

REVIEW of trends and events

1997/1998

***TMPDF** Trade Marks Patents and Designs Federation*

Putting Industry's view on Intellectual Property since 1920

ORIGINS

The Federation, the first of its kind in the world, owes its origin to the creation in 1913 of a Committee of representatives of industry to oppose the British Empire Trade Mark which was then being considered. Successful in this and in its opposition to the Trade Marks Bill of 1918, it went on to make representations which resulted in the modification of the Trade Marks Act of 1919. By then the need for a body to represent the views of industry in this field had become clear, and the Federation was formally established in 1920.

OBJECT

The Federation's main object has always been to bring about improvements in the protection afforded by intellectual property rights throughout the world to the advantage of inventors, manufacturers and consumers alike.

IPR are valuable assets, but while the need to safeguard them is obvious, the means of achieving this is far from simple. Laws differ from country to country and are often changed arbitrarily and without regard to the commercial consequences. At the same time, the speed of technological change and the growth in its importance have increased ever faster.

It is against this background, and in order to ensure that the interests of industry and commerce are effectively represented, that the Federation operates.

CONTACTS

The Federation is regularly consulted by the Patent Office and other government departments and agencies both directly and through its membership of the Standing Advisory Committee on Intellectual Property (SACIP). It has long had a close relationship with the CBI, which it represents on the various IP working groups of UNICE, and with professional bodies in this country, such as the Chartered Institute of Patent Agents and the Institute of Trade Mark Agents. It also has representatives on the Users Committees of the Patents Court and the newer Patents County Court.

Outside the UK it has lines of communication to the EC Commission, has a representative on the Standing Advisory Committee of the European Patent Office (SACEPO) and is one of the non-government organisations invited to participate in meetings organised by WIPO.

MEMBERSHIP

Details of membership may be obtained from the Secretary, whose address and telephone and fax numbers are given below.

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REVIEW BY THE COUNCIL OF TRENDS AND EVENTS 1 APRIL 1996 TO 31 MARCH 1997

INTRODUCTION AND OVERVIEW

After some ten years during which the administrative base of the Federation was located outside London, it returned in May to a central location. The office is now positioned in close proximity to other groupings having Intellectual Property interests, including the branch of the Patent Office located in London, the Chartered Institute of Patent Agents and the Intellectual Property Institute. This has greatly facilitated contacts on a wide range of issues of common interest.

However, in the period after the move, a substantial increase took place in activity in the Intellectual Property field, emanating especially from Europe. The principal issue for consideration was the European Commission Green Paper on the Community patent and the patent systems in Europe. But there were a number of other matters of critical interest to industry on which it was also important to formulate and put forward Federation positions. Amongst these were the Database Directive, and the initial proposals for Utility Model protection. In addition, it has been necessary to consider new EC draft Directives on Designs, Biotechnology, and Copyright, together with a draft Regulation on Counterfeiting.

In the trade mark field, one of the principal Federation concerns centered on OHIM (the Community Trade Mark Office or CTMO) at Alicante. The combination of backlog and overload faced by the office is a continuing problem, and industry is concerned that this will be compounded as a result of the assumption of control by the European Parliament of the budget of the office.

Fees paid by applicants have built up in the OHIM reserves in respect of Trade Mark applications which constitute the backlog. There is alarm in industry that this reserve will be treated by the European Parliament as 'profit' and diverted into general revenues on the assumption that the cost of processing the backlog could then be funded out of current revenue from new applications.

Such an approach would be consistent with the common government accounting practice of using current inputs to fund the fulfilment of obligations acquired in the past. The deficiency in the practice lies in the necessary inherent assumption that there will always be a match between the two. This is rarely the case and

would certainly not be so in that of OHIM. It is anticipated that the rate of filing of new applications will soon begin to fall well below the peak levels that followed the opening of OHIM and gave rise to the backlog. The substantially reduced fee income likely to result will alone certainly not be adequate to fund the reduction of the backlog. The accumulated reserves will be required for this purpose. Applicants for Community trade marks will otherwise be faced with long and unacceptable delays in the registration of their marks.

This Federation has always urged universal adoption of the principle that fees paid by applicants for Intellectual Property rights should be devoted *exclusively* to the efficient processing of their applications to registration, grant or issue.

Diversion of such fees into general revenue is highly objectionable. It operates as a tax on the creativity which is essential to the development of successful industries, and also tends to deprive the agencies charged with processing such applications of the necessary resources to handle the work.

It is in fact hypocritical for Governments to laud the merits of creative activity as a basis for achieving industrial success whilst at the same time imposing a tax penalty on those seeking the protection necessary to guarantee that success. Such costs are particularly damaging for smaller enterprises faced with heavy expenditure in launching a new product or developing a new market before an income stream can be generated from the new business.

If such fee diversion does occur in the case of OHIM, potential applicants will find both the extra costs and the likely delays unacceptable. A consequence could be that applicants will switch to the Madrid Protocol to obtain trade mark protection in member states. The Protocol is based on an international treaty under which applications are processed promptly. And processing fees are low, since it does not afford any opportunity for its fee income to be diverted to finance activities remote from the interests of users.

If a switch to the Protocol occurs to any extent, OHIM may well lose a significant volume of business and require financial support *from* the European Parliament if it is to be viable. To maintain the confidence of users of

OHIM, an early statement is desirable from the relevant budget committee of the European Parliament as to their policy in this matter.

Certainly, with the precedent of the Community Trade Mark Office in mind, any proposal that the European Patent Office (EPO) should become an agency of the European Union needs to be vigorously resisted. The EPO has recently introduced substantial fee reductions with the aim of encouraging innovative activity, a laudable achievement that should underpin innovative activity in European industry. These reductions would almost certainly have been impossible if the EPO had been an agency of the EU and had suffered fee diversion. Indeed, this might well have resulted in fees being increased.

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INNOVATION, THE LANGUAGE OF PATENTS, AND INDUSTRIAL SUCCESS

One issue that has arisen during the year, more especially in connection with the EC Green Paper on the patent system, was that of the language of Community Patents. The issue is covered below in the context of the review of the debate that has taken place on the Green Paper. However, it is of sufficient importance to warrant a more general comment.

There has been a tendency for commentators on this subject in the UK to be somewhat diffident in advocating the merits of adopting English internationally as the principal language in the patent field. This is probably because native English speakers have had a concern that their arguments would be seen primarily as being self-serving, especially in a European political context.

Whether or not such a charge ever had any force, the rapidly increasing use of English in business, industry and technology throughout the world now deprives it of any validity. Apart from the United States and Canada, the UK and most of the British Commonwealth, Japan is resorting to the use of English in many of its industrial activities and especially in international relationships. Moreover, it is clear that the rapidly developing Chinese industrial base will follow this pattern. In Europe, recent announcements from a number of major German companies indicate that English is being introduced as the 'corporate language'. And French industry has complained about the 'unnecessary financial burden' of translating English language patent specifications into French.

In certain technical fields, such as biotechnology and computing, the terminology used is rooted in English vocabulary and etymology, making translation difficult and sometimes inexact. Indeed, across the world, the vocabulary of the English language outstrips that of all other languages by a very wide margin. As a measure of

this, no language other than English possesses the extensive ranges of synonyms that justified the development of the thesaurus. In the light of this international drive towards the use of English, open support for its use by the UK can now hardly be construed as linguistic imperialism.

The language of patents is an issue which bears directly on the capacity of European industry to maintain the sustained and substantial investment in research and development which alone can provide long term competitive advantage. To justify such investment, managements must be assured that they can reserve to their companies the fruits of that research at reasonable cost by way of patent protection.

Evidence was given at the recent committee hearings on the EC Green Paper in the House of Lords that translation costs represented upwardly of 80% of the current cost of obtaining patent protection across the Community. The total cost amounts to many times that of obtaining United States or even Japanese patents. If translation costs continue at these levels, European industrial research effort will be scaled down or even abandoned. Indeed, there are statistical indications that this is already happening. One consequence has been increasing pressure for the introduction of 'English only' patents in a number of member states other than the UK.

Urgent review of the translation requirements is now required so as to provide access to patent protection in Europe at an affordable cost. The only practical solution may be the introduction of English as the principal operating language in the patent field.

Here, the UK has a clear role to play and needs to be more assertive than in the past. Failure to achieve a satisfactory solution could seriously inhibit European industrial development for many years.

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PATENTS

• European Commission Green Paper on the Community Patent and the patent system in Europe

The Green Paper issued in June 1997 and took as its starting point the fact that the 1975 Luxembourg Convention for a Community Patent had failed to find acceptance on the twin grounds of excessive translation costs and inadequate judicial arrangements for enforcement.

The Green Paper explored a range of options for overcoming these problems, and sought reactions from prospective users of a Community patent system.

So far as translations were concerned, European industry divided broadly into two camps. Industry in a

northern European group, including Germany France, Holland and the UK, were in favour of filing in any Community language, followed by a mandatory English translation and prosecution and grant of the patent in English. Translation into other Community languages would then only be required for litigation.

The second camp, represented generally by southern European countries, argued for full translation into all national languages. It was not certain however whether the stated position reflected the industrial view, or only a governmental view, since the relevant national industrial federations had not made their positions clear.

A case recently referred by the German Supreme Court to the European Court of Justice (ECJ Case No. C-44/98 BASF AG v Präsident des Deutschen Patentamts) is also of relevance to the translation issue. Article 65 of the European Patent Convention operates to void a European Patent in any designated state in which the patentee has failed to furnish the necessary translation within the prescribed period.

The ECJ have been asked to determine whether translation costs, and other fees payable to render patents capable of enforcement at national level, constitute 'entrance fees' to the relevant markets and thus unlawful barriers to trade under Articles 30-36 of the Treaty of Rome. Clearly any affirmative response by the ECJ to this question would override the EPC and impact in a major way on the translation issue posed by the Green Paper.

In regard to the judicial arrangements, the proposal in the Green Paper was for a split jurisdiction for infringement and validity, with infringement being decided by national courts designated as Community courts for the purpose. Validity would be determined by the Community Patent Office - which in practice would probably be the European Patent Office vested by the European Commission with the necessary powers.

The universal view of industry is that a split jurisdiction is unacceptable. Apart from the logistic problems which would arise in running two related actions in geographically separated locations, such a split would result in claims being interpreted differently as to their scope in regard to infringement and validity. Moreover, national courts would become empowered to perpetuate incompatible national approaches in the Community legal arena, leading to great confusion.

Here again there was a north/south divergence as to the preferred judicial arrangements. In general, the northern European countries wanted a Community patent court of first instance backed up by a Community patent appeal court, which together could rapidly develop a pan-European jurisprudence. The southern countries agreed that a split jurisdiction was undesirable, but supported the use of national courts to determine issues of infringement as proposed in the Green Paper. However, they optionally also wanted both infringement and validity to be addressed by such courts.

Industry also requires harmonisation between the Community and European patent systems, for example to allow inter-conversion, and that there should be no attempt to undermine the European system in favour of the Community system.

The Commission held a hearing in November at which supporting verbal submissions were made, and then issued a report with a set of conclusions which are set out in substance below.

1. There is a clear need for a new Community patent covering the whole territory of the Community.
2. The Community patent should be established by a Community Regulation and have a unitary character, being granted, effective and assignable, or capable of revocation or abandonment, only for the whole Community.
3. The Community patent must be affordable, the cost being comparable with a United States patent or a European patent covering a small number of states.
4. A large number of users favoured a use of a single language to process Community patent applications to grant, with no subsequent translations, but some wanted translation into all national languages, with others taking intermediate positions.
5. The judicial system should provide legal certainty and deal with both infringement and validity in a single action. It should be reasonably prompt in its decisions and develop a uniform and predictable jurisprudence throughout the Community. A majority view favoured a central Community patent court of first instance, but a minimum requirement was for such courts at national level.
6. Prior use invalidation criteria should be harmonised at Community level.
7. The Community and European patent systems should be harmonised. For the latter, filing fees should be further reduced, and designation fees become payable only at grant. Translation requirements should be lessened and the central filing of translations explored.

Committees of the European Parliament, and in the UK Parliament, of the House of Lords, have also held hearings on the Green Paper, but their conclusions have yet to issue. In both cases, and as in the submissions to the Commission, the principal issues of interest were language and the judicial arrangements.

On the question of language, it was noted that the European Parliament, necessarily in order to function, provides at its meetings instantaneous interpretation to and from up to eleven languages. Documentation is similarly translated, and the total cost is understood to be in

excess of 50% of the budget of the Parliament, which is of course borne by European taxpayers.

From the discussion in Committee, there is some concern in industry that, working by analogy, the Parliament might believe that a similarly expensive language regime should be imposed on the patentees of Community Patents. As explained above, such costs would be prohibitive and seriously inhibit essential research activity.

• **Combined search and examination in the European Patent Office**

For some years, the EPO has been running a pilot scheme (known as BEST) under which certain of the examiners in the Hague office who have carried out searches have then examined the case fully. This has increased job satisfaction and reduced costs. In consequence, the EPO intends to extend the scheme to all applications over about five years. This will require amendments to the EPC to permit search examiners in the Hague and Berlin offices to undertake full examination.

Applicants have been concerned that this will lead to a loss of objectivity unless the three man examining divisions are kept in being. Reassuringly, the President of the EPO has said that the three-man structure will be maintained during his presidency, but some vigilance will be necessary thereafter.

• **European Patent Practice Committee (EPPC) of the European Patent Institute**

In response to the Commission, EPPC has prepared draft convention for settling disputes relating to European Patents which proposes a structure with a split jurisdiction. National courts of first and second instance would have pan European jurisdiction for infringement, and validity issues would be handled by the EPO.

The proposals appear to be based on the 1989 recommendations for amending the Community Patent Convention, which have themselves been superseded by current Commission thinking.

The objections of industry to a split jurisdiction have already been discussed above. This Federation would object most strongly to the vesting of a pan European jurisdiction for European, or indeed Community patents in national courts. There is serious concern over the experience and competence of the courts in some countries to handle patent disputes. In others, they are viewed by some as having demonstrated chauvinistic tendencies.

The European patent system has the merit of enabling such difficulties to be isolated within the problem countries. The vesting of national courts with a pan European jurisdiction would have the effect of visiting them on patentees and industry throughout Europe.

• **Draft Utility Model Directive**

This directive does not propose a Community Utility Model system, but rather aims at the harmonisation of national laws to provide consistent protection of this kind throughout the Community. In countries such as the UK, which currently possesses no Utility Model system, legislation to create such a system would be required.

The Federation has a number of major concerns over the draft proposals. There would be no search or examination, although there may be a requirement for a search to be carried out before litigation is commenced. A lower level of inventive step would also be required than for a full patent. In practice, this could only be achieved by excluding obviousness as a test of validity. Moreover, the new right would have a potential life of ten years. This is wholly inconsistent with the average life of six years or less which is typical for most products embodying 'minor' inventions of the kind which such rights are allegedly intended to protect.

In any event, what does 'lower' layer mean? An almost arbitrary test of 'lowness' would be called for before a judgement could be made as to whether such unsearched and unexamined rights can be ignored. Nor could professional advisors give effective advice without incurring search costs in order to establish the relevance of the prior art. As a result, third parties, many being small and with limited resources, will be faced with large numbers of Utility Models that will be well beyond their capacity to monitor.

The Federation is also greatly concerned that the UK will be exposed to heavy speculative Utility Model filing programmes by major United States and Japanese companies not having immediate exploitation plans in Europe. Such companies will already have prepared patent specifications in English for filing of full patent applications in the United States. They could use these for low cost filing of Utility Model applications in the UK, but not in other Community countries where they would face translation costs. This would present UK industry with very heavy patent clearance costs not paralleled in other Community countries.

Furthermore, the UK Patent Office is now extremely efficient in processing fully examined patent applications rapidly at a cost which is not significantly higher than the likely filing costs for a Utility Model application. Indeed the differential is likely to be even smaller if a comparison is made between renewal fee costs for both rights over the life of the Utility Model. This lessens substantially the need for a Utility Model system in the UK.

If however a Utility Model system is introduced in the UK, the view of this Federation is that some form of search, preferably with examination, is essential in order act as a coarse filter and limit the volume of material which industry needs to review. Such rights will otherwise generate great uncertainty and become a major factor inhibiting innovation and new product development, particularly in smaller businesses.

• EC Biotech Patents Directive

The European Council of Ministers adopted a common position on the draft EC Directive on 26 February 1998, by a qualified majority, and presented it to the European Parliament on 9 March. The Netherlands had voted against, and Italy and Belgium had abstained. Most of the amendments which had been made by the European Parliament were approved, so it is hoped that the Parliament will pass the Directive on its second reading, for final adoption in June or July 1998. However, those factions who have always been opposed to the Directive are reported to be intending to mount a rearguard action on the second reading. When adopted, the Directive will set the following criteria

- Biological inventions, including products containing biological materials, will be patentable if they meet the normal criteria for patentability – novelty, inventive step and industrial utility.
- The human body at any stage of its development will not be patentable, but elements isolated from the human body or otherwise produced by technical means will be patentable. This will include genes and gene sequences, but their industrial utility must be specified.
- Inventions which involve modifications of germ cells and use of human embryos will not be patentable.
- Transgenic animals will not be patentable if by their creation the animals are likely to suffer, unless there is a concomitant substantial medical utility.

• Community Patent – Biotechnology aspects

One issue raised by the Green Paper in which the biotechnology industry has a special interest is the nature of the court of first instance, which it is assumed will hear issues of validity and infringement of Community patents directed to biotechnology inventions. It has been a feature of patent cases in this field that the courts have delivered surprising, erratic and possibly erroneous decisions before becoming accustomed to the distinctive character of the technology. Indeed, it is only relatively recently that the EPO Boards of Appeal have begun to produce consistent and generally applauded decisions, exemplified by T694/92 'Modifying plant cells' – MYCOGEN.

The industry is concerned to ensure that any Community patent court of first instance should draw on the expertise of those tribunals that have built up the jurisprudence in the field, principally the EPO Boards of Appeal. This will be essential if a further ten years of poorly regarded decisions is to be avoided. Moreover, it is the view of the Federation that such expertise could not be provided by Community patent courts constituted at national level.

• USA – Legislative Developments

Attempts continue in the US Congress to achieve patent law reform, a subject of much interest to the Federation and its members.

At the adjournment of the 104th Congress in the autumn of 1996, the two Omnibus Bills intended to effect significant changes in the patent law failed. When the new Congress convened in early 1997, Bill H.R.400 was presented to the House of Representatives and a corresponding Bill (S.507) was presented to the Senate. The two Bills were similar to those which had failed in the previous autumn.

Bill H.R.400 provided for the conversion of the USPTO into a government corporation so as to provide it with the administrative flexibility to operate at peak efficiency by freeing it from bureaucratic red tape. In addition, the Bill provided that all the fees paid by patent applicants would remain with the USPTO, with none being appropriated by the government for other purposes. The Administration is planning to appropriate nearly \$480M of patent fees over the next few years, and the consequent under resourcing of the USPTO is expected to increase the average pendency of patent applications to over 40 months by 2002. In the light of the recent assumption by the European Parliament of financial control over OHIM reported elsewhere in this review, this action sets a particularly unfortunate precedent.

On the substantive patent law side, Bill H.R.400 provided for publication of patent applications at 18 months from filing and extended protection to inventors by providing a provisional right to a royalty from third parties who use the published invention prior to patent issue. The 20 year patent term would be extendable to compensate for administrative delays caused by the USPTO. The Bill further proposed the creation of a personal defence to patent infringement for third parties who have already developed and used an invention commercially more than 12 months before the filing date of a patent application. The Bill would also strengthen existing USPTO procedures for re-examination by allowing third parties more participation in the proceedings when they challenge the validity of an issued patent on the basis of documents not found by the examiner prior to issue.

In April 1997, this Bill was passed by the House, but unfortunately only after significant amendment to placate the university and small inventor lobbies. As a result, publication at 18 months will not apply to those applications filed by small entities provided that they have not filed outside the United States. And the changes to USPTO re-examination procedures were struck out. The latter change disappointed the Federation and other European industry bodies interested in intellectual property who have for some time favoured the introduction of a truly *inter partes* opposition procedure before the USPTO.

Corresponding Senate Bill S507 was expected to pass during 1997 but did not do so, again due mainly to the heavy lobbying by universities and small inventor groups. They raised objections in particular to the provision for publication of US applications at 18 months; this provision had in any case already been heavily watered down in line with Bill H.R.400 discussed above, in that only US applications with corresponding foreign applications would be published compulsorily at 18 months.

Consideration of the Senate Bill will be resumed during the session of Congress that started in January 1998.

• Patent Law Treaty

If concluded, this WIPO Treaty will harmonise patent formalities across the world. It has always been firmly supported by the Federation as contributing to cost reduction in handling patent applications before both national and regional patent offices. The Federation is represented at meetings of the Committee of Experts charged with drafting the text of the Treaty. This Committee met twice during the year under review, and is now close to agreeing an acceptable text.

A Diplomatic Conference to conclude the Treaty is likely to be convened during the next two years. The current draft of the Treaty includes the permissible maximum requirements for:

- establishing a filing date for an application,
- gaining admittance of the application,
- representation and address for service,
- signature,
- requests to record changes of name, address or ownership, and licensing agreements or security interests,
- requests to correct mistakes, for extending time limits fixed by a patent office,
- further processing and restoration of rights,
- adding and restoring priority claims.

The present draft does not deal with unity of invention as the US government regards this as a matter of substantive law outside the scope of this Treaty.

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TRADE MARKS

• The Internet and Domain Names

This has been a disappointing year for those who hoped for some resolution of the problems, which the Internet has brought for trade mark owners.

WIPO held a second meeting of its Consultative Committee on 1-2 September 1997, but few decisions

were made. Meanwhile WIPO has invested much time and money in establishing WIPO Domain Name Challenge Panels, although there is little evidence that persons involved in trade mark v. domain name disputes will submit them to these as yet untried bodies rather than go to the courts.

The clumsily named Memorandum of Understanding on the Generic Top Level Domain Name Space of the Internet Domain Name system' (gTLD-MoU) was laid open for signature in Geneva on 1 May 1997 and it has been signed by a substantial number of individuals, companies and organizations. It provides for a Council of Registrars, and this was duly established. Subsequently over 800 applications were received from potential registrars situated all over the world and it appeared that everything was on course for the establishment of the proposed seven new Top Level Domain Names.

But then, at the end of January 1998, the US Government produced a Green Paper that proposed an entirely new form of governance for the Internet. It made no reference to the Council of Registrars or to any of the work that had been done in 1997 and it was as if this had never happened. Its suggested solutions were also dismissive of the concerns of trademark owners. Indeed, the Green Paper contained such a distinct bias towards the USA as to imply that the rest of the world was not making any use of the Internet.

The Green Paper has been the subject of some criticism, notably from the EU, and the final outcome is once again uncertain.

One ray of hope was the decision in the UK High Court in the case of *J. Sainsbury PLC v. One In A Million and Others* in November 1997 in which the plaintiffs alleged passing off and trade mark infringement. The defendants, who had registered numerous famous marks as domain names, were ordered to transfer them to their rightful owners. Thus was a blow struck against cyber-squatters.

• Well-Known Marks

WIPO summoned another meeting of its Committee of Experts on Well-Known Marks in September 1997. As in the previous year there was no final conclusion to this meeting and the Committee will have to re-convene later in 1998 and try again to agree on a definition of a well-known mark.

• Madrid Protocol

The Madrid Protocol continues to prove popular and, by the end of the year under review, had been ratified by 28 countries. This approaches the number (32) that were members of the Madrid Agreement when, in the early 1980s, the discussions commenced that eventually resulted in the signing of the Protocol.

A disappointment was the failure of the European Community to ratify the Protocol. Following the

adoption of the necessary legislation by the European Parliament in May 1997, ratification by the EU had confidently been expected to take place in December. However objections by Belgium to the proposed language regime and by Spain to the 'option-back' clause held this up. Discussions continue and it is hoped that compromise solutions can be found to these problems in 1998.

The number of international applications originating in the UK is minimal. It was only towards the end of 1997 that the average monthly UK total exceeded that of Finland. Several reasons have been advanced for this, notably the greater popularity of the Community trade mark. However it is believed that when the EC has ratified the Protocol the number of applications by UK companies will increase because the immense time and cost savings which it affords.

• OHIM

The Office for the Harmonisation of the Internal Market (Trade Marks and Designs), otherwise the Community Trade Mark Office or CTMO in Alicante, retained its popularity during the year under review. 40,000 applications were received in 1996 and 30,000 in 1997. Applications continue to be filed at the rate of approximately 500 per week. It was not until late in 1997 that the number of applications published in the Bulletin for opposition purposes exceeded the number of weekly filings. However by the end of March 1998 about 20,000 marks had been published and it can now be said that the Office's backlog is at last being reduced.

The search regime is now fully operational, both by the Office and by those national offices that have opted to search. The resulting search reports are very disappointing but OHIM claims that many of the inadequacies arise from varying examining standards in the various examining offices. The Federation is, through UNICE, pressing for an urgent review of the entire search system. The search regime comes up for review in 2001, and the present Federation view is that since it adds nothing but delay, confusion and uncertainty, it should be abolished.

In September the Office began to issue the first refusals of applications as a result of its examination on absolute grounds. The type of marks that had been advertised in the early Bulletins had led many observers to the view that this examination would be quite lenient but it became clear that with experience the Office had tightened up its practice.

Oppositions are being filed in increasing numbers, and the number of opposed marks has crept up to 17%.

In 1997 the Commission published a draft Regulation which would amend the CTM Regulation to bring the finances of all EU agencies – which included the OHIM – and especially their budgets, under the direct control of the European Parliament. Unfortunately this move was approved by the Parliament early in 1998 and the matter has now reverted to the Commission and the Council for

approval. The Federation supported the strong protest by UNICE against this retrograde step, as it demonstrates a serious misunderstanding of the way in which intellectual property offices are financed.

In particular, and as discussed elsewhere in this review, any diversion of fee income is likely to undermine the capacity of OHIM both to continue to reduce the current backlog of work and to process new work to the serious detriment of users.

• British Forum at OHIM

The Federation was represented at the so-called British Forum, which took place at Alicante on 12 December, to discuss the various issues raised by the first 20 months operation of the Office.

The President of OHIM, Mr Combaldieu, admitted that the Office had problems with the selection of staff from a pool covering 15 nationalities, and that the resulting skill balance was not yet right. In particular, the lack of native-English-speaking examiners is leading to delays, since the majority of applications (42% in 1996/7) were filed in English. However, Mr Hartnack, Chief Executive of the U.K. Patent Office, has offered to second at least two of his senior examiners to OHIM, which may go some way to reducing the backlog.

OHIM also had technical problems. Thus the building they were to occupy was not yet ready, presenting an accommodation problem. There was also a bottleneck in the Community Translation Centre in Luxembourg (which they are obliged to use for translation of specifications). In December OHIM were sending 1,250 applications per week to the Translation Centre, and receiving only 800/900 back. But there were plans to close the gap, and OHIM also hopes to have an electronic classification system available on line in about two years.

The Federation's representatives discovered a potential problem for deposit account holders. It seems that OHIM regards the one month allowed for the payment of fees as something that must always be observed. As a result those using deposit accounts were finding that fees which they thought had been paid were not in fact being deducted from their accounts until one month after filing.

The Federation felt this was dangerous, since it would be difficult to determine what proportion of the credit balance at a given time had to be regarded as a reserve to cover fee deductions already authorised. The Office suggested that applicants could overcome this problem by stating when filing that the fee should be deducted at once. Alternatively applicants can file a letter authorising such immediate deductions for all future applications.

OHIM advised that only about 10% of applications face objections on absolute grounds. They also admitted that those which use only standard classification terms are likely to be handled more quickly. Direct dialogue by telephone between examiner and applicant to overcome objections is not encouraged, because the chances of

being connected to a native-English-speaking examiner are remote. Nevertheless, the Head of Examination, Vincent O'Reilly, stated that consistency of examination standards was OHIM's first priority for the coming year, and he promised that in this respect quality would continuously improve. He said he would welcome feedback on inconsistencies. It was revealed that OHIM had refused a number of applications for marks that had already achieved registration most of the member states!

The meeting established that OHIM had temporarily suspended examination of seniority claims, although this fact was not being advertised with the mark. It seems that OHIM has greatly underestimated the difficulty of examining such claims. The Federation therefore suggests that users should consider not making seniority claims when filing, since this may delay the processing of their applications.

On oppositions, OHIM has in the past publicized figures on the total filed rather than the number of applications opposed. This is misleading, as a single application may attract several oppositions. The oft-quoted figure of over 20% for oppositions is therefore incorrect, with the actual figure being closer to 15%. Oppositions have been taking about 6-7 months to resolve, but many users have asked for an extension of the 'cooling off' period. OHIM will not undertake oral hearings, again because of language difficulties.

In regard to appeals, OHIM planned to publish details of the 19 cases under appeal in the Official Journal. Three appeals had been abandoned. When asked whether appeals would be confined to matters raised or whether the introduction of new material would be allowed OHIM did not give a clear answer. There are three Boards of Appeal, and all three members of each Board are lawyers. All three Boards talk to each other about cases. Each has equal standing, and is supposed to consider cases sequentially, trying to amalgamate cases if the same point is involved. However, at the time cases were being allocated on a language basis.

The 11-man U.K. delegation approached this meeting determined to deal with the various issues arising in a positive and constructive manner. In general this approach was rewarding, as the proceedings went surprisingly well. Some dozen or so top OHIM officials participated and appeared to talk candidly about the problems they had been experiencing.

The question is whether the Forum will produce measurable results. It seems OHIM is already thinking in terms of regular meetings with its NGOs rather than its various user groups, so it may well be that the Forum will not be repeated, at least not on a regular basis.

It is significant that the number of applications being advertised is now exceeding the number being filed, which will hopefully enable the Office to reduce the backlog and therefore perhaps to concentrate on improving the service.

• Trade Mark Registry – Registration Practice Working Group (RPWG)

Federation representatives continued to take an active part in the RPWG, and attended four meetings in the review period. In excess of twenty significant issues relating to working practice were addressed.

The more important matters which came before the Group were:

- the management of Madrid Protocol applications
- the relationship between the Madrid Protocol and OHIM
- ex-parte Counsel hearings
- case management, the conduct of opposition hearings, alternative dispute resolution and ancillary matters in the light of the Woolf Report.
- examination standards, including the examination report
- The Internet and trade marks
- revision of the Trade Mark Rules
- electronic filing (MIPEX)
- the Freedom of Information Act

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COPYRIGHT, DESIGNS AND RELATED RIGHTS

• Proposed European Design Directive

During the year, the Council of Ministers adopted a Common Position on the proposed Directive for the harmonisation of the laws protecting industrial designs. The Common Position accepted the proposal of Parliament that the protection of a design of a component part of a complex product could be protected provided it remained visible during normal use of the product.

Minor amendments were made to the scope of protection, but the main change from the first reading of the Parliament was the removal from the draft of what is known as the repair clause. In its place, the Council of Ministers included a proposal that each member state *may* maintain in force or introduce provisions for allowing for the repair of a complex product so as to restore its original appearance.

On 22 October, the European Parliament completed its second reading on the draft Directive and proposed amendments to the Common Position of the Council which included reintroduction of the repair clause, effectively rejecting the Common Position.

As Parliament has rejected the Common Position, the

matter will proceed to the conciliation process, for which a starting date will be set in due course. A term of three months will then commence, with an extension of one month being available, if necessary, to complete the process.

Pre-conciliation discussions occur between the Parliament, the Council and the Commission to try and reach a new Common Position before the matter enters the formal conciliation process. At present, the Commission is trying to broker a compromise between the Council and Parliamentary positions.

Within the Federation, there is a continuing difference of opinion between members in certain industrial sectors over the repair clause and as to whether there should be a right to repair. The Federation does however take the view that, whatever compromise is reached, there is a need for a single market solution.

• Databases

The European Directive on the Legal Protection of Databases was implemented in the UK by way of the Copyright and Rights in Databases Regulations 1997, which came into force on 1 January 1998. The regulations restrict copyright in a database (whether held electronically, on paper or on any other medium), to a collection of items which can be distinguished as the intellectual creation of its author and which involved a substantial investment in putting it together.

Protection is by way of a new *sui generis* right or 'database right' which protects essentially against copying or republication of a substantial proportion of the contents of a database. The new right will have a normal life of fifteen years, but continuously updated databases will generally receive extended protection. Ownership lies with the maker of the database – the entity responsible for the investment.

To qualify for protection, a database must originate in the EEA, or from a country offering reciprocal protection. Under transitional provisions, databases created before 27 March 1966 retain their full British Copyright.

• Copyright Directive

At the end of 1997, the Commission published its proposal for a Directive on the harmonisation of certain aspects of Copyright and Related Rights in the Information Society (COM (97)628 Final).

The proposal is a step on the way to ratification of the WIPO Copyright Treaty by EU member states; ratification cannot occur until their national laws have been brought into line with the treaty.

The proposal is not limited to copyright material held in an electronic or digital context, and would harmonise a number of substantive aspects of copyright outside that arena. The copyright owner would be able to control temporary or permanent reproduction in any form. There would be one mandatory exception, for copies integral

to a technical process, and a closed list of other exceptions that member states would be free to adopt or not. Protection would also be given against devices which can circumvent technical measures to protect copyright, and against tempering with electronic rights management information.

Although the scope of the reproduction right is in accord with current British law, there is some concern that the exceptions have not been properly thought out. The Federation is disappointed that the draft leaves no room for the British exception of fair dealing for research purposes in a business context.

There is also broad agreement that the position of intermediaries such as network operators and service providers needs to be addressed. A forthcoming directive on electronic commerce is expected to include appropriate provisions and also to deal with the broad issue of liability for harmful or illegal content.

• Conditional Access

In July 1997, the Commission published a Proposal for a Directive on the Legal Protection of Services based on, or consisting of, Conditional Access (COM (97) 356 Final). Conditional access services are those, such as pay-TV, in which the service is rendered accessible only in return for payment. The measure, as presented, would give rights to the providers of such services against the makers and suppliers of pirate decoders and similar devices.



MISCELLANEOUS INTELLECTUAL PROPERTY MATTERS

• Judicial Appointments

In October 1997, Mr. Justice Jacob assumed responsibility for the Western Circuit, and was succeeded by Mr. Justice Laddie as the senior Intellectual Property judge. In February 1998, Mr Nicholas Pumfrey QC was appointed as an additional judge in the Intellectual Property Court.

• Reform of Civil Justice

Following on from the publication of the Woolf report in 1996, during 1997 the Patent Office issued a series of discussion papers on the application of the Woolf proposals to the Office practice. These were the subject of a meeting of the Standing Advisory Committee on Intellectual Property (SACIP) in October at which the Federation was represented. In general, the intentions of the Patent Office with respect to the relevant Woolf proposals were welcomed by the Federation.

The Lord Chancellors Department (LCD) also published two further discussion papers on the imple-

mentation of the Woolf proposals for the reform of civil litigation.

The first of these, published in August 1997, was directed to litigation procedures generally, whilst the second, published in October 1997, concerned specialist jurisdictions. Federation representatives were consulted by, and met with, LCD personnel before the issue of the second discussion paper, and in consequence most of its proposals are acceptable to the Federation.

No date has yet been set for the implementation of the Woolf reforms, but the LCD is proceeding on the basis that the original timetable, which aims at entry into force in April 1999, can be maintained. In this connection, the Federation is also providing input on two further LCD papers, one relating to Civil Court Fees and the other to the transitional arrangements for introducing the reforms.

• Trans Atlantic Business Dialogue

Following the last Conference in Chicago in November 1996, and the Report that issued in May 1997, another Conference of Chief Executive Officers took place in Rome in November 1997.

The Conference addressed a wide range of issues of concern to United States and European industry. In respect of Intellectual Property in the United States and Europe, they called for

- proper and timely implementation and enforcement of TRIPS obligations
- patent harmonisation – especially in respect of first to file
- ratification and implementation of the two copyright related WIPO Treaties
- action to reduce the high cost of obtaining and enforcing patents
- action to reduce piracy levels in World Trade Organisation countries and elsewhere

In March 1998, three European Commissioners endorsed these objectives. However, they expressed particular concern at the lack of reform in the United States, especially in respect of their first to invent provisions, which had been high on the agenda for many years. The high cost of United States patent litigation was also identified as a cause for concern. This was seen as stemming mainly from the extensive pre-trial discovery procedures and, to some extent, the trial of patent cases before a jury.

A litigation cost study was called for, with a cost reduction programme being founded on the resulting analysis. At the same time, the investigation of alternative means for settling Intellectual Property disputes was recommended, together with closer co-operation between the United States and European Patent Offices in order to avoid duplication of effort in the processing of applications, especially in regard to searches.

• TRIPS Implementation

Legislative action is required on a range of issues and in a substantial number of countries in order to fully implement TRIPS. A wide range of issues need to be addressed, the more important of which are

- the compulsory licensing provisions,
- the entitlement to include product claims in patent applications for process inventions,
- the designation of commercial testing as an infringing act,
- the provision of adequate protection for product registration data,
- the creation of adequate judicial systems for enforcement

It is to be noted that the UK has not yet introduced legislation to comply with the compulsory licensing requirements of TRIPS. Since many countries take their lead in such matters from the UK, this is a particular cause for concern.

• TRIPS and the Environment

Certain countries and environmental groups have made serious – but erroneous – assertions that there is a conflict between TRIPS and the Rio Convention on Biodiversity. The underlying aim is clearly to weaken TRIPS as it applies to biological material and environmental technology.

TRIPS is concerned with the protection of Intellectual Property rights – which are private rights – and prohibits discrimination as to the place of invention, between local production and imports, and as to the field of technology. The exclusion of biotechnological inventions would clearly contravene the last mentioned provision. However, according to Article 27.2 of TRIPS, adherent states need not grant patents on inventions that would seriously prejudice the environment.

The Convention is concerned essentially with the sovereign rights of member states over their own biological resources and the maintenance of biological diversity. But it also contains a provision complementary to Article 27.2 of TRIPS to the effect that it cannot be applied in a manner conflicting with TRIPS unless there would be serious prejudice to the environment.

TRIPS and the Convention are therefore wholly consistent with each other.

In fact, the strong patent protection that will result from the full implementation of TRIPS will further the objectives of the Convention by encouraging *inter alia* the development of technology which is environmentally friendly. Policies discouraging such development will in many cases undermine the Convention.

• UK Competition Bill

The Competition Bill introduced during the period under review, and still before Parliament, is aimed at replacing the form-based competition law of the Restrictive Trade Practices act ('the RTPA') by effect based competition law consistent with Article 85 of the Treaty of Rome. The Bill includes provisions to repeal the RTPA.

With the support of the CBI, the Federation was also able to include sections 44 and 45 of the Patents Act 1977 to the schedule of enactments to be repealed, as duplicating or being inconsistent with European law.

Most notably, Section 44 makes 'tie-in' clauses in patent licences unenforceable even when such clauses are permissible under European Law as being economically insignificant or where a tie-in is technically essential.

The Federation is concerned to ensure that registered patent and trade mark attorneys are clearly included in the class of 'legal advisers' whose communications with their clients or employers enjoy privilege under the Bill when enacted.

• Law Commission consultation paper on the misuse of trade secrets

An individual motivated by greed or to do mischief may, by misuse of trade secrets, cause damage on a scale vastly in excess of his means. The civil law governing breach of confidence is inadequate either as a remedy or as a deterrent in such cases. The Law Commission proposal is to criminalise such acts by analogy with the law of theft, so as at least to provide a deterrent.

In response, the Federation observed that the civil law usually provided an adequate mechanism where there was misuse of technical knowhow. There are circumstances where resort to the criminal law is appropriate, but safeguards are necessary. Criminal prosecution should only be instituted by or with the consent of the DPP and there should be no criminal sanction that is not actionable under civil law. Moreover, 'reverse engineering' alone should be insufficient to trigger a criminal action.

• European Commission Block Exemptions

Block Exemptions 2349/84 and 556/89 relating to patents and licencing expired on 31 March 1996 and were superseded by a new combined technology Block Exemption 240/96, which came into force on 1 April 1996. This was welcomed by industry as a clarifying measure.

However, the widely criticised Block Exemption on collaborative Research and Development 418/85, due to expire on 31 December 1997, has been extended by the European Commission until 31 December 2000. This follows the failure of the Commission to complete and analyse a survey of industrial opinion on the subject.

• EC Counterfeit and Pirated Goods Regulation

The Commission's formal proposal for amending the 'border controls' regulation 3295/94 contained the expected extension to patents and supplementary protection certificates. The proposal seems however to go beyond the original purpose of barring counterfeit and pirated goods, and now also seeks to prevent infringements, whether copied or not, from entering into free circulation.

The Federation continues to resist extension of the Regulation to patents and supplementary protection certificates. If they are included within its ambit, then it must be restricted in application to infringements which can be readily perceived in the Customs environment to closely resemble legitimate goods. Customs officers should not be cast in judicial roles in having to determine complex questions of patent infringement.

The proposal extends the power of seizure to cover goods in a free zone or warehouse, and also makes a single application to a national authority the basis for action to be taken by Customs authorities of some or all EU states in respect of infringement of a Community Trade Mark by goods being imported.

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