



Advancing Industry's View On Intellectual Property Since 1920

UTILITY MODELS

RESPONSE TO THE COMMISSION WORKING PAPER & QUESTIONNAIRE, SEC (2001) 1307

INTRODUCTION

1. The Trade Marks, Patents and Designs Federation represents a large number of innovative industrial and commercial companies in the UK. While many of the member companies are large, the Federation also takes into account the needs of smaller enterprises, which are represented in the Federation not only in their own right, but also by the British Technology Group.

2. For reasons explained below, the Federation is opposed to the introduction of a Regulation for a Community utility model, which it believes will impose unnecessary burdens on innovative industry in Europe, including SMEs.

3. The character of the working paper makes it difficult to comment fully, for a number of reasons:

a. The paper is biased, since it prejudices the desirability of introducing a Community utility model. While it talks of "generally acknowledged" advantages of utility models, the disadvantages are referred to as "supposed", and some major disadvantages are not described.

b. The described disadvantages are dismissed by saying that none of them have been observed in states where utility model systems are in place. However, this is not a fair analysis. The national systems presently in place are territorially limited and the national rights must be applied for separately, in the different national languages, using separate attorneys. Moreover, they are generally based on higher substantive requirements as to validity than those of the system contemplated by the Commission, and in several of them, the rights are of shorter duration. A better analysis of existing systems should be given.

c. No attempt has been made in the working paper to assess the totally different situation which will arise when a single, easily obtainable, inexpensive, unexamined right for the whole Community is available and can be secured in one language - for applicants from most of the world this will be English - by one attorney. A large number of applications may be expected from countries where English language patent documents have already been prepared for US patent filing purposes.

d. No attempt either has been made to carry out an economic analysis of the effect of rights in low quality innovation, particularly of how they might interfere with higher quality innovation by third parties. Comparison with one of the world's most dynamic economies of comparable size to that of the EU, that of the United States, might suggest that there is no need for a utility model system at Community level- indeed, it might be counterproductive. Neither does the Commission proposal

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compare with the system in another powerful trading country, Japan, where the right is for six years, is restricted to mechanical innovations and is said to require an inventive step equivalent to that for a European patent. An actively promoted patent system, without a parallel utility model system, is what will encourage research and development in Europe. Community effort should be devoted to establishing a Community patent acceptable to industry.

e. Only a general outline of the proposed system is provided, although it is crucially important, when assessing the impact of any system, to be aware of the details. A system where the rights are of only modest duration (e.g., six years), must meet an adequate test of inventiveness, are of narrow scope (limited to what has actually been described), and where it is relatively easy for third parties affected by unreasonable rights to secure their invalidation, would be very different from the one contemplated by the Commission, where the rights appear to be of broad scope, unduly long in term and difficult to invalidate because they only have to meet a low standard of inventiveness. The cost of establishing the invalidity of an unexamined right or defending against infringement proceedings will be significant, particularly (but by no means exclusively) for SMEs. For purposes of this paper, it will be assumed that the substantive provisions of the system proposed will be as in the Commission draft directive on Utility models COM (1999) 309.

4. The draft directive proposes that the test for inventive step will be less than that for patents, i.e., there must be an "advantage" and the innovation must not be "clearly obvious". As regards the advantage test, any innovation will be able to claim some sort of advantage. As regards the proposal to make the degree of obviousness different from that required for patents, it might be observed that the patent test does not readily allow for differences in degree. Something is either obvious or not to the person skilled in the art, and this can be objectively assessed. If an innovation that fails the patent test, i.e., it is obvious to the appropriately skilled person, can be validly registered as a utility model, then it will be very difficult for an affected competitor to show that a utility model lacks an inventive step. Companies may have to litigate more frequently than with patents in order to determine the extent of the threat posed by competitors' utility models, as regards both validity and scope.

5. The utility model as envisaged by the Commission will be a strong right, since it will be very difficult for third parties to succeed in an action for invalidation. A strong right in low quality innovation will be very attractive to litigious large companies, particularly foreign companies.

6. Coupled with the problem noted in paragraph 5, that the right will be strong, the right will also be wide, under the Commissions proposal, since patent type claims are proposed. These are likely to be functionally expressed and not restricted to the particular forms of the product, apparatus or equipment described.

7. Specific problems concerning the affect of the proposed system on research and development and competitiveness are covered in our answers to the Commission's specific questions, which follow.

COMMISSION QUESTIONNAIRE

1. *What, in your opinion, would be the impact, in your sector of activity or more generally, of the introduction of a Community utility model as described in point 4 [of the Commission working paper] on:*

- *research and development activities and innovation,*
- *competition within the European Union,*
- *the European Union's competitiveness at world level?*

Where necessary, make a distinction according to the size of company (large & companies or SMEs) and the sectors concerned.

An intellectual property system should promote competitive markets, encourage invention and benefit consumers. A Community-wide utility model registration system with no examination and providing strong rights of broad scope in low quality innovation at low cost will not support these objectives. It will enable wealthy players to avoid competition by securing many rights in low quality work, it will discourage innovation by SMEs (including the small business areas in large firms that are run as SMEs), because of fears of infringing these rights, and it will not benefit consumers. The Commission's evidence shows that at present small firms are interested only in local utility model protection, since they rarely file applications outside their own country. A Community system will greatly increase the likelihood that they will infringe utility models originating in other countries, with a consequential negative effect on their development work and their business.

A Community patent system as desired by European industry, wherein the arrangements concerning enforcement are satisfactory and costs are reasonable, will be undermined by a Community utility model system. Bearing in mind the proposed 10 year lifespan and that patent style claims can be filed, many companies will choose to apply for utility models, with no examination, rather than for carefully examined patents. The envisaged Community utility model system will promote the proliferation of speculative and defensive applications for trivial, low quality, innovations that would not otherwise qualify for protection, thus increasing uncertainty for all competitors.

An additional disadvantage is that flooding by applications emanating from Japan and USA is to be expected, since it will be easy and inexpensive for US and Japanese companies to use patent documents prepared in English for use in the US. Thus the problems of "infringement clearance", (assessment of whether a proposed development might infringe a competitors intellectual property rights) will become much more difficult and expensive.

Research and Development: The financial risk of going ahead despite the uncertainties posed by an environment where there are many unexamined, but probably strong, rights in low quality innovation, owned by large companies, will bear heavily on SMEs. In contrast, foreign large companies will be able to ignore the uncertainties resulting from similar rights owned by local SMEs. They might not even take the trouble to carry out infringement clearances for utility models. They can afford to await litigation and then merely withdraw if an opposing right appears likely to succeed. This tilts the balance against European industry and especially European SMEs. These may well conclude that innovation is too expensive and risky. The effect is the opposite of stimulating innovation and competitiveness of European companies.

Competition: The uncertainty caused by a low level of inventiveness, together with broad protection, will inhibit competition. The balance between justified protection and freedom of third parties to compete will be destroyed. The balance between large and small companies will also be adversely affected. If utility model rights are used aggressively, and they probably will be, competitors, especially SMEs, will be discouraged from investing in innovation. This will undermine the supply of new products as well as competing products. These factors will be exacerbated by the lack of harmonised unfair competition laws in the Community. It will not be easy to invoke unfair competition principles against oppressive infringement suits. The high cost of defending actions for infringement can be expected to frighten off SMEs and confer unreasonable advantages on large companies who can afford to litigate. Large companies will probably protect most products by a Community utility model to the detriment of European SMEs. The vast majority of European enterprises are SMEs. There would be no reciprocity with the United States.

2. What, in your opinion, would be the effect of a Community utility model on legal certainty for your company and for the European Union in general?

This issue is covered above. The existence of unexamined rights of low "inventiveness" will inevitably create much greater uncertainty in the legal and commercial environment for innovation.

3. If the system described in point 4 {of the working paper} was set up, how many applications for utility models would you be likely to file per year? In your opinion, what would be the total number of applications filed each year in the European Union?

As noted above, once the system is established, large numbers can be expected. Foreign large firms are likely to be particularly active, bearing in mind the size of the Community market.

4. Would the reply to question 3 be different if the registration for the Community utility model is made to a centralised office or to national patent offices? If so please explain.

In the same vein, would the reply to question 3 be dependant upon the procedures, including those related to the linguistic regime:

- *to be applied for filing and processing utility model applications; and/or*
- *governing the grounds for opposition by third parties to granted utility models.*

If yes, please explain.

Procedures might affect the number of applications. Filing at a single central office in English at low cost would be extremely attractive to foreign applicants in particular. Filing at local offices is likely to appeal to SMEs. It would be unreasonable to make procedures, including the language requirements, in opposition actions onerous to third parties, since they are likely to be severely disadvantaged by rights in low quality innovation. Onerous procedures might certainly discourage some actions, especially from SMEs.

5. On the basis of your replies to the previous questions, would you be in favour of the introduction in the European Union of a Community utility model as described in point 4(of the working document)?

NO

6. If your reply to the previous question was negative because of the features described in point 4, what changes would you suggest to make the system acceptable to you?

A utility model system is basically undesirable, but a system with the following features would be less of a burden to innovative industry:

- Term not to exceed 6 years
- Inventive step requirement same as for patents
- Protection restricted to something substantially the same as the actual product described
- No "doctrine of equivalents" in interpreting scope of protection

7. Have any new developments occurred since the Green Paper of 1995, which have led you to change your opinion on the Community utility model? Please explain, as appropriate.

There has been nothing to cause a change of opinion.

8. Do you have any further comments regarding the Community utility model? If so, please give details.

See the general introduction to this paper. For the reasons set out in the introduction and in the specific answers to the questionnaire, a Community utility model will hinder innovation, add to the costs of all sectors of industry and all types of company and promote legal and commercial uncertainty. Contrary to the statements in the working paper, its supposed advantages are far outweighed by the real disadvantages.

APPENDIX - UTILITY MODELS AND STANDARDS

A further objectionable feature of a utility model of the kind discussed in the Working Paper is that it could have a seriously detrimental effect on standards-setting, which is so important to our members in the information and communications technology sectors. The harm would stem from the very low hurdle set for this right. There is no requirement for inventiveness in the normal sense that justifies a patent, since, as the paper explains, "the level of inventiveness required would be lower than for patents". That would allow many solutions that would not warrant the grant of a patent to be protected by a utility model, and it seems inevitable that, once a solution has been chosen for standardisation, it would be held to possess the requisite level of inventiveness to justify the new right, provided it has at least bare novelty. Hence many more standards than at present would be likely to be subject to valid intellectual property rights. Given that the utility model would be granted without being searched and examined, there is a considerable danger that anyone intending to offer a solution for standardisation would automatically apply for, and therefore obtain, utility model covering that solution. Of course, many technically innovative solutions that amply justify patenting are chosen as the basis for standardisation, and there is a well-understood balance that preserves the incentive to genuine innovation afforded by patents while at the same time ensuring that standards may be adopted by all users. Under this balance, a standard that requires the use of a patent is not knowingly adopted unless it is open for all to use the standard on fair,

reasonable and non-discriminatory terms. Yet, equally, many solutions that are not inventive in the patentable sense are adopted as standards for purely pragmatic reasons. If such solutions could be protected by a utility model the existing balance would be altered in a direction that would make the adoption and the use of standards more difficult without giving any real advantage in return. Standards would be encumbered by a proliferation of unexamined rights of negligible inventiveness to the detriment of both competition and the move towards open standards. Nor would it help if utility models were to be restricted to narrow coverage limited to substantially what is described - once a solution is the subject of standardisation, the normal possibility of designing around the right is lost, because of the need to comply with the standard.

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