head this off" in the earlier consultations, the IPO indicated in July 2012 its inclination to introduce criminal penalties for deliberate infringement of registered designs (whether UK or Community).

The Federation continues to oppose this strongly, on the grounds that –

- the justification put forward is flawed;
- the proposal is fundamentally unworkable without injustice;
- if the proposal were implemented so as to have any effects, these would include unintended damaging consequences; and
- comparisons with civil law jurisdictions are unsafe.

These four points will now be taken in turn.

The flawed justification

The justification put forward is that at present a rogue can set up a company which infringes a registered design and then, when pursued, can play the system by setting up a new company which carries on where the old one left off. (There is apparently only hearsay evidence that this is a significant problem.) The assertion is that criminal penalties will make it easier to pursue such rogues. Our objection to this is twofold: (a) present law does allow the rogue to be joined as a co-defendant with his first company in a civil action, and this would seem to meet the case; and (b) – a *reductio ad absurdum* argument – if one followed this logic, all civil wrongs that rogues tend deliberately to commit (trespass, misrepresentation, breach of contract, etc.) would get criminalised, not just for fly-by-night rogues but for all commercial enterprises.

The unworkability of the proposal

Registered designs are granted by the IPO and by OHIM with no examination for novelty. Therefore, it would be wrong for mere knowledge of a registered design to constitute basis for a subsequent assertion of deliberate infringement. It would be also wrong, when HMG and the EU have not seen fit to require IPO and OHIM to search and examine, for the potential imitator to have to do novelty searches and to receive legal advice that he did not infringe before he could escape being "deliberate". And what if the advice was "The law is unclear", as is notoriously likely in designs?[2]

The Federation cannot envisage any interpretation or re-definition of "deliberate" that would be fair to third parties.

The unintended consequences

In the aggressive litigation climate of the UK, and given the serious consequences in the UK of any criminal conviction, we foresee the following consequences of criminal penalties:–

(i) A registered design owner wishing to enforce the registered design would receive the advice to notify the alleged infringer of the design, sending a copy, so as to ensure the infringement would thereafter allegedly be "deliberate". This would give the owner the option of intimidating the management of the alleged infringer (in most cases *not* a rogue) with the threat of criminal penalties.

(ii) Defendants subject to criminal action might desist or settle rather than run any risk of conviction (the fear of this is greater among honourable people than among rogues), despite the fact that the registration might well be invalid. This would leave the system clogged up with invalid and economically damaging designs to the detriment of all third parties and the consumer.

(iii) Companies, aware of the disproportionate power of registered designs once there were criminal sanctions, would file more registered design applications, including those of dubious validity. This would create work for attorneys, for the IPO and OHIM, and in due course for litigation profes-

[2] Thus, Bently and Sherman, *Intellectual Property Law*, 3rd edition (Oxford, 2009) at page 669: "It is hard to predict how the various tribunals will operate in relation to the comparison of designs."

sionals; but it would be contrary to the public interest.

(iv) A company considering launching a new product, whether similar to a marketed competitor product or not, might well choose not to search for third-party registered designs, so as to eliminate the risk at that stage of being a "deliberate" infringer. As a result, the company might unknowingly infringe, whereas, absent criminal penalties, he might have searched and found and avoided a third-party right (or else sought a licence). The result could be damage to both parties, and additional consumption of Court time.

(v) Trading standards officers and juries would get involved in considering what is known to be a difficult area of IP law compared with those areas where criminal penalties already apply.

Unsafe civil law comparisons

The IPO, in attempted rebuttal of the argument of unintended consequences, has noted that in some civil law jurisdictions criminal penalties exist. However, civil law systems lack the adversarial, aggressive UK tradition of litigation. Far more relevant than analogies with civil law jurisdictions are the opinions of UK litigation professionals, such as the UK Intellectual Property Bar Association, who devoted their entire response to the July 2012 consultation to the undesirability of criminal penalties. If there is a relevant foreign analogy, it is with the USA, where even enhanced *civil* penalties for "wilful" infringement have been dysfunctional in ways analogous to (i) to (v) above.

Unregistered design right (UDR)

The Federation was relieved to find no proposal in the July 2012 consultation for criminal penalties in relation to *un*-registered design infringement (UDR), but as a precaution the Federation in its response restated its opposition to these.

However, the Federation was disappointed that there was no proposal from the IPO to correct the misalignment, in relation to functional articles, between (a) UK UDR and (b) UK Registered Design, Community Registered Design, and Community UDR. Rights (b) are legislatively constrained "not [to] subsist in features of appearance of a product which are solely dictated by the product's technical function". The UK UDR, (a), is not so constrained, and in the Federation's opinion ought to be. According to the cases, UK UDR is capable of protecting such items as contact lenses and farm machinery; even features of design that are concealed from the purchaser, or invisible to the naked eye, are capable of protection.

Historically, the origin of functional design protection by UDR was protection created *inadvertently* (in the view of the Law Lords) by the Copyright 1956. The protection was in essence carried over into the Copyright, Designs and Patents Act 1988 as UDR, with a shortened but nevertheless substantial term (usually from 10 to 11 years, subject to licences of right in the last five). In the Federation's view, UDR for functional designs (a) provide disproportionate protection for minor technical improvements to the detriment of innovation and competition, and (b) create an unlevel playing field compared with the rest of the EU and the USA to the disadvantage of UK engineering manufacturing.

Mike Jewess, 4 November 2012

PATENTS

Additional Employee Inventor Compensation – A right too far?

Introduction

The issue of employee inventions and the extent to which employee inventors should be compensated has in recent times become a hot topic in the UK. Since the Patents Act 1977 there has been a statutory right for employees to be awarded additional compensation over and above their salary for patented inventions made by them during the

course of their employment where "*having regard among other things to the size and nature of the employers undertaking, the invention or the patent for it (or the combination of both) is of outstanding benefit to the employer; and, by reason of those facts it is just …*" [3] for an award to be made.

The thinking behind an employee being entitled to further compensation for outstanding inventions was considered by the Banks Committee in its 1970 report into the Patent System and Patent Law – the "Banks Report". The Banks Report noted that there was a view that the concept of "master and servant" did not fit with modern views and that there was a concern that it was unfair that an employer was automatically entitled to an employee's invention without further payment even if the invention was so outstanding that it resulted in substantial profits to the employer. It was suggested that this position would provide no encouragement to inventive employees. Not surprisingly, industry held a different view, that "*… the system of rewarding work by salary increases, promotion and special bonuses is capable of catering satisfactorily for all forms of meritorious work carried out by employee whether the work is patentable or not*".

Indeed, there seems to be a lot of sense in the view given at that time from industry. Why should those employees in research and development be any different from, for example, those in marketing or sales? One would never dream of there being legislation in place to give an employee in marketing a statutory right to extra pay for coming up with a new slogan or advertisement, no matter how novel, even if it did lead to massive sales. Similarly, neither would one expect legislation to provide for extra compensation to an employee who creates a particularly clever website design or way of doing business, or, even going back to patents, the inventive patent attorney who manages to properly identify the invention and claim it! The view reported on in the Banks Report was right that in a modern world new considerations should apply but the reality is that presently employees are more mobile than ever and in many cases will and can change employers if they do not feel properly recognised and incentivised. Therefore, it could be said that 40 years on from the Banks Report the modern world dictates that instead of leaving it to statute one should leave it to the free market to arrive at fair terms.

It is worth noting that in the US there are no similar employee compensation laws and no one can say this held back their great industrial achievements!

However, the UK is not alone in having given employees further compensation in respect of their inventions. Below we will further consider the position in the UK, together with a look at the different employee inventor compensation regimes in Germany and France.

UK

Section 39 of Patents Act 1977 provides that inventions made by employees in the course of their normal duties or duties specifically assigned to them will belong to their employer. This can be contracted out – although this would be unusual.

Section 40 provides that in respect of an invention belonging to the employer, for which a patent has been granted, if that patent (or invention and/or patents where the relevant patent has been filed after 1 January 2005) is of outstanding benefit to the employer, having regard among other things to the size and nature of the employer's undertaking, it is just that the employee should be awarded compensation. The Courts have been reluctant to redefine "outstanding" in this regard, but have said it denotes something special[4], something more than significant or substantial[5]. The benefit "*… must be looked at in the total context of the activities of the employer concerned to see whether it is outstanding*"[6].

The first contested case to result in an award for employee compensation was that of *Kelly* v *GE Healthcare*[7]. In the Kelly case the inventors were involved in the first synthesis of compound "PS3"

[3] Section 39 Patents Act 1977, discussed further below

[4] *Memco-Med Ltds Patent* [1992] RPC 403 - Mr Justice Aldous (as he then was) at page 414

[5] *GEC Avionics Ltd's Patent* [1992] RPC 107

[6] *GEC Avionics Ltd's Patent* [1992] RPC 107

[7] *Kelly & Chiu* v *GE Healthcare Ltd* [2009] RPC 363

which formed the basis of Myoview, which is a heart imaging agent. On the evidence, Myoview had been critical to the success of Amersham (which subsequently became part of GE Healthcare). However, what was important to the case was whether the patent itself was of outstanding benefit. On that matter, Mr Justice Floyd said yes because without the patent the generic competition "*… would not simply have been a major issue, it would have been a crisis for Amersham*" plus the patents had "*been a major factor in achieving the corporate deals*". Mr Justice Floyd said he had no difficulty in recognising that the patents were of outstanding benefit.

But was it just to make an award? Here Mr Justice Floyd did not give too much by way of guidance in his judgment. He noted that other employees (not inventors) would have contributed to the invention but said that did not make it unjust to make an award. He was also unimpressed by the fact that the inventors had carried no risk – the risks were all Amersham's. He said it was just to make an award.

On how to value the benefit Mr Justice Floyd was presented with two alternatives. GE Healthcare argued that the Court should look at what royalty Amersham would have otherwise had to pay. The employees argued that the Court should look at the chance of reduced profits had there been no patents and presented some possible percentages. Ultimately, Mr Justice Floyd said one needed to look at actual benefit and sided more with the employees' approach. He looked at the period of time for which the patents gave exclusivity and, without any detailed reasoning, took a price cut of 10% without the patents and arrived at a figure of £50m, which in his own words was very conservative. On determining fair share Mr Justice Floyd stuck to the letter of the relevant statutory provision[8] and took into account the inventors' positions, remuneration, efforts and the skills of the inventors and other persons involved in the invention and the contribution made by the employer in creating the opportunity. In the end, Mr Justice Floyd gave one inventor 2% and the other 1% which resulted in payments of £1m and £500k respectively. In reaching what was in his view to be a fair share one might be excused from thinking Mr Justice Floyd had actually always had a final number in mind that he was going to award, and went back from there to calculate. In truth, the Kelly case gives no real guidance as to how to approach calculating the amount to be awarded, and the case very much turns on its facts. It does, however, present what may be considered to be a high water mark in that the invention concerned was pretty much the product and it was the product that made the company.

For the vast majority of cases the invention will not be the product itself but rather just a part or component thereof, and so it may be very hard to ascribe a value to the benefit that a particular invention/patent gives. Or will it? The introduction of the UK Patent Box, whereby a company's profits from the sales of products can be subject to a favourable corporation tax rate of 10% if they are covered by a qualified patent, may help value the benefit derived from that patent/invention. The benefit the company reaps will extend beyond the technical contribution of the parties since the patent needs only to cover one element of the product concerned to qualify for the Patent Box.

Since the Kelly case there is one further case that has reached trial. This was the case brought by Professor Shanks against Unilever. The facts of that case are that Professor Shanks (the employee) had created an invention that, although it had not been directly exploited by the employer (Unilever), had been extensively licensed by Unilever for revenues in excess of £23m. The trial of this case took place in April 2012 in the UK IPO and at the time of writing some eight months later the parties are still waiting a decision. It seems likely that the hearing officer, Dr Elbro, will give some guidance as to how to determine whether an invention is of outstanding benefit and the relevance of the size of the employer's undertaking to that. In an earlier Court of Appeal decision[9] in the Shanks case, relating to a preliminary issue on a construction point on the legislation, Lord

[8] Section 41(4) Patents Act 1977

[9] *Shanks* v *Unilever PLC* [2011] RPC 12

Justice Jacob had said *"I am far from convinced that Parliament meant that inventors/employees of large companies should get less or no compensation for a particular invention compared with what they would get if they had been employed by a small company."* This comment would seem to ignore the fact that the legislation requires the *"size and nature of the employer's undertaking*" to be taken into account. Perhaps though, the greater concern to all innovative companies with research and development in the UK is that part of the Professor Shanks case is that when determining the fair share the court should have regard to whether a different level of exploitation may have resulted in greater or lesser benefits for the employer. The consequences on the UK could indeed become extremely harmful if it were correct that there is somehow an obligation placed upon the employer to ensure that it has explored all possible routes when exploiting patents – particularly if the invention is not core to the employer's activities.

Given that there have been so few employee compensation cases to reach the courts, one could assume that that in the UK relatively few claims are ever made. However, this is not what we hear from industry. Indeed, it seems that such claims are on the increase, perhaps encouraged by the awareness created by the Kelly case and by the shift from solely the patent being required to be of outstanding benefit to the invention itself being considered as well. It may be that such claims will in time increase, with lawyers being able to act on a contingency basis from next year.

As mentioned previously the logic behind the employee inventor being entitled to bring an additional claim for compensation over and above his/her contractual remuneration is questionable – particularly in the modern world. The position is also unclear for multinational corporations with employees in different jurisdictions since there is little, if any, harmonisation across jurisdictions.

Given the shortcomings and confusion of the UK system, it is worth considering whether things are any better elsewhere. The employee compensation system most widely referred to is the German system. This is quite different to the UK and elsewhere.

Germany

The position of employee inventions in Germany is governed by the German Employee Inventions Act 1957 ("ArbnErfG") and subsequent ministerial guidelines. The law was amended in October 2009. It has its history from the days of the Third Reich when politically the government wanted to show it was pro worker.

The position on ownership of and rights to inventions is somewhat different to the UK. In Germany, inventions are divided into two categories, Service Inventions and Free Inventions. Service Inventions are those which are made in connection with the inventor's employment. Free Inventions are those which are not connected with the inventor's employment.

The basic premise is that patent rights connected with an invention rest with the employee inventor. The employer, however, has certain rights. For a Service Invention the employer is entitled to acquire the exclusive rights to the invention. Prior to 2009 this would involve the employee filing a report upon making the invention and then the employer, within four months of such filing, making a written claim to the invention. On proper receipt of a written claim, all rights connected with the invention would pass to the employer. If the employer does not make such a written claim then the invention would become a Free Invention and would belong to the employee. Post 2009 the regime is less strict for the employer, in that the default position is that the employer has claimed the invention unless the employer has formally released it within four months of the employee's invention report.[10]

In respect of Free Inventions made by the employee outside of his/her employment, the employee is still required to notify the employer unless it is obviously unconnected with the employer's business. If the invention does relate to the employer's business, then the employer is entitled to a non-exclusive licence at a reasonable royalty.

[10] Section 6 ArbnErfG

In respect of Service Inventions the German law also places burdens on the employer to file for patents[11]. If the employer does not act expeditiously in filing the necessary patent applications the employee can require the employer to do so within a set time. If the employer does not comply then the employee can have a patent application prepared and filed in the employer's name and then seek payment of the bill for this from the employer. Furthermore, even if the employer does expediently apply to obtain patent rights, if the employer subsequently decides to discontinue such an application or subsequently not to maintain the rights, then the employer must notify the employee, and if requested, transfer the rights to the employee; although the employer would be entitled to a non-exclusive licence at a reasonable royalty. The legislation relating to rights in inventions is aimed at protecting the employee but it does to an extent protect the employer as well.

In addition to the rights above, the employee is entitled to claim "reasonable compensation" from the employer once the employer has claimed the Service Invention[12]. As to how this is assessed, Section 9(ii) of the ArbnErfG states that due consideration should be given "to the commercial applicability of the Service Invention, the duties and position of the employee in the enterprise and the enterprise's contribution to the invention".

The statutory guidelines give a standard formula as to how compensation is calculated. This is V = E × A where V is the annual compensation, E is the invention value and A is the contribution made by the employee.

So far so good, and one would think with a standard formula there would be certainty as to how any compensation is calculated. Not surprisingly, it does not work like this. Calculating value is not so straightforward, with numerous approaches being taken, such as what royalties would be paid for the invention, how much the employer gains or saves by using the invention, what the employer would pay to acquire the invention if it had been a Free Invention etc. Calculating the employee share is not easy either. A points system is used to calculate this. Points are awarded on three criteria relating to: (i) task (up to six points, the greater the initiative the greater the points); (ii) solution (up to six points – the more unusual or unexpected the greater the points); and, (iii) the employee's position in the company (up to eight points – the more junior or unskilled the greater the points). Thus, the number of points can range from three to a possible twenty with this equating to a share ranging from 2% to 100%.

In Germany, unlike the UK, there is an automatic right to compensation but in reality the amount is no easier to calculate. Disputes can be dealt with by a non-binding arbitration board in the German Patent Office or, failing that, by the Courts - although this is rare. In view of the inefficiencies and uncertainty of the system, employers tend to routinely automatically pay employees a lump sum soon after the employer has filed an invention statement. This lump sum will also cover the employer's obligations to seek and maintain patent rights etc. The amounts paid generally tend to be relatively low but they can be significant depending upon the product. In some cases the employee may claim for compensation adjustments.

France

As in Germany, the starting point is that any inventions belong to the employee. However, the Intellectual Property Code 1992 ("IPC") sets out three different categories for inventions – Mission Inventions, Non-Mission Inventions and Free Inventions.

Mission Inventions are those which have been made in the course of employment as a result of the employee's duties. The employer is automatically entitled to such inventions.

Non-Mission Inventions are those inventions made during the course of the employee's job using the employer's technology / know how but not as the result of the employee's duties or research assigned to him/her. If the invention relates to the business activities of the employer then the employer will have a right to request the assignment of the

[11] Section 13 ArbnErfG
[12] Section 9 ArbnErfG

invention to it in return for a fair price paid to the employee.

Free Inventions are those which are not connected to the inventor's employment. These will belong to the employee without any obligation to the employer.

The history of the provisions relating to employee inventions in the IPC lie with the Patent Act 1978, which also introduced a statutory right for additional compensation to employee inventors. Up until then, French law did not provide for additional compensation for Mission or Non-Mission Inventions. In respect of Non-Mission Inventions, French law stated that these were co-owned. The 1978 Act simplified that by instead making the employee the owner, with the employer having the right to claim an assignment in return for a fair price which in practice is linked to the value of the invention.

Article L.611-7 of the IPC provides that the conditions under which an employee inventor of Mission Inventions "… ***shall*** enjoy additional remuneration shall be determined by the collective agreements, company agreements and individual employment contracts". Prior to an amendment in 1990 the ***shall*** was a ***may***, and this small change from the word ***may*** to ***shall*** has been interpreted broadly by the French Courts to mean that the employee inventor must be awarded additional remuneration in all circumstances.

The legislation does not give any guidance as to how this additional remuneration should be calculated. For a while it was thought that the additional remuneration could be arrived at by reference to the salary of the employee with awards amounting to between two and twelve months' salary. However, in more recent times the French Courts have rejected this approach and have not linked awards to the employee's salary, but rather to the profits or savings made by the employer using the invention. This trend started with the Supreme Court case in 2000 of *Raynaud & Labrie* v *Roussel & Hoechst*. On the facts of the case the employer had made over €100m in France through licensing of an invention relating to a pharmaceutical product for the treatment of prostate cancer. In that case there was a collective agreement for the chemical industry. However, while there was provision for additional remuneration under that agreement there were no contractual provisions describing exactly how the remuneration should be determined. The Court ignored the inventors' salary and instead looked at the facts and matters surrounding the research and how the invention was made, and the contribution made by the inventors. In doing this it arrived at a sum of €600k to be paid as additional remuneration. Arguably, this case can be seen as an exception, and awards made by the French Courts since then have been more modest but can still be very high. With the award in respect of Mission Inventions being linked to the value of the invention it has meant that practically speaking there is less difference between the awards made for Mission and Non-Mission Inventions.

The position for public sector employees is very generous. The IPC provides that *"… the additional remuneration referred to in Article L.611-7 shall be constituted by a bonus share in the revenues derived from the invention by the public entity that is the beneficiary of the invention"*[13]. There are statutory rules which govern how these bonus payments are calculated, often taking the form of a royalty generally set at around 25% of the net revenue usually received by the employer. In addition, the inventor will always receive a bonus of around €3000. It follows that claims in the public sector can be high.

There are many claims for remuneration brought in the French Courts. One active debate at present in France is the time in which an employee should bring a claim. Employees very often leave it until after they have left the employment or even at the end of any patent life. There is a question as to what laws on limitation period should apply with employees pushing for a period of up to 25 years from the time the claim could have been brought. As in the UK this can provide uncertainty and any payment can be reconsidered. Many employers have schemes in place to provide extra remuneration in respect of inventions which serve to help reduce the likelihood of claims.

[13] Article R.611-11, IPC

Final comments

Most countries in the EU have statutory provisions to provide employee inventors with additional compensation. In countries such as Germany, where the awards are mostly decided in the early days of exploitation, the awards are most often relatively low. In the UK the employee has until one year from the expiry of the last relevant patent (wherever that may be) to make a claim, and the tendency is for employees to make the claims towards the end of that date, often by which time they have left their employment. As things stand in the UK only a very small number of claims have ever reached the Courts and only one case has resulted in an award – *Kelly* v *GE Healthcare*. That case on its facts was to an extent exceptional and most likely represents the ceiling of what awards a Court may make. Of course, in that case it was the patent itself that needed to be valued. For patents filed since 1 January 2005 it is now the patent and/or invention to be valued and thus in the future the value of the benefit to an employer may be decided more generously. However, while reports from industry are that it is increasingly less unusual for employees to seek further compensation, the cost of litigation and lack of clarity as to how to assess *"outstanding benefit to the employer …"* and calculate value and fair share do not encourage claims to be made in the Courts.

The thinking behind the legislation was to protect employees and to encourage inventive activity. It was to give fairness to a perceived imbalance that the employer owns the invention which the inventor has by definition arrived at by doing something not obvious, and so "above and beyond". However, the effect of the legislation has been to target one very small category of employees ignoring the many other employees who are involved in the development of new products and whose contributions may have in reality have been just as crucial in, for example, initiating the research and getting the product to market. In the pharmaceutical industry, by way of example, just think of the very many people who are involved in bringing a drug to market, all of whom would be crucial to its success, e.g. those in product development, clinical trials, regulatory, sales and so on. Many drugs may not even make it to market for clinical safety reasons but the researchers may not have been any less inventive than those who worked on inventions that do make it through clinical trials etc. To be part of one team as opposed to another may to an extent have been simply an element of luck. Indeed, there is a risk that the existence of rights for employees to seek additional compensation may in effect help achieve the opposite of protecting and encouraging inventive activity. The uncertainty of interpretation of relevant provisions may make certain employers less inclined to make voluntary awards for inventions (although, in the UK such awards would be taken into account when considering whether the employee is entitled to any further payment) and in extreme cases national legislation may even encourage businesses to move research to other jurisdictions. What is clear is that employers should give thought to this topic and look at ways to reward and recognise inventive activity. When putting such schemes in place one should take note of the law in the relevant jurisdictions in which they operate.

Finally, just by touching on the three jurisdictions above one can see that the rules vary significantly, which may give rise to some circles saying this is an area ripe for harmonisation. However, be careful for what you wish for. Remember the Unitary Patent Court!

Of course, one route of harmonisation may be for all rights for additional employee compensation to be abolished. Indeed when one goes back to the origins of the UK law the concern voiced and reported on by the Banks Committee was that the law at that time was not in line with the modern world but that modern world of the 1960s and 1970s has now gone and in today's modern world as noted above employees are more mobile than ever, and in many cases will and can change employers if they do not feel properly recognised and incentivised. If employers want to nurture and keep their best talent they need to reward and value them, otherwise their competitors will. Statutory rights against the employer are unlikely to encourage employee inventiveness.

Huw Evans, 18 December 2012

An Update on the America Invents Act (AIA) and Strategies to Consider

The America Invents Act (AIA), the greatest change to American patent law in over 150 years, was enacted in September 2011, but many first-inventor-to-file (FITF) implementing rules were just recently proposed in July 2012, as the US patent system prepares to transition to a first-inventor-to-file (FITF) system on March 16, 2013. In anticipation of this 2013 transition, there are three helpful perspectives with which to view the implementation of the AIA's FITF system: (1) the perspective of pre-AIA US patent filings before March 16, 2013; (2) the perspective of post-AIA US patent filings with "effective" filing dates on or after March 16, 2013; and (3) the perspective of transitional US patent filings filed in the US Patent and Trademark Office (USPTO) on or after March 16, 2013, but with an "effective" filing date before March 16, 2013. This third perspective takes into account: a US patent application filed on or after March 16, 2013 which claims a benefit of priority under the Paris Convention to an earlier filed non-US application; and/or a US patent application filed on or after March 16, 2013 as a National Stage application of a PCT (Patent Cooperation Treaty) application filed before March 16, 2013. Understanding the proper "perspective" which applies to each US patent application filing will be critical to building a strong US patent portfolio as the perspective will impact, for example, the scope of relevant prior art and attendant duty to disclose information to the USPTO, and an appropriate claim drafting strategy.

It is important to remember that the AIA's FITF system will enhance the scope of available prior art, and thus impact compliance with the USPTO's ongoing duty to disclose relevant prior art to the USPTO in all patent applications that are subject to the AIA. It is also important to recognize that with a transition to a FITF system, the ability to fall back upon proof of earlier invention conception will be eliminated. Thus, for US patent applications which fall under the AIA, the scope of available prior art will increase, and the use of affidavits to swear behind what would otherwise be prior art will be eliminated. This article will provide a brief discussion of each of the three mentioned perspectives including relevant considerations to ensuring that the claims filed in any US application receive pre-AIA treatment if possible and if desired.

Pre-AIA US patent filings before March 16, 2013

Under current pre-AIA US patent law, the first to invent claimed subject matter will be awarded US patent rights unless a statutory bar exists to preclude the first inventor's ability to prove earlier conception. The statute which defines qualifying prior art in the USPTO is 35 USC Section 102 which states in subparagraphs (a), (b) and (e):

- ***35 USC 102 Conditions for patentability; novelty and loss of right to patent.***

A person shall be entitled to a patent unless -

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for a patent.

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of application for patent in the United States.

. . .

(e) the invention was described in (1) an application for patent, published under section 122(b), by another filed in the United States before the invention by the applicant for patent or (2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351(a) shall have the effects for the purposes of this subsection of an application filed in the United States only if the international application designated the United States and was

published under Article 21(2) of such treaty in the English language.

The ability to swear behind an earlier filed application and/or disclosure of what would otherwise be qualifying prior art is set forth in 37 CFR Section 1.131 as follows:

- ***37 CFR 1.131 Affidavit or declaration of prior invention.***

(a) When any claim of an application or a patent under reexamination is rejected, the inventor of the subject matter of the rejected claim, the owner of the patent under reexamination, or the party qualified under §§ 1.42, 1.43, or 1.47, may submit an appropriate oath or declaration to establish invention of the subject matter of the rejected claim prior to the effective date of the reference or activity on which the rejection is based. The effective date of a U.S. patent, U.S. patent application publication, or international application publication under PCT Article 21(2) is the earlier of its publication date or date that it is effective as a reference under 35 USC 102(e). Prior invention may not be established under this section in any country other than the United States, a NAFTA country, or a WTO member country. Prior invention may not be established under this section before December 8, 1993, in a NAFTA country other than the United States, or before January 1, 1996, in a WTO member country other than a NAFTA country. Prior invention may not be established under this section if either:

(1) The rejection is based upon a U.S. patent or U.S. patent application publication of a pending or patented application to another or others which claims the same patentable invention as defined in § 41.203(a) of this title, in which case an applicant may suggest an interference pursuant to § 41.202(a) of this title; or

(2) The rejection is based upon a statutory bar.

(b) The showing of facts shall be such, in character and weight, as to establish reduction to practice prior to the effective date of the reference, or conception of the invention prior to the effective date of the reference coupled with due diligence from prior to said date to a subsequent reduction to practice or to the filing of the application. Original exhibits of drawings or records, or photocopies thereof, must accompany and form part of the affidavit or declaration or their absence must be satisfactorily explained.

Under the foregoing 35 USC Section 102 statute, for a third party use or sale to qualify as prior art to a patent applicant's pending US patent application, the third party use or sale has to occur in the US. To the extent such use or sale did occur in the US, but had occurred less than one year prior to the patent applicant's US filing date, the patent applicant can "swear behind" the use or sale by filing a Rule 1.131 Affidavit meeting the specified criteria in 37 CFR Section 1.131 (b).

With regard to an inventor's own earlier disclosure of their invention as subsequently claimed in a pending US patent application, the combined effect of 35 USC Sections 102(a) and (b) is to provide the inventor a one year grace period. In other words, an inventor's own use or sale or public disclosure of their invention less than one year before filing a US patent application cannot be relied upon by a US Patent Examiner as prior art to the inventor's subsequently filed patent application claiming the invention.

Thus, the scope of prior art under the current, pre-AIA first-to-invent system excludes third party use or sale outside the US, and allows US patent applicants an ability to swear behind third party public disclosures which were published less than one year prior to the applicant's US patent application.

The pre-AIA scope of prior art also excludes from the scope of consideration the foreign priority filing date of a third party's US patent (e.g., a Paris Convention priority date). That is, a US Patent Examiner can only rely upon a third party's US filing date as prior art under 35 USC Section 102 (e), and cannot

cite the third party's non-US priority date (e.g., a UK priority document filing date).

As such, the ability of a patent applicant to secure patent protection in the US is much greater, in most cases, under the current, pre-AIA patent law as compared to the AIA FITF system.

US patent filings with an "effective" AIA filing date

In contrast to pre-AIA US patent applications which are subject to a narrowed pool of prior art, and a swear-behind process to prove an earlier conception date, US patent applications with an effective post-AIA filing date will be subject to a broader scope of available prior art, and the patent applicant will have no ability to swear behind an earlier published disclosure of a third party who acted independently of the applicant. There is still a limited derivation procedure by which a US patent applicant can remove a third party disclosure as a prior art reference if the patent applicant can prove in an affidavit or declaration under proposed rule 37 CFR Section 1.130 that the third party disclosure was derived either directly or indirectly from the patent applicant's own work. This reflects the AIA's character as a "first-inventor-to-file" system, versus being a strict first-to-file system.

The AIA will enhance the pool of available prior art at the disposal of the US Patent Examiner by including within the scope of 35 USC Section 102 (a) prior art any public disclosure, public use or sale before the "effective filing date" (e.g., the Paris Convention priority date) of the US patent application, without limiting any such disclosure, use or sale activity to the US. In other words, a third party's prior sale in the UK could now qualify as prior art to a pending US application of another. Prior commercial use of a patented invention anywhere in the world will, in most cases, also qualify as a defense to an accused infringer's alleged infringement if such use occurred more than one year prior to the asserted patent's effective filing date.

In addition, an effective filing date of a US patent application such as a Paris Convention priority document's filing date outside the US, or a PCT international filing date of a PCT application which designates the US, can now qualify as an effective prior date against a pending US application of another for both novelty and obviousness under the AIA's revised 35 USC Sections 102 and 103 (i.e., inventive step). Under the AIA, non-US inventors can therefore consider foregoing pre-AIA decisions to contemporaneously file a U.S. provisional application to establish an early 35 USC Section 102(e) US filing date (i.e. a date that can be relied upon by US Examiners as prior art against third party US applications) and instead rely on the "effective" Paris Convention filing date.

Under the AIA, an inventor is still afforded a one year grace period to file a US application following the inventor's earlier public disclosure anywhere in the world. However, no such grace period exists in most countries, and early disclosure could lead to a loss of rights in any country where absolute novelty applies.

Where an inventor chooses to publically disclose an invention before filing a patent application, laboratory notebooks will likely continue to be useful in establishing the inventor's possession of an invention, and the scope of that invention. More significantly, such notebooks will also provide evidence to prove earlier invention in AIA derivation proceedings.

From the foregoing, it is clear that the AIA will significantly expand the available pool of prior art that a US Patent Examiner can cite against a pending US application. The AIA will limit that patent applicant's ability to remove such prior art from the pool unless the applicant can establish that the third party derived the invention being claimed from the applicant's own work. US patent applications with an earliest effective filing date on or after March 16, 2013 will also be subject to the AIA's newly established Post-Grant Review process.

US patent filings with a pre-AIA "effective" date

Under the transitional procedures of the AIA, a US patent application filed in the USPTO on or after March 16, 2013, but claiming the benefit of a priority document or PCT international application filed before March 16, 2013, can receive the benefits of pre-AIA examina-

tion. However, the recently proposed USPTO rules of July 26, 2012, and in particular 37 CFR Sections 1.55 and 1.78, set forth provisions which can result in a US patent applicant's waiving of the benefit to an earlier filing date of a non-US priority document, an earlier filed US provisional application, or an earlier filed non-provisional or international application. For example, proposed 37 CFR Sections 1.55(a)(4), 1.78(a)(3) and 1.78 (c)(2) require that if a US patent application "contains, or contained at any time, a claim to a claimed invention that has an effective filing date on or after March 16, 2013", or does not contain a claim to an effective filing date on or after March 16, 2013 but "discloses subject matter not also disclosed" in the prior-filed application, then the US patent applicant "must provide a statement to that effect" within a specified time period during pendency of the US patent application. The failure to provide such a statement within the prescribed time frame will, under proposed Rules 37 CFR Sections 1.55(c) and 1.78(a)(4) and 1.78(c)(3), be considered a waiver of any benefit regarding a claim for priority to the pre-AIA effective filing date. Although the proposed rules appear to provide opportunity to correct unintentional oversight as to submitting a required statement, the consequence of a failure to timely follow-up with the USPTO could be the loss of a narrowed scope of prior art, and an inability to swear behind a reference using the pre-AIA "first-to-invent" patent law. In addition, it should be noted that even where such an appropriate "statement" is submitted in the USPTO to preserve an earlier effective filing date, the application as a whole, and all continuation applications thereof, could be subject to post AIA treatment. That is, pursuant the "Effective Date" of the AIA legislation (Sec. 3), all claims of an application (or continuation thereof) that "contains, or contained at any time" a claim only entitled to a post-AIA effective filing date will be subject to treatment under the AIA (e.g., subject to the enhanced scope of AIA prior art, and to the AIA's Post-Grant Review Process).

In summary, there are three perspectives from which to view the significant, impending changes to the US patent law scheduled to take effect March 16, 2013, assuming that the USPTO's final implementation of the July 26, 2012 proposed rulemaking is not altered. Applications filed in the US before the March 16, 2013 FITF implementation date will be treated under the existing pre-AIA first–to-invent law. US applications with effective dates on or after March 16, 2013 will be examined under the AIA. Under the currently proposed USPTO rules, US applications filed on or after March 16, 2013 which claim the benefit of a pre-AIA effective filing date will be treated under the pre-AIA first-to-invent patent law. However, the addition of a claim or subject matter to the US application, without the appropriate "statement" of Rule 1.55 or 1.78, could possibly result in a waiver of the priority benefit and exposure to the enhanced scope of AIA prior art and loss of ability to swear back to an invention conception date. Care must therefore be exercised when filing such a US application to map the claims and specification to an application from which a priority benefit is claimed, and to ensure that the appropriate statements are submitted where the scope of the US claims and/or specification have been altered beyond that of the pre-AIA priority document(s).

Patrick C. Keane, Buchanan Ingersoll & Rooney PC, 14 December 2012

European Patent Office (EPO) Update

Users welcomed a slowing of the pace of amendment of the European Patent Convention (EPC) itself, as the EPO digests the ramifications of previous changes. This did not mean that the EPO rested on its laurels in 2012 and in other areas it was active in ways that users wel*come, such as the innovations in the area of machine translations.*

Divisionals

The EPO's new divisional rules remained on the agenda throughout 2012 and the matter still awaits resolution in 2013. The EPO's declared intent when it introduced new Rule 36 EPC was to prevent the

practice of filing chains of divisional applications, by which means some applicants apparently attempted to extend their monopoly and the resulting uncertainty for 3rd parties. It has been pointed out that the rule, in addition to placing an onerous burden on applicants, does not even achieve the stated objective and can be circumvented. In addition, the rule has actually resulted in an increase in the number of divisional applications filed, because industry has been compelled to file speculative divisional applications within the available short time limits, which the EPO then has to search and examine. Furthermore, the current system renders it difficult for 3rd parties to know whether or not an applicant still has the ability to file a divisional application and that runs counter to an objective of changing the rules in the first place.

Representatives have repeatedly requested that the rules be amended to lessen their impact. One proposal made by representatives has been to amend the rules to require the payment of all fees up front and to accelerate the examination. The reasoning behind this proposal is that it would act as an economic disincentive to file divisional applications. Another proposal is simply to revert to the old rules. It remains to be seen what the EPO will do, but it has sent strong signals that it does intend to act soon to address users' concerns.

RFees Arts. 9(1) and 11(b)

In 2012, the EPO proposed to remove applicants' ability to obtain 75% refunds of the search and examination fees, in the case in which an application is withdrawn prior to commencement of the search and examination respectively. The proposals were motivated by a board of appeal decision which highlighted the difficulty in determining the point in time at which examination commences. In the EPO's view, since clear cut-offs cannot be identified to trigger termination of the ability to obtain refunds, the facility to obtain such refunds should be removed altogether. The IP Federation and indeed most users strongly opposed the EPO's suggested solutions and pointed out that clear triggers are available – namely the transmission of the search and first examination reports. The IP Federation also made strong representations to the effect that it is not acceptable for the EPO simply to retain applicants' money for which no service had been provided. I understand that the EPO's proposed elimination of fee refunds was not accepted by the Committee on Patent Law, but that it has not dropped the proposals, so it remains to be seen how, if at all, the EPO will respond to users' concerns.

Patent Cooperation Treaty (PCT)

The EPO is looking to harmonise as many aspects as possible of the PCT procedure with the procedure for Euro-direct filings to give PCT-users an equivalent level of service. One example is the inability to use direct-debiting for PCT, which is being investigated. In some cases, different PCT rules do not allow such harmonisation and, in others, the EPO has deemed it appropriate to maintain a different process (such as the requirement to mail a confirmation copy after a faxed submission in the international phase).

Substantive patent law harmonisation

The EPO has no formal mandate or powers to negotiate in this area, but has a strong interest in the outcomes and involves itself, wherever possible. In particular, it has created the "Tegernsee Experts Group", named after the Bavarian lake, Tegernsee, where a group of experts from European national patent offices, the EPO, the Japanese and US patent offices first met to discuss patent law harmonisation. The Tegernsee Experts Group is currently engaging in a broad stakeholder consultation concerning four particular aspects of harmonisation: the grace period, 18-month publication, the treatment of conflicting applications and prior user rights. The experts will report on the outcome of the consultations at the next meeting of the Tegernsee Heads, which will take place in late spring 2013. The IP Federation has adopted clear positions and has also published policy papers in relation to all of these matters (please refer to PP14/11 on the IP Federation's website) and has represented these positions to the EPO and other interested parties on many occasions. In particular, IP Federation members are in favour of a "safety net" grace period, which graces unintended disclosures by the applicant only.

Cooperative Patent Classification (CPC)

Since October 2010, the EPO and the USPTO have worked jointly to develop the CPC, including approximately 250,000 symbols based on the European Classification system (ECLA). This system, which will allow more thorough classification-based searches using the same classified patent document collections, has just become operational. It will not only lead to more efficient prior art searches, but will also enhance efficiency through work-sharing initiatives aimed at reducing unnecessary duplication of work. According to some estimates, the CPC will save the EPO about 50 man-years of work in re-classifying US cases.

Machine Translations

The EPO continues to enhance its capabilities in the area of machine translations. As previously reported, in 2011 it commenced a collaboration with Google® which provides Google's machine translation tool free of charge to users of EPO databases, such as Espacenet. In December 2012, the fruits of a collaboration with SIPO, the Chinese Patent Office, went live. Translations of four million Chinese patents can now be performed free of charge via the EPO's "Patent Translate" tool.

EPO Official Journal

The EPO announced its intention to improve the electronic version of its Official Journal (OJ) with a view to ceasing publication of the paper version by January 2014, after which the OJ would be exclusively an electronic publication.

* * *

With agreement having been reached on the Unitary Patent, it is to be expected that the pace of change will accelerate in 2013. In addition to changes necessitated by the Unitary Patent, we should see continued efforts to harmonise procedures globally, via bilateral agreements, within the framework of IP5 (a group of five important national patent offices) and as part of the Tegernsee process. The EPO will continue to implement its IT roadmap, with a case management system intended to replace and upgrade the present EPO online facility. Further enhancement of the EPO's machine translation facilities as well as the addition of further languages are also to be expected.

Richard Wilding, 6 January 2013

EU Patent Reform

In 2012, the Unitary Patent and Unified Patent Court (UPC) dossier has been among the Federation's highest priorities, with major developments notwithstanding the breakdown of negotiations at the Competitiveness Council meeting in Warsaw in December 2011 over the location of the Central Division of the UPC.

In spring, in Westminster, the Scrutiny Committee of the House of Commons chaired by Bill Cash MP took evidence including from the Federation (PP2/12). The resulting report was highly critical of the proposals, identifying three main areas where improvement was needed:

- deletion of Articles 6–8 of the Unitary Patent Regulation which would have given the Court of Justice of the European Union (CJEU) increased jurisdiction over infringement issues;
- the perils of bifurcation for defendants wishing to rely upon the defence of invalidity; and
- the desirability for UK industry and the legal services sector to locate the Central Division of the Unified Patent Court in London.

Following this, the Federation wrote to the Prime Minister (PP11/12) and to Kerstin Jorna of the Commission (PP13/12), highlighting its main concerns. Despite the Danish Presidency limiting its ambitions to resolving the deadlock concerning the location of the Central Division, at the summit on 29 June the PM, "by sheer brute force of negotiation", secured not only a share of the Central Division for London in the important area of chemistry and pharmaceuticals, but also an

agreement by Council to propose the deletion of Articles 6–8.

The reaction of the JURI Committee to the proposed deletion of Articles 6–8 was one of undisguised outrage. It regarded the inclusion of Articles 6–8 as a central part of the deal brokered in 2011. Negotiations then proceeded in Brussels under a cloak of considerable secrecy until news broke in mid-November of a compromise draft Article 5a to replace 6–8, which was agreed in COREPER and by the JURI Committee on 19 November. Rapid analysis of this gave rise to considerable concern about the implications: not only might the provisions be ineffective in excluding CJEU jurisdiction, but also give rise to a host of additional uncertainties. The Federation accordingly wrote again to Scrutiny to alert the Committee to its concerns. However, on 5 December, the Committee decided to release the Regulations from Scrutiny.

At the same time, discussions as to defects in the UPC agreement were also falling on deaf ears. Representations made on behalf of the Federation to the UK IPO's European Focus Group were consistently met with the response that the UK was unable to influence the draft beyond a very few points. Even those points which are regarded by the UK as non-contentious such as the need to regulate accessory liability and provide for the ability of the Court to allow amendment of patents during litigation, have been impossible to achieve. Among the Federation's concerns are the following notable points:

- the matter of privilege among in-house attorneys, especially patent attorneys, is wholly unclear;
- the new Article 5a appears to require the application of different national laws according to the nationality of the patent proprietor, with a default provision specifying the application of German law for those patentees having no place of business in contracting States. This provision will undoubtedly also open the way for at least some CJEU references on the meaning and application of this provision; and most importantly
- there is no restriction on the ability of the Court to grant a final injunction notwithstanding that a defence of invalidity has been pleaded, but transferred to the Central division under the bifurcation procedure.

Notwithstanding these concerns, it presently appears that the Unitary Patent Regulation (and the accompanying Language Regulation) will be approved by the European Parliament and adopted by 21 December; and the UPC signed on 18 February 2013 with no further substantive amendments.

What then are the next stages?

The Commission continues to publicise its view that the new system will come into operation by April 2014 – coincidentally the date when the current Commissioner's term of office expires. In reality, so much remains to be done that this is impossible.

One area in which progress has been made is on the Rules of Procedure. The twelfth draft is now available. It will be the subject of a short (one month) consultation in February, and doubtless the Federation will comment as it did upon a previous draft (PP10/12) in April 2012.

One potential "wild card" is the CJEU. It has before it cases launched by Spain and Italy which challenge the legality of the use of the Enhanced Cooperation process which is the vehicle being used to create the Unitary Patent Regulation. The opinion of the AG (Advocate General) is expected on 11 December, but regardless of which way this goes, the decision of the Court itself will not be known until well into 2013.

The key point in terms of process, however, is that ratification of the UPC agreement (an international treaty) is required by the UK, France and Germany and 10 other states. It seems highly unlikely that at least the UK and Germany will ratify before the costings are completed – and they appear not yet even to have been started. At a purely practical level, the new Court will require an internationally coordinated IT project to permit electronic filing of papers in over 20 languages, and secure inter-Division communication. It will also have to be capable of handling a massive volume of opt-

out notifications for existing European Patents on day one – possibly several hundreds of thousands. Such systems are not cheap, and notoriously prone to budget overrun or even total failure. A dilemma for participant states is that the investment decisions will have to be taken well in advance of the opening date of the Court, but this is only four months after the last required ratification. Which state is going to underwrite a hugely expensive system without the certainty that it will be needed? Likewise, Judges will have to be selected, trained – by whom is wholly unclear – and paid. Notwithstanding this, the IPO's best guess is that the UK will ratify in mid-2014, that is before the next scheduled General Election. Primary legislation will be required, and hence, there is a long way to go even in terms of UK process before the project can become a reality. Likewise in Germany, elections in autumn 2013 seem destined to delay the ratification process there. However, all one can say with certainty at present is that the politicians throughout Europe appear determined to press on, such that it is now likely only a matter of when, and no longer if, this project becomes a reality.

Alan Johnson, 7 December 2012

Patent Box – The Basics

If you pay UK corporation tax and develop your own products but still haven't taken a look at the Patent Box, you really should. From April 2013, companies which satisfy specific criteria will be able to claim an additional deduction against their taxable profits, effectively taking the tax rate applied to a proportion of their profits down to 10%. There will be some companies for whom the new Patent Box will make no difference at all but, equally, there will be some for whom it will offer a relatively easy way of reducing their tax burden.

The concept of the Patent Box is relatively simple – for a tax regime. At a very basic level, if a company which is involved in R&D derives profit from the sale of a product which includes a feature which is protected by a UK or European patent, then it is entitled to an additional tax deduction against its UK taxable profit. The profit can be derived from sales made by the company itself or it can be in the form of a royalty received from a licensee. Moreover, the company in question does not need to be the one which carries out the R&D; the R&D can be carried out by another company in the same group. But the company does need to own or be the exclusive licensee of a UK or European patent which protects at least one feature of the product from which the profit is derived. If the company is an exclusive licensee rather than the owner of the rights, it must also exercise control over those rights. In a group situation where the relevant company does not carry out the R&D itself but this is done by another company in the same group, the relevant company must perform a significant amount of active management of the patents which protect the features included in the products.

The above explanation is, out of necessity, short and simplified. Nothing I say here can substitute for full and detailed advice from your tax adviser. But, unusually for something involving tax, there are actually quite a number of additional points which, for most companies, will add to the benefit of the Patent Box rather than clawing some of it back. For example, if you happen to be one of those companies which prefers to seek its protection from individual national offices around Europe (but not the UK), you too may be in luck because patents issued by quite a few of the national offices within Europe will also qualify you for a tax deduction. A further benefit is that companies with pending patent applications will be able to back-date claims once the patent is granted.

But the additional benefit which comes as a pleasant surprise to most companies is that profits derived from sales outside the jurisdiction covered by the relevant patent rights – and even outside Europe – still qualify for the tax deduction. So, as long as the product you sell in the US includes the same features which, if it were sold in the relevant country (e.g. UK), would be protected by the patent

right which qualifies you for the deduction (e.g. your UK patent), then the profits you derive from your US sales will also qualify for the deduction.

The calculation which companies will have to carry out in order to work out how much of their profit qualifies for the tax reduction will be complicated for some and easier for others. Essentially, it goes like this:

- First, you work out how much of your profit is attributable to products which include features which are protected by at least one granted patent issued by one of the qualifying Patent Offices.
- Next, you take off a fixed percentage (10%) which is deemed to be attributable to normal or routine business activities.
- Lastly, you must take off an amount which is attributable to brand or marketing assets. This might be quite a complex exercise for some companies but easier for others.
- What you have left will qualify for the additional tax deduction.

There will be many companies who will have great difficulty identifying the correct reduction attributable to brand and marketing. HMRC is offering simplified calculations for smaller businesses or those who do not wish to make large claims. If you can come to some sort of conclusion on that amount, the rest should be reasonably straightforward.

It is worth saying that the Patent Box is being phased in over 5 years. In the first tax year, commencing in April 2013, only 60% of what would have been the full deduction will be available to any company. The percentage will increase by 10% each year until the full deduction becomes available in the tax year commencing April 2017.

As I said at the outset, if you pay UK corporation tax, have some sort of R&D going on, but haven't yet checked out whether the Patent Box applies to your company, you really need to do that. All I have tried to do here is to highlight the very top-level points which may, I hope, encourage you to think about whether you may qualify for the Patent Box tax deduction and seek appropriate advice.

Gill Smith, 6 November 2012

Patent Marking

Patent marking is an often neglected aspect of patent law, but in recent years has come into the spotlight. Most countries, including the UK, have a provision that damages from infringement can be awarded where an infringer has copied a product only where said infringer is put on notice of the existence of a patent right by virtue of the patent number being applied to (i.e. 'marked' on) the product (cf Section 62 (1) of the UK Patents Act).

Patent law in the US provided for a penalty to be exacted in the case of false marking and a reward provided to the person spotting it. In 2009, the Federal Circuit ruling in Forest Group Inc. v Bon Tool Co. reversed decades of precedents on false marking and held that each individual wrongly marked product was a separate violation of patent law. Suddenly, there was great incentive for private parties to bring false marking suits and 'bounty'-collecting patent suits very quickly sprang up based around on-sale products for which the relevant acknowledged patent rights had only just expired, for example the previous day! With potential damages of $500 per product item, the filing of false marking lawsuits promised to be a lucrative plaintiffs' practice.

This practice, while legal, was swiftly and widely recognised as being detrimental (and unfair) to patent proprietors. In the America Invents Act (AIA), the possibility of suing for such 'bounty' payments was 'outlawed'! Most of the suits brought under the old law have since been dismissed.

The AIA also brought the area of patent marking right up to date with technology advances by introducing the concept of

virtual patent marking.

Under virtual patent marking, in place of a patent number a product bears the details of an URL where the patent details can be found. The URL webpage can be much more easily maintained to show the correct, and in force, patent rights for a product or products and thus enables the public to be given correct and up to date patent details.

Currently the IPO in the UK is considering whether virtual patent marking should also be made acceptable under UK law. The IP Federation wholeheartedly supports this move.

Carol Arnold and Vicki McKinney, 14 November 2012

Proposal for Collaborative Search and Examination (CSE) in the PCT

The proposal and the Federation's expectations of it

Collaborative search and examination (CSE) has been the subject of prolonged support by the Federation, beginning with a presentation by a Vice-President in June 2007 at an international *Colloquium on Patent Quality* in Amsterdam, and in 2012 involving contributions by the President at similar events in London and Warsaw. Since 2010, support for CSE has been given also by the International Chamber of Commerce (ICC), which has been valuable because of ICC's relationship with WIPO.

The proposal is that, as part of the PCT procedure, applicants will have the extra-cost option (at least so long as the text is in English) of requesting that the IP5 Offices[14] perform search and examination collaboratively, instead of search and examination by a single ISA. If in this process, the Offices have "shot their bolt", then the current significant risk, that an applicant will go into the regional / national phases only to find that "new" pertinent art is cited, will be largely avoidable. The proposed process will also reduce the likelihood that the applicant will obtain grant in (say) Europe and USA (being the only countries of commercial interest to him) only to find that his patent is unenforceable because of art that the other IP5 Offices would have found if he had filed there.

It is envisaged that some of the Federation's members would use PCT CSE, once offered, on a routine basis, while other members would use it only for more important inventions. Outside the UK, despite the ICC involvement, there is somewhat less awareness of the proposal for PCT CSE, so initial take-up by non-UK applicants might be proportionately less. Any applicant deciding to take up PCT CSE might phase in its use, to avoid an excessive initial cash flow problem. However, it is expected that in "steady state", once savings on older applications were compensating extra initial costs on current applications, applicants would save money by use of PCT CSE because of improved filing and prosecution effectiveness and efficiency (through abandonment at the national / regional phases of cases that formerly would have proceeded, and through worldwide consistent claim amendment, subject to any differences of law).

Overall, taking the considerations in the previous paragraph into account, the Federation forecasts that, if PCT CSE were offered, it would immediately be used at a level sufficient to make it an obvious success, but that it would take some years for usage to reach a plateau.

The EPO-USPTO-KIPO pilot study of PCT CSE

While the Federation has always been confident of the merits of this proposal, and indeed presented both anecdotal evidence and research results to support it in 2007, IPOs have quite properly sought independently to satisfy themselves (and others) of those merits. To this end, a pilot study was begun under EPO management in June 2010. In this study, the EPO, the USPTO, and KIPO conducted PCT

[14] The EPO, the USPTO, the Japanese Patent Office (JPO), the Korean Intellectual Property Office (KIPO), and the Chinese Intellectual Property Office (SIPO).

search and examination collaboratively, with one of the three offices taking the lead on any particular application and the other two acting in support. The study is now complete and the EPO's preliminary report of the study is very encouraging. The Federation draws the following conclusions:–

(1) *As the Federation members' anecdotal evidence and research results of 2007 had suggested, a collaborative search between IPOs delivers a substantial improvement in quality (offering improved filing and prosecution effectiveness and efficiency to applicants).*

Evidence for (1) from the study: When the EPO took the lead and the other two offices were in support, 87 % of applications had citations added, and in 27 % of applications the WO-ISA was amended, with the lead examiner considering that 92 % of the final ISRs and final WO-ISAs had been improved. When the EPO was in a supporting role, EPO examiners (a) observed that the lead examiner amended the WO-ISA in 50 % of cases and that 63 % of the final ISRs and WO-ISAs were improved, (b) considered that, if the PCT application subsequently entered the EP regional phase, they would they need to perform additional searches in only 2 % of cases, and (c) considered that both search and examination was trustworthy for EPC examination in 70 % of cases.

(2) The cost to applicants of an all-IP5 PCT CSE, minus any rebates that might be given in the national / regional phases, promises to be a small multiple of search and examination by a single ISA.

Evidence for (2) from the study: EPO lead examiners spent from 15–25 % more time in CSE than in independent search and examination. The time needed for EPO support examiners was small (in 50 % of cases, the extra search effort was less than 10 % of an independent search). As already noted under (1), the PCT CSE would save time in the national / regional phases. The EPO suggests that better efficiency should be achievable in real implementation; in real implementation, the IT support would be better, and protocols would have been developed to improve handling of law differences such as on medical inventions.

Next steps

The IPOs (including the JPO and SIPO, not involved directly in the study) need to satisfy themselves that they can cope with the workload that PCT CSE would generate. The Federation's view (compare the advantages for applicants) is that in steady state the savings in the national / regional stages resulting from previous PCT CSE would tend to offset the extra workload involved in PCT CSE. The likely profile of demand which the Federation predicts (see the final paragraph of the first section of this report) suggests that there will be no major initial shock for IPOs when PCT CSE is first offered, but instead an initial modest increase in work followed by a progression to an acceptable steady state. The three Asian IPOs may conceivably need to take advantage of the time before the plateau of demand is reached to increase the number of examiners who are happy not only to examine an English text but also to communicate with collaborators in English.

The EPO, the USPTO, and KIPO will shortly be preparing an official report for a meeting of the heads and deputy heads of the IP5 offices. **The Federation is most grateful to the EPO, the USPTO, and KIPO for their work, and commends the individual examiners involved.** The Federation encourages further developments.

WIPO is firmly of the view that "CSE should be part of the future of PCT". The Federation believes that PCT CSE will be the biggest single improvement in the PCT since it came into force in 1978.

Mike Jewess, 4 November 2012

TRADE MARKS

Trade marks update

With the exception of the IP TRANSLATOR Case No C-307/10 (discussed below) there have been no game changing decisions arising from the Court of Justice of the European Union (CJEU) relating to trade marks during the year.

The *Interflora* v *Marks & Spencer* CJEU Ruling in Case C-323/09 relating to key-word advertising on Google has been remitted to the High Court to determine if trade mark infringement, as opposed to fair competition, had arisen. In passing, the case has given rise to some discouraging guidelines on the use of evidence to demonstrate confusion and customer perception.

IP TRANSLATOR was a test case attempting to resolve the question of how a list of goods / services specified in a trade mark registration is to be interpreted. The question arises as a result of differing practices throughout the EU (and internationally) as to the scope of protection accorded to the list in the specification of a registration. (A similar problem exists with patent claims.)

As an administrative convenience, a standard classification of 45 separate Classes has been established under the Nice Agreement on Classification each with a Class Heading and a non-exhaustive alphabetical list of goods / services agreed to fall within the ambit of the respective Class Heading. Goods / services not listed in the alphabetical list of the Classification may nonetheless be listed in the specification of goods / services. (All countries – with the notable exception of Canada – use the Classification and charge fees according to how many classes are listed in the specification.)

Unfortunately, differing practices have arisen worldwide. In some jurisdictions it is sufficient merely to list the Class number or the terms of the Class Heading for the extent of protection to be deemed to cover all goods / services likely to fall within that Class. Elsewhere, the terms used in the Class Heading may be used as a generic term which is then either explained – but not restricted – by terms from the alphabetical list or is modified by restriction to terms appearing in the alphabetical list.

At the application stage, where there are identical or similar marks, the goods / services of the existing registration and the conflicting application are compared and where the goods / services are considered to be identical or similar such as to give rise to a likelihood of confusion on the part of the public, the application is refused.

In an infringement action, when the conflicting marks are identical or similar, the Courts must then decide if the allegedly infringing goods / services are of an identical or similar nature to the goods / services specified in the registration such as to give rise to a likelihood of confusion on the part of the public. However, some jurisdictions consider that where the Class Heading is listed, the registration extends to all goods / services allocated to the Class with a corresponding broad scope of protection, whereas other jurisdictions limit the scope of protection to the goods / services specifically listed.

At the application stage the conflict is largely notional whilst in an infringement action the conflict arises in the market, so whether the specific goods / services are included explicitly or implicitly becomes crucial.

Added to this, there is a prohibition on registration of marks serving to designate the intended purpose of the goods / services (i.e. marks descriptive of goods / services in the respective Class.)

The test case was an attempt to resolve the question of the scope of protection given by a UK Registration by applying to register the mark IP TRANSLATOR for the list of services in Class 41 with the Class Heading: *Education; providing of training; entertainment; sporting and cultural activities*. However, in the alphabetical list for Class 41, *translating services* are included.

If the practice was followed that the

Class Heading covered all services in the Class, then IP TRANSLATOR was descriptive of translation services. Alternatively, if the Class Heading was taken to cover only those services explicitly listed in the Class Heading then *translation services* were not within the specification and accordingly the services specified were not descriptive.

It should also be borne in mind that a registration becomes vulnerable in part or in whole to a third party attack if it is not used in respect of the relevant part or whole of the goods / services in the preceding five years. However, on the other hand, a registration becomes incontestable on the ground of similarity after five years.

The dispute was escalated to the CJEU which ruled that in future goods / services must be defined clearly and precisely; a Nice Arrangement Classification Class Heading may only be used where it is sufficiently clear and precise; and an applicant for a national trade mark who uses all the general terms of a particular Class Heading to identify the goods / services for which protection is sought must specify whether the application is intended to cover either all or some of those goods / services in the alphabetical list. In the latter situation, the specific goods / services must be identified.

Thus somewhat greater thought will need to be given to the choice of a mark where there is a potential for overlap with an existing registration and whether it is advisable to draft specifications of goods / services in wide terms. The ruling is not retrospective, so it will be necessary to take into account the differing scopes of specifications of goods / services of existing registrations.

Coming to more mundane matters, in the UK in 2011 there were 75680 trade mark class registrations filed, including 2107 with USA as the country of residence. 29000 class registrations were renewed in 2011, a drop of 8000 on 2010. Income in 2011–12 at £15,685,000 exceeded expenditure by £391,000 compared with £16,083,000 income exceeding expenditure by £1,219,000 in 2010, whilst Registry staff fell from 146 in 2010–11 to 142 in 2011–12.

A deterioration in the time from application to registration when no objection was lodged of 4 months for 85% of the cases to 7 months in 75% of the cases is expected in the first quarter of 2013, presumably anticipating difficulties in introducing a new computer processing system based on OHIM's system.

At OHIM, Community Trade Mark applications showed an increase of about 8% to 10600, with 95% utilising the e-filing provisions and 95% being published within 10 weeks. 16% of the applications were Madrid Protocol filings. 17000 oppositions were filed and the target for notifying opposition decisions within 10 weeks was met in 89% of the cases with the quality standard being met in 88% of the cases. 1100 cancellation proceedings were instituted, an increase of 40% on 2009 but commensurate with the increased number of registrations in effect. Income from all of OHIM's activities was 176m euros whilst expenditure was 151m euros. The cost of the 730 staff was 73m euros, followed by IT (22m euros), translation (17m euros) and co-operation activities (97m euros). Disposal of the 27m euros surplus gives rise to some concern. National Offices have laid claim to 50% of the renewal fee income (paralleling the arrangements under the European Patent Convention (EPC) but ignoring the fact that the Member States have no financial responsibility for OHIM – such as underwriting the pension fund – or having a basis in designations, since the registrations cover the whole of the Community). Present plans are to distribute funds for supporting national office IT systems and fund national awareness campaigns.

On a separate front, OHIM has become both financially and organisationally responsible for the Observatory – which is tasked with identifying counterfeiting and piracy of intellectual property throughout the EU.

Proposals for revision of the Community Trade Mark system following the 2010 consultation are still awaited. In addition to the new IT system, the TMView database of national trade mark registers has reached 23 Member States and WIPO, and the classification list of 30,000 terms has been translated for all Member States. Other national offices are also participating, with Japan already on line. Exam-

iners have also been given access to the databases for the WHO (World Health Organization) list of International Non-Proprietary Names, Geographical Indications, the Community Plant Variety Office and the WIPO Paris Convention Art 6*ter* list. Refurbishment of the building continues and a new wing extension is under construction.

As indicated in the discussion of the IP TRANSLATOR case above, the Nice Arrangement Classification, rooted in 1934, does not lend itself to contemporary developments in goods / services. OHIM, to its credit, has recognised this and has developed a solution which, whilst within the Nice Arrangement uses a different approach based on "Class Scopes" devised to include all the alphabetical terms within an individual Class, including those which would not be inferred from the Class Heading. A taxonomy process is followed in which goods / services are categorised in a hierarchical tree somewhat along the lines of the old UK patent classification key. With computerised searching, it is no longer necessary that lists are arranged alphabetically, so whilst the Nice Arrangement alphabetical lists are retained, a much simpler computerised search of a database of some 90,000 terms exists alongside, facilitating translation. Some nine Offices are already using this database, which, it is to be hoped, will rapidly become standard. It also follows that the new database will influence the manner in which goods / services are compared for similarity.

In the UK, HMG has launched a consultation on the use of registered trade marks in respect of tobacco products following a similar initiative and legislation on plain packaging for cigarettes in Australia.

The French Parliament has introduced legislation allowing generic pharmaceuticals to be marketed using the registered trade mark and presentation of the original supplier of pharmaceutical products previously the subject of a patent in order to avoid confusing patients who had become accustomed to the patented product.

The German Federal Court of Justice has ruled that termination of a head licence does not result in the termination of existing sub-licences (M2Trade software, but also applicable to trade marks).

David Lewis, 31 December 2012

Update on "plain" (more accurately, "standardised") packaging

This trade mark issue has received much attention in the Press, although it is not one on which the Federation has taken a position.

The damage to health caused by smoking is of concern to governments. It is obviously quite impractical for most governments to ban tobacco products (a point of legal consequence discussed below). However, governments do interfere with the way tobacco products are marketed to the general public in the hope of reducing consumption. In England, supermarkets no longer display the packets of tobacco products openly; they are behind a screen, so that customers have to know what to ask for. And in many countries, the packets bear health warnings, some including shocking medical pictures.

A new front has been opened. In Australia since 1 December 2012, following a failed challenge to a new law in the courts, tobacco products have been in packs on which the brand and product names (as in "Pall Mall – Smooth Amber") are in a standard black font on a drab-coloured standard background, together with prominent, shocking health warnings. Companies are no longer allowed to distinguish themselves from each other by means of device marks or by a distinctive colour scheme. Nor can such means be used to convey the relative quality of a company's brands among themselves and thereby to support differential pricing according to quality.

A private member's bill along similar lines has been introduced before the parliament of the Irish Republic. The UK government and the devolved Welsh, Scottish, and Northern Irish administrations have consulted jointly on options including Australian-style legislation. The matter is being considered also in France, Norway, India, and Canada. The UK con-

sultation focused particularly on the potential for standardised packaging to deglamorise smoking for young people and thereby to reduce the number of young people taking up smoking.

No industry selling products directly to the general public would be happy about restrictions along the Australian lines, and it is conceivable that some countries might legislate similarly against other products that can do harm, for instance alcoholic products. Therefore, the arguments that are opposed to such legislation as the Australian may be of more general interest.

The first argument, unsuccessfully put forward by tobacco companies in the Australian courts, is that the legislation expropriated the trade mark owner's rights. The power of such an argument would vary from country to country; it has been suggested that such an argument would be more powerful both in the UK and in Ireland.

The second argument, which has been put forward by the governments of the Dominican Republic, Honduras, and the Ukraine to the World Trade Organisation (WTO), is that such legislation is contrary to Article 20 of TRIPs, which includes the words: "The use of a trademark in the course of trade shall not be unjustifiably encumbered by special requirements, such as ... use in a special form or in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings." Professor Daniel Gervais, an expert on TRIPs, in an opinion commissioned by a tobacco company but aiming to present a neutral view, acknowledged the right of a government to ban a product altogether;[15] *but* Professor Gervais concluded that if a government did not actually ban a product, Article 20 did put a burden of proof of justification on a government which interfered with the product's marketing. (Bilateral free trade agreements may be relevant as well as TRIPs.) A decision by a WTO panel is awaited.

The third argument is that standardised packaging would assist counterfeiters. (In 2011, tobacco products intercepted by EU member states as IPR (intellectual property right) infringements were valued at a domestic retail value of € 89 M or 7 % of all seizures.) However, it would apparently be politicians rather than courts who weighed up the health, technical, and cost arguments on this matter.

Further developments are expected in 2013.

Mike Jewess, 31 December 2012

[15] There are many products which it is illegal to manufacture in or import into the UK, and many which can be manufactured or imported, but where possession even by adults is controlled.

UK ISSUES

Role of Government in Protecting and promoting Intellectual Property

The All-Party Intellectual Property Group announced on 14 March 2012 that it was to conduct an inquiry into the role of Government in protecting and promoting intellectual property. The Group decided to look at this issue because responsibility for development and enforcement of IP policy sits across many Government departments and agencies. There have been numerous reviews into IP policy in the last ten years but the decision-making framework within which policy is developed and agreed had not been sufficiently examined.

The IP Federation responded with Policy Paper No. 9/12, pointing out we had contributed to the numerous reviews into IP policy and agreeing that the decision-making framework within which policy is developed and agreed has not been sufficiently examined. In summary, the IP Federation indicated it is in favour of action in the following three key areas:

- recognition of the policy expertise of the IPO and making full use of this;
- better coordination of IP policy across Government; and
- making the UK IP policy voice heard,

especially in Europe.

Certain aspects of the current system work well, but there is much scope for improvement.

Objectives of IP policy

In our opinion, the objective of UK IP policy should be to promote innovation and creativity and thereby promote economic growth and consumer welfare in the UK, EU and elsewhere. Key to ensuring achievement of this objective is the grant of high quality patents and other intellectual property rights which can be enforced in fair, balanced judgments. It should promote this both in the UK and abroad. Furthermore, the contribution of IP to economic well-being, jobs and growth should be recognised and encouraged; it should both promote and reward innovation. The Government should not be frightened actively to defend and promote the role of robust IP protection as ultimately benefiting the consumer and society as a whole.

The Government should be careful to ensure IP policy serves all sectors of the economy. Sometimes it appears that the profile of digital media and the creative industries (the 'creative sector') drive the thinking in this area. Whilst these are very important sectors, we must not push the technological industries (the 'innovative sector') into a position where they are considered secondary. Significantly in the ICT (information and communications technology) and digital technology arena the two sectors are converging, which brings this different policy prioritisation into sharper focus. To support the technology industries, Government policy should facilitate the generation and exploitation of IP by provision of efficient legal and administrative frameworks to ensure high quality robust patents, and other intellectual property rights should be granted and enforced in sound judgments here and abroad.

Development of IP policy across Government

The development of IP policy across Government is not sufficiently well co-ordinated. By way of example, pharmaceutical issues can be split between the Intellectual Property Office (IPO), BIS, DFID and the Department for Environment, Food and Rural Affairs, whereas in information and communications technology there is a similar split between the IPO, BIS and the Department for Culture Media and Sport. There is a lack of consistency across Government departments and frequent changes of personnel, leading to a lack of expertise and continuity in policy making.

How Government departments deal with IP in their own transactions should support general Government IP policy, i.e. recognise that it is for the benefit of the general economy and competition for private industry to develop and exploit IP including that generated in supplying products and services to Government. Often Government contracts seek to gather together ownership of such IP to, in effect, compete with those suppliers and freely transfer the IP generated to competitors. In such circumstances the long term objectives of encouraging an IP generating culture amongst private industry is overlooked for a short term instant gain for an individual department. Where light has been shed on this, the results have not always been what we would have hoped. Thus, in the Open Standards Procurement Policy, the Cabinet Office took a unilateral initiative evidently with little or no input from the IPO, which employs Government policy experts. Initially this went ahead without a deep understanding of the business implications and potential unintended consequences for industry.

It would help deliver better IP policy outcomes if the IPO was recognised in Government as generally having the policy lead on IP matters, or at least if the IPO was consulted and fully engaged in all IP-related policy issues.

In parallel the IPO should continue to engage proactively with IP stakeholders and experts inside Government and those stakeholders should provide their expertise when appropriate. There have been concerns expressed in many EU countries that this has not happened adequately in developing policy on the recent EU patent reform proposals. These proposals involve significant issues concerning litigation (an area which is not within the core expertise of patent offices including the IPO); unfortunately, as far as the UK is concerned, the Ministry of Justice which

has this expertise appears reluctant to participate.

The minister and staff responsible for IP need to either have the relevant business background or access to advisers with such background. It appears that successive governments have failed to appreciate that IP is a very complicated portfolio, and anyone who is inexperienced in the field is potentially going to struggle with it without the necessary support.

In parallel the IPO should continue to engage proactively with IP stakeholders and experts outside Government and in this regard it is hoped that the minister responsible for IP will have more visibility and influence in future.

Updating the IP framework in the light of the digital environment

The tendency for IP policy to concentrate on the "digital environment" is itself a potential flaw in seeking to assess how successful the Government is in updating the IP framework to deal with economic and societal developments. In many other areas, such as the issue of the experimental use exception affecting the pharmaceutical and biotech industries, proposals to update the IP framework are still awaited, despite the issue being raised in the Gowers Review nearly 6 years ago, and again in the Hargreaves Review.

Attempts to update the IP framework have, in the past, been too unfocused, with little real outcome. Although work is now taking place to implement the recommendations made by Professor Ian Hargreaves following his review of IP and growth, it is too early to say how successful these have been.

We appreciate that it is necessary to carry out follow-up consultations at the stage of introducing detailed amendments to the law and practice and we would not like to see this halted but care is needed to ensure that the impression left is not that of consultations followed by post-consultations and then further consultations, with very little action resulting from any of them.

The Government's use of consultation meetings has, in isolated examples, the appearance of being more about checking boxes, rather than a tool for helping inform and bring change about when it is needed. What would be helpful is if the Government identified and published some identifiable target metrics for its proposals so after a period of time real measurements can be made of how successful its implementation of proposals have been.

Effectiveness of the Intellectual Property Office

The main priority of the IPO should be to grant high quality robust patents and other intellectual property rights in an efficient manner, and it is very effective at this.

Almost as importantly, however, its priority should be to influence IP policy, both nationally and internationally. In particular, it should carry users' concerns into the EU and European Patent Office and beyond.

Although there is a role for academics and economists to play in advising on changes in IP policy and practice, this role should not be overstated. Aiming to have a better theoretical evidence base for IP policy making is important but it must not mask the fact that IP has a significant impact on businesses in the real-world. The IPO is to be applauded for setting up research expert advisory committees for each of the four primary IP areas (patents, copyright, designs, and trade marks) where economic research is being commissioned by the IPO and for including IP practitioners and industry representatives on each of these committees.

John Alty, Chief Executive Officer and Comptroller General of the IPO, has been keen personally to reach out and engage with stakeholders, and is to be congratulated for this.

UK IP policy and economic growth at an international level

UK industry needs the UK Government to strongly represent the interests and concerns of UK stakeholders both on the EU stage and internationally. The EU Patent Reform proposals are an example where the UK Government has been obliged to participate in policy negotiations which seem to have been driven more by European political aspirations than genuine stakeholder advantage and, at least

until recently, the UK's influence appears to have been less than would have been desirable.

The UK should actively seek an understanding by other member governments that the improvement in efficiency of the European IP institutions such as the European Patent Office (EPO) is essential to economic growth and that priority should be given to making these institutions work better for the European economy before attempting to introduce a complex pan-European litigation system to consider the infringement and validity of the rights.

IP framework remote from IP policy development

Consideration should be given to establishing an office within government to formulate and implement IP policy throughout Government departments. If this is not an extension of the role of the IPO, then this would ideally be a non-political post, so that a long-term apolitical view of IP can be taken. An alternative approach might be the nomination of an IP liaison role in each relevant Department to liaise both with other Departments and with the IPO on IP issues as they arose within the Department's area of competence.

David England, 6 December 2012

The UK Intellectual Property Office

Personnel

From early September 2012, John Alty, Chief Executive and Comptroller General, was asked to take on the role of Acting Director General of Knowledge and Innovation (K&I) in the IPO's parent department, the Department for Business, Innovation and Skills (BIS) whilst a permanent appointment is being made. In order to ensure that the IPO is properly led during this period, John asked his deputy, Sean Dennehey to take on the role of acting Chief Executive.

An important initiative by the IPO has been the appointment of IP attachés to support UK businesses in China, India, Brazil, and Singapore (for South East Asia). The attachés are Tom Duke who is based in Beijing, Anshika Jha in India, Sheila Alves in Brazil, and Tan Shin Yuan in Singapore. We welcome their appointment to these new roles and look forward to working with them.

Activities

Following the Hargreaves Review, a number of public consultations continue to be set up. The IP Federation has provided comments where appropriate. On 12 June 2012 it was announced that IPO was reviewing its Patent Opinions Service which allows individuals or companies to request an opinion on the validity or infringement of a patent. The consultation outlines proposals to expand the service to additional questions of patent validity, and validity and infringement of Supplementary Protection Certificates (SPCs), and to provide the IPO with a power to begin revocation of a patent following issue of an opinion which concludes that a patent is invalid.

The IP Federation responded with Policy Paper No. 16/12, saying our members saw no reason why the IPO should not be able to issue opinions on the matters set out in these questions. We noted that the proposal relating to patent validity was to allow all grounds to be raised that could be raised in revocation, apart from entitlement.

We believe that safeguards need to be built in so this is not a fast-track system for the revocation of patents. To dissuade third parties from filing deliberately vexatious opinion requests, we think that the fees should be set at a sensible level which reflects the number of issues which the IPO is being asked to consider.

One question, prompted by the Hargreaves Review, asked if the IPO should be able to revoke, on his [*sic*] own initiative, any patent that an opinion has concluded is invalid. The question here should *not* be whether the IPO can actually revoke on its own initiative, but rather whether it can initiate revocation proceedings on its own initiative. We believe the IPO should definitely *not* be

able to revoke a patent simply because it has issued an opinion that a patent is invalid.

Our concluding remarks were:

> The IP Federation supports the Government's policy objective to achieve strong and sustainable economic growth to ensure future prosperity for the UK economy. We agree that intellectual property and the ability to turn innovative, engaging and sustainable ideas into business success is a vitally important part of this.
>
> Industry hopes that any changes to the IPO Patent Opinions Service will be to this end, rather than simply provide a fast-track system for revocation of patents with no safeguards built in for patent holders.

The IP Federation continues participation in the PPWG (the Patent Practice Working Group). Last year's closure of the IPO Patent Search and Advisory Service, which occurred at short notice and without any advance alert or consultation with the PPWG, was thankfully just a blip in what otherwise has been a steady improvement in user consultation and co-operation between the IPO and the IP Federation.

The IP Federation expects to continue to be involved in the PPWG providing user feedback through 2013, and also to be involved in assessing and commenting on the proposed Patents Act changes in 2013.

2013 will also see the IPO preparing for the logistics required to implement the Unitary Patents Court and Unitary Patent system. The IP Federation appreciates that putting in place an IT system to support the Unitary Patent and the court system is a mammoth task that will likely consume huge amounts of money and effort by the IPO and the participating governments. We trust that putting in place IT procedures for opting patents in / out of the system will be done with care, and that there will still be the time and energy left at the IPO for a full economic evaluation of the actual costs that the two systems will impose on users, and an estimate of the benefit to the UK economy as a whole.

David England, 6 December 2012

IP FEDERATION BIOGRAPHIES

Dr Bobby Mukherjee, President

Dr Bobby Mukherjee is a qualified UK and European Patent Attorney with over 16 years' experience of IP work gained in private practice and at BAE Systems plc. He is currently the Chief Counsel – IP & Technology Law, BAE Systems. He has represented his current employer on the Patents Committee and Council of the IP Federation for some of those years.

Bobby's career has mostly been spent in the physics field, obtaining and defending patent protection for new products, processes and services globally. He gained a first degree in Natural Sciences (specialising in Physics) from Cambridge University in 1990, and then a Doctorate Degree (D.Phil.) on High Temperature Superconductors from Oxford University in 1995. He has published various research papers in Scientific Journals during that time, and during his work experience at the National Physical Laboratory.

In his spare time, Bobby enjoys spending time with friends and family, travelling, and closely following cricket.

David England, Company Secretary

David joined the IP Federation as Secretary in June 2010. He is a UK and European patent attorney with 25 years' experience gained at Reckitt & Colman, Astra Pharmaceuticals and BTG International. During his career, he has worked extensively on the creation, defence and licensing of intellectual property (mainly patents, but also designs and trade marks), and has represented his employers on both the Patents and Designs Committees of the IP Federation.

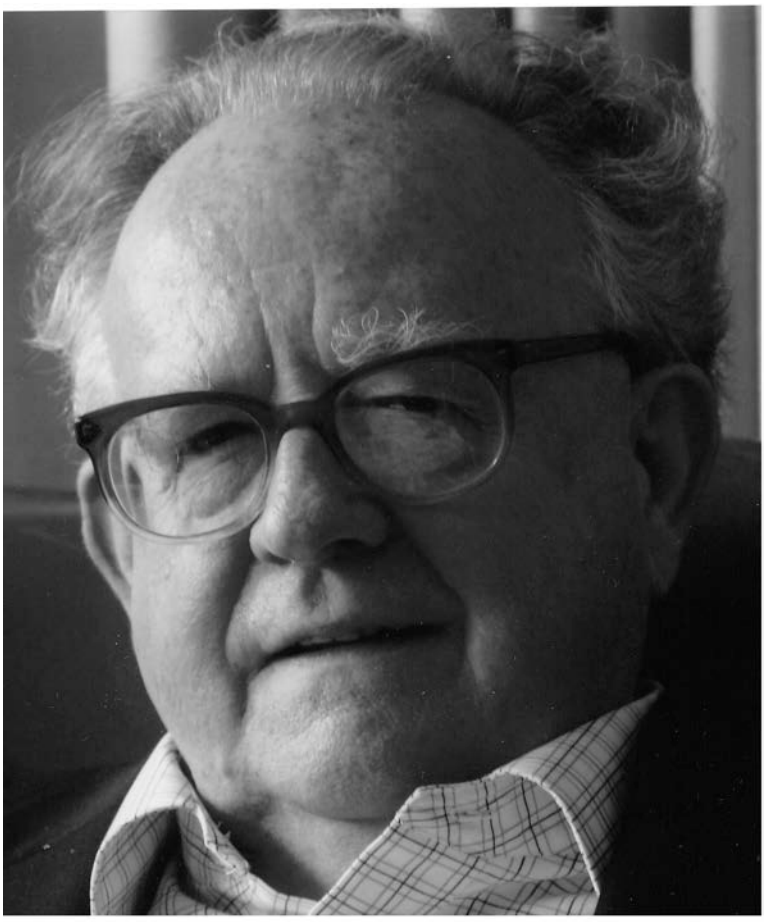
In his spare time, he enjoys singing with the highly regarded BBC Symphony Chorus, performing regularly at venues including the Barbican and the Royal Albert Hall.

Gilly Webb, Administrative Assistant

Gilly Webb joined the IP Federation as a part-time Admin Assistant in June 2012.

She was born in Dorset but now resides in London. She has three grown up children. She has been sitting as a magistrate for the past four and a half years in Central London, which she says she finds extremely humbling and rewarding.

Some years ago Gilly did a law degree. One element of the degree was Intellectual Property which left her with a continuing interest in the subject. She likes to travel and two of her favourite locations are Cambodia and Vietnam. She takes an active interest in current affairs.



Dr John Beton, OBE, 1930–2012
President of TMPDF, 1983–85

IP Federation members 2012

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. Its Council also includes representatives of the CBI, and its meetings are attended by IP specialists from three leading law firms. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

AGCO Ltd
ARM Ltd
AstraZeneca plc
Babcock International Ltd
BAE Systems plc
BP p.l.c.
British Telecommunications plc
British-American Tobacco Co Ltd
BTG plc
Caterpillar U.K. Ltd
Delphi Corp.
Dyson Technology Ltd
Eli Lilly & Co Ltd
ExxonMobil Chemical Europe Inc
Ford of Europe
Fujitsu Services Ltd
GE Healthcare
GKN plc
GlaxoSmithKline plc
Hewlett-Packard Ltd
IBM UK Ltd
Infineum UK Ltd
Merck Sharp & Dohme Ltd
Microsoft Limited
Nokia UK Ltd
Nucletron Ltd
Pfizer Ltd
Philips Electronics UK Ltd
Pilkington Group Ltd
Procter & Gamble Ltd
Rolls-Royce plc
Shell International Ltd
Smith & Nephew
Syngenta Ltd
The Linde Group
UCB Pharma plc
Unilever plc
Vectura Limited

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