



ADVANCING INDUSTRY'S VIEW ON INTELLECTUAL PROPERTY SINCE 1920

TRENDS & EVENTS

Intellectual Property:
Current Events and
Future Prospects

December 2013



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 forty-one 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 BUSINESS EUROPE, 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.

Company Details

Registered Office: Fifth Floor, 63-66 Hatton Garden, London, EC1N 8LE, UK.
Telephone +44 20 7242 3923. Facsimile +44 20 7242 3924. Email: admin@ipfederation.com
Website: www.ipfederation.com Limited by guarantee. Registered in England no. 166772



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CONTENTS

PRESIDENT'S INTRODUCTION	1
IP FEDERATION	2
The Federation's activities	2
Policy papers 2013	2
The Federation's campaigns	3
Work in progress	4
Benefits of being in the Federation	5
Social networking	5
COMPETITION	5
EU Consultation on trade secrets	5
Introduction	5
Results of the consultation	6
Other developments	7
Draft proposal for a revised block exemption for technology transfer agreements and guidelines	8
The consultation	8
IP Federation response	8
Section I: background and overview	8
Section II: market share thresholds, new Article 3	8
Section III: excluded clause: exclusive grant / assign back, new Article 5.1(a) ...	9
Section IV: excluded clause: non-challenge, new Article 5.1(b)	9
Section V: settlement agreements, Guidelines Part 3	11
Conclusion	12
Outcome of the consultation	12
COPYRIGHT	12
Copyright Update	12
UK developments	12
"Modernising Copyright" – copyright exceptions	12
Copyright Notices	12

“Supporting the Creative Economy”.....	13
The Copyright Licensing Steering Group.....	13
Orphan works.....	13
Collecting Societies.....	13
Industrially-produced artistic works.....	13
Sound recordings extension.....	14
ISPs and internet blocking.....	14
Internet use.....	14
European developments.....	14
Proposed EU consultation.....	15
“Licences for Europe”.....	15
Copyright levies.....	15
DESIGNS.....	16
Intellectual Property Bill 2013-14: Clause 13.....	16
Clause 13 should be deleted in its entirety.....	17
Amendment.....	17
Further Concerns.....	18
Unregistered Design Rights - Qualification.....	19
Current Qualification Provisions.....	19
Clause 3 of the IP Bill (Qualification Criteria).....	19
Conclusion.....	20
LITIGATION.....	21
Patents, Trade Marks and Design Rights: Groundless Threats.....	21
The consultation.....	21
IP Federation response.....	21
Outcome of the consultation.....	21
Privilege.....	21
Attorney–client privilege generally.....	21
Proposed WIPO Treaty on attorney–client privilege.....	22
Australia and attorney–client privilege.....	22
Unified Patent Court (UPC) and attorney–client privilege.....	22
Unified Patent Court (UPC) and litigation privilege.....	23
PATENTS.....	23
Claim format harmonisation.....	23
The Federation’s proposal for international claim format harmonisation, to facilitate cooperation between patent offices and to help users.....	23
Patent Consultations.....	24
UK Intellectual Property Office (IPO).....	24
‘Superfast’ accelerated patent processing at the IPO.....	24
Discussion paper on an appointed person for patents.....	25
European Patent Office (EPO).....	25
Divisionals and Rule 36 EPC.....	25
Patent-related incentives and impediments to transfer of technology.....	25
Decision of the SCP.....	25
IP Federation response.....	26
Final comment.....	26
EU Patent Reform.....	27
Promoting clinical trials of pharmaceuticals in the UK.....	29
IP FEDERATION BIOGRAPHIES.....	30
Dr Bobby Mukherjee, President.....	30
David England, Company Secretary.....	30
Gilly Webb, Administrative Assistant.....	30

PRESIDENT'S INTRODUCTION

It is with great pleasure that I am able to introduce the December 2013 edition of *Trends and Events*, the annual journal of the IP Federation. The quality of the submissions is exceptionally high. This depends crucially on the tremendous efforts of our Council and Committee members, and of our Secretariat of two (David England, Gilly Webb).

Intellectual Property (IP) is the lifeblood of innovative business. There is a growing realisation of the importance and value of IP on the global stage. Unsurprisingly, it is an extraordinarily busy and interesting time for us in the dynamic world of business IP.

The big issues that have dominated IP Federation Council meetings, and its Policy Papers in 2013, are the EU Patent Reform and the UK Intellectual Property Bill 2013-2014. It is worth bearing in mind that many IP Federation members are themselves as likely to be defendants as claimants in IP actions, so that their views and priorities are correspondingly balanced. It is an indication of this balance that the IP Federation has lobbied with a strong voice based on a consensus approach, and in a most balanced way, on these issues.

In the area of European patent policy, the main focus of the IP Federation's work has been upon the draft Rules of Procedure for the Unified Patents Court (UPC). In response to the public consultation on the draft Rules, we have identified various key issues of concern (see article on EU Patent Reform, page 27). We continue to call for significant improvements to be made to the EU patent reform package in the interests of UK Industry, focussing on those areas where we believe progress still can and must be made prior to ratification.

In the UK, in January, the Viscount Younger of Leckie 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). The IP Minister has shown a willingness to engage and listen to a broad base of stakeholders. This is a very good thing. Notably, the UK Intellectual Property Bill was introduced into the House of Lords in May, and its passage through Parliament so far has been pretty quick. The Second Reading of the Bill before the House of Commons is due to commence shortly. The IP Federation supports the objectives of the UK IP Bill, and many of the substantive proposals in the Bill. We applaud the proposed introduction of virtual marking provisions. However, we strongly oppose the proposed introduction of criminal sanctions for registered design infringements (Clause 13, see page 16) and any possible extension of criminal sanctions to unregistered design right infringements. The proposed elimination of the present well-considered reciprocity provisions in relation to unregistered design right qualification criteria (Clause 3, see page 19) is a very serious concern to UK manufacturing industry.

The IP Federation successfully discharged its key tasks in 2013. I am extremely grateful to all our Members for enabling this to happen.

Looking ahead, I expect 2014 to be another intensely busy year with much IP legislation in the pipeline or proposed in the UK and EU, and beyond. I am confident that the IP Federation will continue to make its voice heard, and help to shape IP policy on the international stage.

A new President will take over from me in July 2014, and will introduce the next issue of *Trends and Events*. My successor has my confidence and very best wishes.

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
- Ruth Barcock
- David England
- Tim Frain
- Mike Jewess
- David Rosenberg
- Gill Smith

and also our Solicitor Associates:

- Mark Ridgway of Allen & Overy
- Alan Johnson of Bristows
- Nick Cunningham of Wragge & Co

Dr Bobby Mukherjee, IP Federation President, 29 November 2013

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 2013

Policy papers submitted in 2013 are as follows:

February

PP 1/13 Privilege in the Unified Patent Court - Comment on Draft Rule 287 on Attorney-Client Privilege

Comments on draft Rule 287 on Attorney-Client Privilege the Rules of Procedure for the Unified Patent Court

PP 2/13 Proposal for harmonisation of claim formats

Proposal for harmonisation of claim formats to facilitate cooperation between Patent Offices and help users

March

PP 3/13 Trade secrets consultation - protection of business and research know-how

Summary of IP Federation response to the public consultation on the protection of business and research know-how on 8 March 2013

April

PP 4/13 Online open consultation regarding divisional applications (Rule 36 EPC)

Response to online open consultation on the impact and effectiveness of amended Rule 36 EPC regarding divisional applications on 5 April 2013

May

PP 5/13 Draft proposal for a revised block exemption for technology transfer agreements and guidelines

Comments on the Draft Commission technology transfer block exemption regulation (TTBER) and accompanying Guidelines in response to the public consultation with deadline 17 May 2013

PP 6/13 Discussion Document on an Appointed Person for Patents and SPCs

Response to UK IPO (Intellectual Property Office) discussion paper on an Appointed Person for Patents with deadline 21 May 2013

June

PP 7/13 Criminal sanctions for Registered Design infringement

Letter to the UK IPO (Intellectual Property Office) proposing the restriction of any offence to one in which there has been deliberate intent to deceive the purchaser of the product

PP 8/13 Consultation on accelerated patent processing at the IPO

Response to UK IPO (Intellectual Property Office) consultation on accelerated patent processing at the IPO with extended deadline 21 June 2013

July

PP 9/13 Patent-related incentives and impediments to transfer of technology

Practical examples and experiences on patent-related incentives and impedi-

ments to transfer of technology, in response to a request by the Standing Committee on the Law of Patents (SCP) to update the document on transfer of technology (document SCP/18/8) by 30 June 2013

PP 10/13 Criminal sanctions for Registered Design infringement - IP Federation response

Opposition to the proposed introduction of criminal sanctions for registered design infringement, with scenarios illustrating a number of unintended and damaging consequences of creating criminal sanctions for infringement of registered designs

PP 11/13 Intellectual Property Bill 2013-14: Part 1 - Design

Letter to the UK IPO (Intellectual Property Office) on criminal sanctions for Registered Design infringement (Clause 13, IP Bill); appointed persons at appeal for Registered Designs (Clause 10, IP Bill); Unregistered Design Right (UDR) qualification - CDPA SS. 217 to 221; and Unregistered Design Right - functional designs

PP 12/13 Patents, Trade Marks and Design Rights: Groundless Threats

Response to Law Commission consultation relating to their Patents, Trade Marks and Design Rights: Groundless Threats project with deadline 17 July 2013

August

PP 13/13 Court of Justice case C-364/13 (International Stem Cell Corporation)

Request urging UK intervention in Court of Justice case C-364/13 (International Stem Cell Corporation)

September

PP 14/13 Commission proposal to amend Brussels I Regulation to UPC Agreement

Comments on the Commission proposal to amend Brussels I Regulation (Regulation (EU) No 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters) to the Unified Patent Court Agreement

PP 15/13 Public consultation on the Rules of Procedure for the Unified Patent Court

Response to public consultation on the Rules of Procedure for the Unified Patent

Court closing 1 October 2013

October

PP 16/13 Intellectual Property Bill 2013-14: IP Federation position on Clause 13

Opposition to the proposed introduction of criminal sanctions for registered design infringement

PP 17/13 Intellectual Property Bill 2013-14: IP Federation position on Clause 3 (qualification criteria)

Opposition to the proposed qualification criteria for unregistered design right

PP 18/13 Intellectual Property Bill 2013-14: Clause 18 (sharing information with overseas patent offices)

Proposal to limit the sharing of information with overseas patent offices to specific circumstances

The Federation's campaigns

An important point to understand is that in general IP lobbying and influencing is a long term activity - especially as we do not tend to get involved in short-term single issue items of a sectoral nature. However, some of the more specific campaigns in which the Federation has lobbied and enjoyed various key successes in 2013 are set out below. These are all cases of success or partial success in which the Federation had a role, in most cases a much more prominent one than other trade associations (the professional bodies are often, and properly, neutral on such issues).

1. Following our debate with Alliance / ACID (mediated by the IPO), the IP Minister proposed an amendment that reasonable belief of non-infringement should be a defence to the proposed criminal offence of Clause 13, IP Bill. This amendment was passed before the House of Lords (third reading).
2. The IP Minister was persuaded by our position on UDR, in relation to Clause 13.

To put this in context, the ACID / Alliance lobby in favour of criminalising UDR infringements has been very strong.

3. The IP Federation has been acknowledged as one of the key stakeholders with regard to the IP Bill debate so far.
4. The UPC draft rules of procedure events, jointly organised by CIPA, the IPO and ourselves in early September, have proved to be a tremendous success. The London event had over 1800 "hits" from across the world on the webinar.
5. The IP Federation's submission to the Commission's consultation on trade secrets appears to have had positive impact. The Commission's view now is that criminal sanctions are not appropriate for trade secrets save for fraud.
6. The UK Government are introducing a research and Bolar exception into the UK legislation, in line with other countries. The IP Federation have been consistently lobbying for this change.
7. Direct representations to the IP Minister have helped to get the Vitorino report on copyright levies back on to the agenda of the Competitiveness Council.
8. In the current tough business environment, we have done well to attract four new members to the IP Federation.
9. The Japanese Patent Office have apparently expressed support for PCT search and collaboration. If true, this means that of the "IP5", only the Chinese Office have not yet indicated support for this. The IP Federation continue to lobby actively in favour of PCT search and collaboration involving the IP5.
10. We lobbied against a proposed scheme for "superfast" accelerated patent processing at the UK Intellectual Property Office. The IPO announced in August that the Government has decided not to implement the proposed superfast service, or to make any changes to the IPO's existing acceleration services.
11. We lobbied against the current Rule 36 EPC, indicating that the time limit comes at too early a time to allow a just possibility to file a divisional application. The EPO's Administrative Council adopted in October an amendment of the provisions of the European Patent Convention, enabling the filing of divisional applications as long as the earlier (parent) application is pending. The 24-month time limits for the filing of divisional applications are repealed.

Work in progress

Work in progress includes the following campaigns:

- a) for the Intellectual Property Bill 2013-14 to be adopted with provisions which are fair for IP owners and users alike;
- b) for improved patent search quality, in the interests both of patentees and potential infringers of patents;
- c) for the retention of an iterative examination process at the EPO;
- d) for the UK to remain involved in the process for establishing the unitary patent package in the European Union;
- e) for harmonisation of substantive patent law and renewed efforts to find common ground for international agreement on a number of aspects;
- f) for resistance to widespread imposition of criminal penalties in IP cases, particularly in the field of infringement of registered and unregistered designs;
- g) for retention of the present reciprocity provisions on the unregistered design right (UDR) in the Copyright, Designs and Patents Act 1988, which offer UK manufacturers protection from unfair competition, encourage reciprocity and support UK innovation; and
- h) 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. We have well over a hundred followers on Twitter, 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.

David England, 18 November 2013

COMPETITION

EU Consultation on trade secrets

Introduction

In December 2012, the EU Commission launched a public consultation on the protection against misappropriation of trade secrets and confidential business information in the EU, which initially took the form of an online questionnaire. The Commission had previously (in March 2011) appointed a law firm to study the legal framework and practices in the 27 Member States regarding trade secret protection. This was published in January 2012¹. The Commission had also organised a conference on the subject in June 2012.

The IP Federation submitted a response to this questionnaire in March 2013 (see policy paper PP3/13), indicating our views that (amongst other things):

- The misappropriation of trade secrets and confidential business information should be addressed at EU level, as there is currently no EU legislation addressing the issue and national rules differ;
- Our preferred legislative approach would be to achieve a harmonised minimum standard of protection

across Member States by way of an EU Directive;

- Such a Directive could include protection against commercialisation in the EU of goods and services derived from trade secrets / confidential information misappropriated elsewhere; and
- Any form of criminal penalties for the misuse or disclosure of confidential information would be inappropriate, save for extreme cases involving, for example, computer hacking (such activities already being covered by criminal provisions in the UK).

The IP Federation was of the view that the positive effects of EU legislation in this area would include: (i) more investment in R&D and innovation; (ii) better cross-border law enforcement; (iii) a safer business environment conducive to collaboration between different players on R&D projects; (iv) greater expected returns from sharing, licencing and transferring know-how; and (v) better conditions for SMEs to finance R&D projects. We also commented that introducing EU legislation could influence governments outside Europe to improve protection in their countries, particularly in misappropriation hot-spots such as China.

¹ See http://ec.europa.eu/internal_market/ipenforcement/docs/trade/Study_Trade_Secrets_en.pdf

Meanwhile, the IP Federation perceived potential negative impacts from: (i) more court cases arising from companies trying to erect/maintain barriers to entry; and (ii) risk of abusive behaviour by competitors.

Results of the consultation

The consultation ultimately gathered the views of 386 respondents, with the results being published by the Commission in summary form in July 2013 on the EU Commission's website². It is notable that the IP Federation was one of only four respondents from the UK, which can be contrasted with a total of 111 responses from Germany and 70 from France.

The Commission's summary report also suggests that political parties in certain Member States had encouraged their supporters to answer the questionnaire, resulting in a significant number of responses from individual citizens (39% of all respondents). Many of these also appear to have followed a published template / answering guide, which will no doubt have distorted the results somewhat (the extent of this is unclear from the Commission's summary of the results).

Overall, the survey identified mixed views on many issues. There was however a clear division between the views of corporate respondents and individual citizens, with many citizens apparently believing that protection of trade secrets / confidential information has an undesirable effect on commerce and innovation. Some notable findings included the following:

- 52% of all respondents were in favour of the EU addressing the issues. This is generally favoured by companies, SMEs, professionals, business associations and research entities. However, a vast majority of citizens do not see a need for EU action.
- As for the appropriate legislative approach to addressing these issues, the most favoured approach was uniform EU legislation (i.e. a Regula-

tion), with 55% of respondents in favour. The next most popular initiative was EU legislation establishing a comparable level of protection (i.e. a Directive). However, only 24% of respondents favoured this option.

- As for the provisions that might be included in any EU legislation:
 - 53% of respondents were in favour of the prohibition of acts of misappropriation and definition of such acts, compared to 42% against;
 - 51% of respondents were in favour of rules ensuring that confidentiality of trade secrets is maintained during court proceedings and hearings, compared to 41% against;
 - 49% of respondents were in favour of the courts being empowered to injunct the unlawful use of misappropriated trade secrets in the whole of the EU, compared to 42% against;
 - 48% of respondents were in favour of the courts being empowered to order all EU customs authorities to stop imports of products manufactured outside the EU using misappropriated trade secrets, compared to 43% against.
- A majority of respondents believed that the EU should not include provisions in the following areas:
 - uniform contractual rules on non-compete and/or non-disclosure clauses between trade secrets owner and employees; and
 - rules on criminal penalties and/or fines for individuals/organisations responsible for misappropriation of trade secrets.
- No conclusive result was obtained as to whether the EU should provide uniform rules on the calculation of damages so as to consider all relevant factors such as lost sales and unjustified profits by the defendant etc.

² See http://ec.europa.eu/internal_market/consultations/docs/2012/trade-secrets/130711_summary-of-responses_en.pdf

(43% of respondents were in favour and 43% were against this proposal).

- In contrast to the respondent body as a whole, over 60% of corporate respondents supported all of the above options (apart from the possibility of uniform contractual rules). Indeed, 62% of companies were even in favour of the EU introducing criminal penalties. Also, where the respondents as a whole were in favour of an option, the majority of companies in favour was generally far greater (e.g. 82% of companies were in favour of the prohibition of acts of misappropriation and definition of such acts compared to 53% of respondents as a whole).
- As for the potential positive and negative effects of EU legislation:
 - 51% of respondents felt that EU legislation would have positive effects. Overall 58% of research entities and 81% of companies indicated more than one positive effect. Conversely only 6% of citizens felt that EU legislation would have specific positive effects.
 - 95% of companies felt that EU action would result in better protection against misappropriation. A majority of companies also indicated that EU action would create a safer business environment which in turn would create: better opportunities for network innovation (78%); more investment in R&D and innovation (68%); and greater expected returns from sharing, licencing and transferring know-how (55%). However, only 33% of companies thought EU legislation would result in more effective cross-border enforcement and lower litigation costs in other EU Member States.
 - 43% of respondents attach at least one potential negative effect to EU legislation. The negative effect most often mentioned

was an increase in the number of court cases as a result of companies trying to raise barriers to entry.

Other developments

In parallel with the above consultation, the Commission also appointed a law firm to carry out a study on the role of trade secrets and confidential business information as drivers for innovation, competitiveness and economic growth. This incorporated a survey of 537 companies and provided a detailed review of the legal frameworks governing trade secrets in 27 of the Member States, as well as the United States of America, Japan and Switzerland. The final version of this study was made available via the Commission website in July 2013.³

The legislative progress was also discussed at the IP Federation's meeting with Kerstin Jorna in Brussels in early September, during which Ms Jorna indicated that the Commission intends to announce a legislative initiative in November. It was also indicated that the Commission is trying to improve the available remedies in order to encourage greater reliance on NDAs and thereby greater cooperation, rather than seeking to create any further right or indeed any further protection. It was also indicated that the Commission is concentrating solely on civil remedies in this area.

Consistent with the above, at the time of publication, the Commission had just (on 28 November) adopted a proposal for a directive in this area, with the aim of establishing a common definition and ensuring that, in cases of unlawful acquisition, use or disclosure of a trade secret, a sufficient and comparable level of redress across the EU is provided. The approach would therefore seem to be largely aligned with the IP Federation's position, although review of the detailed provisions is needed and we may seek to comment further in due course.

Mark Ridgway, 2 December 2013

³ See http://ec.europa.eu/internal_market/ipenforcement/docs/20130711/final-study_en.pdf

Draft proposal for a revised block exemption for technology transfer agreements and guidelines

The consultation

The European Commission launched on 20 February 2013 a public consultation on anti-trust rules on technology licensing. The objective of the consultation was stated as follows:

In the meaning of the EU competition rules, a technology transfer agreement is a licensing agreement where one party (the licensor) authorises another party or parties, the licensee(s), to use its technology (patent, know-how, software license) for the production of goods and services.

The rules on how to assess technology transfer agreements are set out in two instruments, the technology transfer block exemption regulation ("TTBER") and accompanying Guidelines. The TTBER exempts certain categories of licensing agreements concluded between companies that have limited market power and that respect certain conditions set out in the TTBER. Such agreements are deemed to have no anticompetitive effects or, if they do, the positive effects outweigh the negative ones. The Guidelines provide guidance on the application of the TTBER as well as on the application of EU competition law to technology transfer agreements that fall outside the safe harbour of the TTBER.

These instruments will expire on 30 April 2014. The Commission has now drafted a proposal for a revised TTBER and Guidelines. The current consultation is seeking stakeholders' views on this proposal.

The consultation closed on 17 May 2013. It followed on from the earlier consultation, to which the IP Federation had responded with policy paper PP5/12.

IP Federation response

The Federation responded to the 2013 consultation with policy paper PP5/13, as follows:

Section I: background and overview

1. The Federation has made a careful comparison of the draft Regulation with the Regulation currently in force (772/2004). *In what follows, "old" refers to 772/2004 and "new" to the draft Regulation.*

2. The Federation welcomes the replacement of old Article 1.1(j)(i) and 1.1(j)(ii) with new Article 1.1(j), (k), (l), (m), to the extent that they improve clarity in the terminology used in the new Regulation. The Federation believes that the greater delineation of application of the new Regulation and the Specialisation and R&D Block Exemption regulations in new Article 9 adds to legal certainty.
3. However, the Federation urges the Commission to reconsider some of the changes that have been made compared with the old Regulation, each of which, the Federation considers, makes for increased legal uncertainty and limits the value of the Regulation. We discuss these changes in detail below in -
 - Section II of this paper, addressing new Article 3;
 - Section III of this paper, addressing new Article 5.1(a); and
 - Section IV of this paper, addressing new Article 5.1(b).
4. So far as the *Guidelines* are concerned, the Federation has two suggestions to make concerning new paragraphs 219-227 in Part 3 entitled "Settlement Agreements" (see Section V below).

Section II: market share thresholds, new Article 3

5. The market share thresholds included at new Article 3 are the same as those included in the old Regulation (see following paragraph as to the proposed introduction of new Article 3.2). As noted in the Federation's response to the Commission's initial consultation on the revision of the rules for the assessment of licensing agreements for the transfer of technology under EU competition law (Policy Paper 5/12), it is the Federation's view that the market share test under the old Regulation is a major problem in the application of the technology transfer regime. The

Federation has urged the Commission to consider raising the market share thresholds such that the block exemption would be easier to apply and of more practical relevance to businesses. Unfortunately, the absence of change will mean that opportunity to create greater legal certainty for businesses will be missed. The Federation would urge the Commission to consider substantially raising the market share thresholds in new Article 3 from their current levels.

6. It is proposed to introduce new Article 3.2, which has no counterpart in the old Regulation, and reads as follows:

Where the undertakings party to the agreement are not competing undertakings but the licensee owns a technology which it uses only for in-house production and which is substitutable for the licensed technology, the exemption provided for in Article 2 shall apply on condition that [the combined market share of the parties does not exceed 20%] on any relevant market.

7. New Article 3.2 adds a further degree of complexity to the market share test and is particularly difficult to apply in practice because a non-competing licensee may not be aware whether its in-house technology could be substitutable for the licensed technology if that is not the focus of its business. The rationale for the introduction of new Article 3.2 appears to be the concern that the licensee will be precluded from licensing its in-house technology to third parties. If this concern is so great that it merits introducing increased complexity in the market share test, then the IP Federation would urge the Commission to consider limiting the applicability of new Article 3.2 to exclusive licence agreements.

Section III: excluded clause: exclusive grant / assign back, new Article 5.1(a)

8. New Article 5.1(a) replaces old Article 5.1(a) and (b). Under the old Regulation a distinction was drawn in the treatment of grant backs (and assign backs) of severable and non-

severable improvements. Only grant backs and assign backs of severable improvements were treated as excluded clauses. The change proposed here is to remove this distinction so that all exclusive grant back and assign back clauses are excluded clauses.

9. As the new Guidelines no longer address the concept of severable / non-severable improvements, the rationale for this change of stance by the Commission is unclear.
10. The IP Federation takes the view that agreements containing clauses permitting exclusive grant-backs and assignments of non-severable improvements should remain block exempted. As was noted in paragraph 109 of the old Guidelines: "Exclusive grant backs and obligations to assign non-severable improvements are not restrictive of competition within the meaning of [Article 101(1)] since non-severable improvements cannot be exploited by the licensee without the licensor's permission." This statement was correct in 2004 and remains correct today.
11. Exclusive grant back and assign back clauses are of considerable importance to licensors and fundamental to the willingness of business to consider technology transfer agreements. The proposal to make all exclusive grant backs / assign backs excluded terms will considerably increase uncertainty in the application of competition law to technology transfer agreements and may in many cases lead to licensors declining to license out their technology, preferring to maintain control over improvements by using the technology in-house only. Rather than removing the distinction between the treatment of severable and non-severable improvements, the review of the technology transfer block exemption would more effectively be used to provide clear guidance as to the interpretation of the concepts.

Section IV: excluded clause: non-challenge, new Article 5.1(b)

12. New Article 5.1(b) reads as follows (underlining indicating the changes compared to the old Article 5.1(c)) -

any direct or indirect obligation on the licensee not to challenge the validity of intellectual property rights which the licensor holds in the European Union, including any right for a party to terminate the technology transfer agreement in the event that the other party challenges the validity of any of the intellectual property rights which a party to the agreement holds in the European Union.

13. Under the old Regulation, agreements containing termination on challenge clauses could fall within the block exemption. The rationale for this change is set out at paragraph 125 of the new Guidelines: "The interest of the licensor not to be forced to continue dealing with a licensee that challenges the very subject matter of the licence agreement has to be balanced against the public interest to eliminate any obstacle to economic activity which may arise where an intellectual property right was granted in error." The final sentence of this paragraph indicates that: "In balancing those interests it should be taken into account of whether the licensee fulfils all the obligations under the agreement at the time of the challenge, in particular the obligation to pay the agreed royalties."
 14. The Federation is highly concerned by this proposal. First, the proposed new article would be open to cynical exploitation by licensees, which would likely discourage pro-competitive technology transfer. Second, the proposed change is in any event unlikely to lead to the increased elimination of invalid intellectual property rights where licence agreements are entered into.
 15. The proposed change might make sense in a world where: (i) undertakings invariably entered into good faith negotiations to take licences before practising patented technology; (ii) participants in licensing negotiations ignored the possibility of invalidity or non-infringement of the intellectual property rights in question; and (iii) any undertaking which chose not to take a licence could be immediately and inexpensively prohibited from infringing
- irrespective of the merits of the intellectual property right in question. In such a world, a potential licensee would have no realistic choice other than to pay for invalid rights and a right to challenge in such circumstances may be justifiable. The reality is very different: undertakings generally do not take licences if they can avoid them; there is some degree of uncertainty as to the validity / infringement of most IPR which is routinely taken into account during licensing discussions and frequently results in favourable adjustments to licensees including discounted royalty terms; a licensee who challenges a patent can in most jurisdictions (with the possible exceptions of Germany and Austria) continue to practise the technology, even if the technology transfer agreement is terminated, until the licensor has proven its IPR is valid and infringed.
16. The effect of New Article 5.1(b) would be to change the commercial dynamic in licensing negotiations, with a likely negative impact on economic activity. Under the proposals, long duration agreements with running royalties would become less attractive to licensors. This is because a licensor would face the risk of agreeing a rate with a licensee (potentially discounted to reflect the risk of invalidity of the IPR) only subsequently to be faced with a spurious challenge to its IPR by a licensee shielded from any real negative consequences (e.g. an injunction). In such a situation the licensor might feel compelled to agree a further discount to avoid the risks and costs of litigation. Faced with such a possibility, a rational licensor would either demand significantly higher royalties when entering into long duration agreements with running royalties to account for these increased risks or maintain its existing royalty level but structure its agreement such that a challenge to its IPR would be unattractive: e.g. by proposing a short fixed term agreement with royalties to be paid on a non-refundable up front lump sum basis. Under such a structure the licence need not be renewed if the IPR challenge were unsuccessful

(which would be in effect similar to a termination on challenge clause) and the licensee would have little incentive to challenge the IPR as it would have no prospect of reducing its royalty burden during the term of the agreement.

17. This change in licensing dynamic brought about by the New Article 5.1(b) would increase transaction costs and/or royalty demands of licensors, which may reduce the overall level of technology transfer. The Federation's view is that the existing regime, which permits termination on challenge, adequately balances the interests of licensors and licensees and maintains the possibility for licensees to challenge IPR they genuinely believe to be invalid. The Federation strongly urges the Commission not to make this change.

Section V: settlement agreements, Guidelines Part 3

18. The Commission has proposed considerable changes to the section of the new Guidelines which deal with the treatment of settlement agreements. It appears that these proposed changes are a result of the Commission's experience in its *Astra-Zeneca* investigation and its Pharma sector inquiry. However, the changes proposed would affect not just the Pharma sector but all other technology sectors as well. Certain critical changes are at paragraphs 223, 226 and 227 of the new Guidelines (of these paragraphs 223 and 227 are entirely new):

Pay-for-restriction in settlement agreements

223. Settlement agreements between competitors which include a licence for the technology and market concerned by the litigation but which lead to a delayed or otherwise limited ability for the licensee to launch the product on this market may under certain circumstance be caught by Article 101(1). Scrutiny is necessary in particular if the licensor provides an inducement, financially or otherwise, for the licensee to accept more restrictive settlement terms than would otherwise have been accepted based on the merits of the licensor's technology.
- [...]
- Non-challenge clauses in settlement agreements*
226. In the context of a bona-fide settlement agreement, non-challenge clauses are generally considered to fall outside Article 101(1). It is inherent in such agreements that the parties agree not to challenge *ex post* the intellectual property rights which were the centre of the dispute. Indeed, the very purpose of the agreement is to settle existing disputes and/or to avoid future disputes.
227. However, non-challenge clauses in settlement agreements can under specific circumstances be anti-competitive and may be caught by Article 101(1). Such clauses are not part of the specific subject-matter of a patent and may restrict competition within Article 101. For instance, this is the case where the licensor knows or could reasonably be expected to know that the licensed technology does not meet the respective legal criteria to receive intellectual property protection, for example where a patent was granted following the provision of incorrect, misleading or incomplete information. Scrutiny of such clauses is also necessary if the licensor induces, financially or otherwise, the licensee to agree not to challenge the validity of the technology.
19. The IP Federation is of the view that this section of the guidelines is highly ambiguous and overly broad. For example, paragraphs 223 and 227 both deal with the concept of the licensor "inducing" the licensee "financially or otherwise" to accept certain restrictions. It is very unclear how this concept is to be understood. Is the threat of litigation an 'inducement'? Is the opportunity to enter a licence under a settlement agreement itself an 'inducement'? Is the offering of a compromise deal - i.e. the offer of terms more favourable than would be offered if the licensor succeeds at trial an 'inducement'? Is a licensor even allowed to initiate settlement negotiations? How is a licensor to achieve a pre-trial settlement with-

out providing some form of incentive to the licensee to end the litigation?

20. Clearly it is not the fact that some form of 'inducement' has led to a settlement being entered into which raises competition concerns, rather the concern arises if the settlement is a sham. The guidelines should therefore be drafted to recognise this and a settlement agreement should only be considered anticompetitive where there is strong evidence (e.g. court decision) establishing that the licensor had misled the patent office and knew that its IPR was invalid.

Conclusion

21. The Federation urges the Commission to reconsider the changes that have

been proposed in new Articles 3, 5.1(a) and (b) and paragraphs 219-227 of the new Guidelines. These proposals have the potential to substantially reduce legal certainty to businesses entering into licensing arrangements, with resultant chilling effect on technology transfer, economic efficiency, and innovation in the EU.

Outcome of the consultation

Once stakeholders' submissions have been reviewed, a revised draft may be issued and the new regime will be adopted, in April 2014 (with a brief transitional period).

David England, 13 November 2013

COPYRIGHT

Copyright Update

Copyright is relevant to many different kinds of commercial activity. During 2013 there has been a steady flow of industry initiatives, government initiatives at UK and European level, and developments in case law. The EU agenda has been delayed, so the UK has taken the opportunity to make its own progress in areas where the EU may yet legislate, working on the basis that it will make any necessary amendments as and when EU Directives are transposed into UK law. Most of the developments are concerned with adapting copyright law to cope with the effects, and advantages, of digital technology.

UK developments

"Modernising Copyright" – copyright exceptions

At the very end of 2012 the UK government published "Modernising Copyright" - a set of further proposals derived from the consultations conducted during 2012 (and described in last year's "Trends and Events" article). The objective remained to strengthen and develop the copyright framework and to improve public attitudes towards copyright by making it more appropriate to digital media (for instance by permitting format shifting).

The document summarised the responses to the 2012 consultation (which were published without attribution in June 2012) and committed to propose legislation amending the scope of permitted acts across a range of areas: private copying, education, reporting, parody, non-commercial research and study, non-commercial data analytics, archiving, public administration, and for people with disabilities. During June and July 2013, draft secondary legislation was finally published for consultation on all these areas.

In August the IP Federation submitted comments on the private copying exceptions by endorsing a paper prepared by Intellect (now techUK), which sought to ensure that the new provisions will not undermine the commercial value in copyright material, including with respect to the use of technical measures to protect against copying.

Copyright Notices

In its "Modernising Copyright" report the UK Intellectual Property Office (IPO) committed to introduce a procedure for issuing Copyright Notices, which clarify aspects of copyright where confusion can arise. The service duly commenced on 30 July.

“Supporting the Creative Economy”

In September, after the consultation periods for copyright exceptions had closed, the Commons Committee on Culture Media and Sport published a two-volume report entitled “Supporting the Creative Economy”. This strongly supported rightholders’ interests and the creative industries, focused on enforcement, and expressed strong concerns about the online environment. It also took the view that the Hargreaves report lacked sufficient evidential basis, and so opposed the introduction of the proposed new copying exceptions without further evidence. Intellect prepared a response which supported what it saw as the more balanced approach taken by the IPO on such issues. The final draft secondary legislation on copyright exceptions has yet to be published.

The Copyright Licensing Steering Group

The IPO followed through the recommendations of the Hargreaves report concerning copyright licensing by commissioning an independent report by Richard Hooper and Ros Lynch, “Copyright works - streamlining copyright licensing for the digital age”, which it published in July 2012. The Copyright Licensing Steering Group (CLSG) was then established with funding from the creative industries to facilitate voluntary implementation of that report’s recommendations.

In September 2013 the CLSG published its progress report (“Streamlining Copyright for the Digital Age: a report by the Creative Industries”). The central recommendation has been the development of a Copyright Hub to act as a primary resource for those seeking licences and copyright clearance. A pilot Hub⁴ has been operating since July 2013; the Hub will be developed during 2014 to offer “federated” searches across multiple databases, and scope for creators to voluntarily register their rights.

Industry working groups set up to implement the recommendations in the report are making good progress. The recommendations include: cooperation between the music collecting societies (UK and European) to develop joint-

licence offerings, the use of standard format identifiers for audio-visual material, licensee-aggregation where possible, and a code of practice on the use of metadata for images. There are also parallel proposals from the music industry to establish more accessible licensing mechanisms - including a global repertoire database which is to be located in London and Berlin.

Further funding of this initiative to September 2014 has been confirmed by the creative industries.

Orphan works

In April the Enterprise and Regulatory Reform Act 2013 (ERR Act 2013) received Royal Assent. The Act is intended to simplify legal issues for SMEs across a hotchpotch of regulatory areas, including copyright. Amongst other things it enables the development of a legislative scheme to enable licensing of “orphan” works, i.e. those for which the owner cannot be identified.

This created a great deal of nervousness amongst photographers in particular, who often have difficulty ensuring their work is not copied online when its attribution is lost or deleted. The “blogosphere” became very active on the subject (and on extended collective licensing - see below), with the IPO team blogging responses. The IPO has issued various blogs and a “facts and myths” notice. We await draft legislation.

Collecting Societies

The ERR Act 2013 enables legislation to require collecting societies to adopt a code of practice; draft Regulations were published in September for consultation. It also enables legislation allowing collecting societies to offer licences which extend beyond their members’ rights (“extended collective licensing”, which has been used successfully in Nordic countries for decades). Draft secondary legislation has yet to be published.

Industrially-produced artistic works

The ERR Act 2013 will also repeal section 52 of the Copyright, Designs and Patents Act 1988, which sets a 25-year term of copyright protection for artistic works which are industrially-produced. This primarily affects “classic” modern designs for items such as furniture, lighting and

⁴ www.copyrighthub.co.uk

jewellery. The term of protection will in future be the life of the creator plus 70 years, as for other copyright works.

A call for evidence on transitional provisions and timing was run in October to November. The government intends to publish draft secondary legislation, and a revised economic impact assessment, in 2014.

Sound recordings extension

In November, pursuant to Directive 2011/77/EU, the Copyright and Duration of Rights in Performances Regulations extended the term of protection for sound recordings, and performers rights in them, from 50 to 70 years. Good news for ageing rock stars!

ISPs and internet blocking

Content proprietors acting against peer-to-peer file sharing have seen repeated success in obtaining UK court orders obliging ISPs to block access to the "torrent" websites which enable this behaviour, using section 97A of the Copyright, Designs and Patents Act 1988. In February a group of record labels obtained a court order requiring the six principal UK ISPs to block various sites. In November a group of film proprietors obtained an order blocking a further 21 sites. The law on this area now appears well settled.

Internet use

The UK Newspaper Licensing Agency (NLA) and Meltwater have been in dispute since 2010. Meltwater's software searches for keywords in online material and aggregates the results to provide a digital "news clippings" service. The question is whether this causes a copyright infringement when Meltwater's customer operates the service, such that the customer needs an NLA licence. So far Meltwater has lost; however, on appeal the UK Supreme Court referred a series of questions to the Court of Justice of the European Union (CJEU) which go to the heart of internet use (Case C-360/13).

In effect, the referred questions ask whether the creation of temporary electronic copies by a computer when a user views a web page amounts to a use which is exempt under Article 5(1) of the Copyright Directive (2001/29/EC). The

referral was made in June; as yet the CJEU has not provided an Advocate General's Opinion, nor its Judgment, but this is plainly a key policy question for all kinds of internet use.

European developments

The context for copyright developments in Europe is set by the European Commission's Digital Agenda for Europe, launched in May 2010. One of seven agenda initiatives is to update the EU's copyright framework. Further context is provided by the intellectual property strategy published in May 2011 as "A Single Market for Intellectual Property Rights", and by the Digital Single Market initiative managed by DG CONNECT.

In late December 2012 the Commission published its Communication on Content in the Digital Single Market, which proposed stakeholder discussions on licensing in parallel with the work on the copyright framework; this became the "Licences for Europe" forum, which we report on below.

During 2013 work on the copyright framework has been progressing through market studies and impact assessments, and a decision will be made next year whether to propose draft legislation. The current assessment is that "some adjustments may be envisaged in order to facilitate the availability of online services both within and across borders" - in other words practical changes are likely to be introduced.

To date there has been the Orphan Works Directive (2012/28/EU), and the Directive on Collective Rights Management is currently being negotiated, although it is unlikely to be transposed in the UK before 2016.

There are many active Commission work streams at present. A study on copyright exceptions is due for publication. There has been major on-going work on the use of copyright levies on hardware, which we report on in more detail below. There is an economic impact assessment in hand, and studies continue in the areas of online content transmission, on the contractual structures for digital distribution (as to which see the UsedSoft CJEU referral below), on remuneration for

copyright owners, and on text and data mining practices.

The failure of the “Licences for Europe” forum to achieve as much progress as was hoped for (see below) has led to speculation that in 2014 the Commission may seek to review relevant Directives in order to go directly to legal issues.

Proposed EU consultation

A written public consultation on copyright in Europe is expected to be announced by the Commission in late 2013 or early 2014. It will address issues identified in the IP strategy “A Single Market for Intellectual Property Rights”.

In preparation for this, in July 2013 the IPO issued a call for views (“Copyright in Europe - call for views”) and ran two roundtable sessions; some other Member States did likewise. In October the IPO summarised the key themes and points of view (which varied widely) identified in the discussions. Intellect attended, and provided a written response which the Federation endorsed. The IPO is currently reviewing the written responses.

“Licences for Europe”

At the beginning of 2013 the European Commission instituted its Licences for Europe forum, which was intended to address cross-border access, user-generated content, audio-visual heritage materials, and text and data mining for scientific research. However, participants became dissatisfied with the way in which the forum proceeded, and some withdrew. The forum has now closed with a set of pledges from the cultural sector, which are far from presenting practical, short-term solutions to licensing problems in Europe. None of these pledges were co-signed by copyright users, digital or internet industries, consumer groups, researchers, etc. Commission Vice-President Kroes made clear that she does not think the achievements of the process are enough and she recommends a legislative solution, involving a review of the InfoSoc Directive. Commissioner Barnier announced that a final decision on a review process will be taken in spring 2013. That will be at the very end of this term’s Commission, so essentially passing the baton to the next Commission.

Copyright levies

In 2011 the IPO published commissioned research⁵ which identified the nature, extent and impact of copyright and reprographic levies in the EU. Twenty-two Member States operate levies, which vary widely but account for payments of over 500 million euros per annum. Kretschmer concluded that “the system as a whole is deeply irrational.” Disputes over levy payments have resulted in several CJEU references.

During 2012, and as part of the EU IP strategy, former Commissioner Antonio Vitorino ran a mediation process involving a wide array of stakeholders to try to find ways to improve the current systems and so reduce the incidence of disputes.

The Vitorino report was published in January 2013, and concluded that the current national way of imposing / administering levies is a source of friction with Internal Market principles. The report looks in detail at the arguments put forward for many different aspects of the various systems, which were explored in written contributions, meetings with the parties involved, and finally multi-party meetings. Vitorino’s report emphasises the value of licensed digital services. He calls for clarification that private copying of licensed copies should not trigger a levy, on the basis that they cause no harm to the rightholder, i.e. consumers should not pay twice for licensed content. The report notes that change is taking place in the mechanisms for delivering content, and that alternative approaches to hardware levies are being developed; however, it does not go so far as to recommend phasing out hardware levies in the immediate future. What the report does is to suggest a set of broad practical principles that could usefully be adopted. These are set out as core recommendations. Key recommendations are that a common theory of harm and common procedural methods for calculating levies should be developed, and that the levy should be visible to the end consumer and paid (once only) in the country of destination.

⁵ “Private Copying and Fair Compensation: An empirical study of copyright levies in Europe” by Professor Martin Kretschmer.

DIGITALEUROPE welcomed the report, seeing it as an important opportunity for the EU to chart a path away from device-based levies towards alternative and fairer compensation solutions fit for the digital era, and called for a comprehensive public debate. In April the IP Federation wrote to Lord Younger, the Under-Secretary of State for IP in the Department for Business, Innovation and Skills, endorsing an Intellect letter, urging the government to seek inclusion of the Vitorino report as a topic before the EU Competitiveness Council (which was achieved - see below), and to keep the reform of levy systems high on the EU agenda.

In May there was an exchange of views on the Vitorino report at the Competitiveness Council, but there have been no material developments since then, either at EU or Member State level.

In October 2013, responding to the IPO call for views on "Copyright in Europe", the Federation endorsed Intellect's submission, urging the UK government to use its influence to push for follow-up to Vitorino, and specifically to make its voice heard in calling for the European Commission to take a lead in encouraging Member States that do have a national levy system to implement the Vitorino Recommendations. This would be a first step on the way to renewal, where device-based levy systems are replaced with alternative, fairer, nationally-based compensation models, within a permissive EU framework where Member

States are at liberty to choose what form of alternative to implement. In this way specific solutions would not need to be mandated by EU legislation.

The European Parliament is also interested in the topic. In October 2013 a hearing in the European Parliament turned out, unsurprisingly, to be relatively pro-levies as French MEP Castex, the rapporteur on this dossier, is known to be close to rightholders and has been tasked by the French government to push back on the Vitorino Recommendations. MEP Castex went on to write a draft 'own-initiative' report for the European Parliament which seeks to entrench the levy system. Industry groups, including DIGITALEUROPE, are currently calling on the Legal Affairs Committee (JURI) to reject the report, which is due to be voted on in JURI in December 2013.

The European Commission is still undecided how to follow-up on the Vitorino report, claiming it will depend on whether Member States call for further action. It seems extremely unlikely that the current Commissioner (whose mandate expires in 2014) will launch legislative proposals for his successor to take up. More likely this Commission will provide a summary of the work done so far, with possible courses of action suggested or provided, for instance in the form of a White Paper rather than a Communication.

Nick Cunningham, 25 November 2013

DESIGNS

Intellectual Property Bill 2013–14: Clause 13

During the course of the IP Bill's passage through first the Lords and then the Commons, the IP Federation has been pressing for the deletion of Clause 13 or, at the very least, significant amendments which would lessen the damaging impact Clause 13 would bring. Clause 13 introduces a new criminal offence for copying registered designs. Whilst we can understand that this may appear attractive in the fight against piracy and deliberate theft of designs, the wording of Clause 13 does not restrict the criminal offence only to the bad guys.

The IP Federation's lobbying activities have included the issue of a number of policy papers in this area:

- PP7/13 Criminal sanctions for Registered Design infringement
- PP10/13 Criminal sanctions for Registered Design infringement - IP Federation response
- PP16/13 Intellectual Property Bill 2013-14: IP Federation position on Clause 13

Below is an abridged version of the last paper, compiled for the purposes of lobbying MPs during the IP Bill's passage through the Commons. The full version can be found on the IP Federation's website.

Clause 13 should be deleted in its entirety

The IP Federation opposes the introduction of criminal sanctions for any aspect of registered design infringement. The reasons for this are set out below.

- **Criminal courts are not equipped to deal with cases involving registered designs.**
Issues concerning the scope and validity of a registered design should be dealt with by courts which are equipped to hear the appropriate evidence and assess it in the light of extensive case law, not a non-specialist judge and certainly not a jury. Dealing with these issues before a criminal court will incur very high costs.
- **There is a significant risk that wrongful convictions could occur.**
There is a very real possibility that relevant prior art could come to light after a person is convicted, rendering the registered design invalid and resulting in the person having been wrongly imprisoned.
- **Reputable design companies will withhold good designs.**
If knowledge of a registered design, combined with actual infringement, could give rise to a criminal penalty, companies will take the safe route. Products which would otherwise have been brought to market as a result of healthy competition will be withheld.
- **Reputable companies will deliberately stop carrying out clearance searches for designs.**
If there is the slightest risk of a criminal action being brought, reputable British companies will deliberately stop searching registered designs to check for potential issues before a product is launched. It will be better not to know what is out there.

- **The doors will close on British designers.**
Introducing a risk of criminal actions being brought for infringement will have the effect of discouraging companies from collaborating with individual designers and SMEs.
- **Criminal actions will be brought privately.**
There is nothing in the IP Bill which prevents criminal actions for infringement of registered designs being instigated privately.
- **Companies will use the weapons available to them.**
If criminal sanctions are introduced, this weapon will be used by all organisations, small and large. The threat of being able to bring criminal proceedings should not be underestimated.
- **Sufficient deterrent can be created by other means.**
The aim of the IP Bill is "to increase protection for registered design holders and to reduce the scale of design theft". Introducing criminal sanctions is not the only way to achieve this. Other ways to achieve the aim should be explored.
- **The vast majority of IP professionals and IP owners are opposed to the current proposals.**
The IP Federation is by no means the only organisation which opposes the introduction of criminal sanctions for registered design infringement. The ICC, Law Society, IP Bar Association, IP Lawyers Association, Intellect and CIPA have all expressed grave concerns over Clause 13 of the IP Bill.

Amendment

If we cannot achieve a complete deletion of Clause 13, then we propose a series of amendments:

- **Specify that the offence relates only to deliberate or blatant copying.**
It is very clear that the intention of the IP Bill is to introduce criminal sanctions for only deliberate infringement of registered designs (see Explanatory Notes, paragraphs 49 and 50). This type of infringement corresponds closely to what is termed

“counterfeiting” or “piracy” in other areas of law - and nothing more. There is a very real need to qualify the term “copying” in order to ensure that the meaning of the term is clear and that the offence does not catch acts which it is not intended to catch.

- **Criminal proceedings may not be brought until infringement and validity have been confirmed by specialist civil court.**

We believe that it would be best to ensure that the crucial questions of infringement and validity are dealt with by an appropriate specialist court before any criminal proceedings can be commenced. We believe that measures could be put in place to streamline civil procedures in cases where criminal sanctions might be applicable so that such cases do not take too long.

- **Remove any possibility of private criminal prosecutions being brought.**

We believe that government agencies such as Trading Standards and the Crown Prosecution Service would ensure that any action which may be commenced under this section will have been subjected to sufficient scrutiny to prevent malicious, vexatious and tactical actions being commenced.

- **Ensure that criminal acts do constitute infringement.**

There appears to be an assumption that the term “copies a registered design so as to make a product exactly or substantially to that design” must by definition amount to an infringement of the registered design in question. This is far from certain, particularly in areas where there are a lot of very similar designs in existence. Clause 13 should be amended so as to specify that acts which do not constitute infringement of the registered design cannot give rise to criminal sanctions.

Further Concerns

The IP Federation is concerned that a number of very real concerns are not being given sufficient consideration. The most pressing of these concerns are:

- **A failed or abandoned criminal prosecution is as bad as a successful one.**

Negative publicity of the sort which would inevitably be generated merely by the commencement of a criminal action could do untold damage to a company or individual.

- **Larger companies are at particular risk.**

There are no safeguards in place to prevent a large company from being found guilty of a criminal offence, even if no one individual in the company satisfies the criteria of “copying” the design and knowing it was registered.

- **Registered designs are unexamined rights.**

If criminal sanctions are introduced in respect of rights which have not been examined before registration, and if private prosecutions are not prohibited, the burden on companies engaged in design and development will increase dramatically.

- **It is not true that sanctions of the type proposed exist in Germany.**

Whilst it is true that unauthorised use of a German registered design can be punishable by criminal sanctions, the infringement must be wilful or reckless to attract these sanctions.

The IP Federation will continue to lobby MPs and interested parties during the IP Bill’s passage through Parliament. Our aim is to have Clause 13 deleted in its entirety or, at least, amended sufficiently to alleviate many of the concerns set out above.

Gill Smith, 2 October 2013

Unregistered Design Rights – Qualification

Unregistered Design Right (UDR) was introduced by the Copyright, Designs and Patents Act 1988. This *sui generis* right was created as a means of providing protection for purely functional designs which were first embodied in a design document or an actual article on or after 1 August 1989.

Current Qualification Provisions

Qualification for UDR protection is governed by Sections 217 to 221 of the Copyright, Designs and Patents Act (CPDA) 1988.

Under the current law a design is offered UDR protection if the person creating the design is a “qualifying person”. A person will qualify if they are:

- an individual, who is the subject of or is habitually resident in a qualifying country; or
- a corporate body formed under the law of the UK or another qualifying country; and having in any qualifying country a place of business where a substantial business activity is carried out.

“Qualifying country” is defined in section 217(3) and includes the UK, certain limited designated countries (mainly British dependent territories), and other member states of the European Economic Community and Countries in which reciprocal protection is provided by an Order of Council.

A deliberate policy decision was taken by the UK Government to ensure UK UDR was only available to non-EU designs on a reciprocal basis. The current law therefore excludes UK UDR protection from foreign corporate bodies if their own countries do not offer comparable rights to UK companies.

This ensures that parity exists, as the manufacture of UK functional designs is permitted in foreign countries where there is no reciprocal UDR protection and UK companies can manufacture the functional designs of foreign corporate bodies in the UK if no reciprocal protection is given.

The current provisions provided for in section 217 of the CPDA 1988 are therefore well considered and offer UK

manufacturers protection from unfair competition, encourage reciprocity and support UK innovation.

Clause 3 of the IP Bill (Qualification Criteria)

Clause 3 of the Intellectual Property Bill 2013-2014, currently before parliament, amends sections 217 to section 220 of the CPDA 1988.

As indicated in IP Federation policy paper PP17/13, if the amendments, as currently proposed, in Clause 3 of the IP Bill are enacted then UK UDR will be extended to the functional designs of companies formed in countries that do not offer any reciprocal protection for UK functional designs.

For the first time UDR would be extended to Chinese (non-HK), Japanese, Korean, and US registered companies. These foreign companies were previously excluded from ownership of UDR for the good policy reason that the national laws of their own countries of registration did not offer a comparable right to UK companies.

UK manufacturers will not be able to manufacture in the UK either for the UK domestic market or for export. UK manufacturers are disadvantaged as they can no longer manufacture even for export to countries where there is no protection for functional designs.

However, UK originating functional designs can still be freely copied and manufactured by foreign companies. Foreign companies can copy and manufacture UK originating functional designs abroad both for their own domestic market and for export to other countries where there is no protection for functional designs (i.e. most countries in the world).

Under the changes proposed in Clause 3 of the IP Bill, parity no longer exists and UK manufacturers are strategically disadvantaged with additional hurdles being introduced to the manufacture of functional designs in the UK. This will directly impact those engaged in general engineering because of the importance of functional designs which are covered by UK UDR.

The manufacturing facilities of both small and large UK-based engineering companies will be seriously impaired by extending UK UDR to foreign corporate entities. Careful consideration would need to be given to the location of manufacturing facilities as the manufacture of functional articles in the UK will be inhibited. It would become more attractive to move design and manufacturing offshore and to commercially source functional designs from businesses outside of the UK where the copying of functional designs is lawful.

This would negatively impact on the UK economy through significantly reduced contributions to UK GDP, taxes, investment, R&D, and reduced employment for engineers in the UK.

There will also be an impact on small businesses in the UK that are supported through the supply chains of the major UK manufacturing-based companies. Moving design and manufacturing offshore would negatively impact on the survival and growth of these small businesses, as would the sourcing of functional designs from businesses outside the UK where the copying of functional designs is lawful.

There are further implications in respect of dual sourcing of functional components. Dual sourcing is carried out by large engineering companies to maintain a competitive supply chain and ensure continuity of supply. Dual sourcing benefits not only the large manufacturing company but also the significant number of small businesses who form these supply chains.

Large manufacturing companies have to take great care when dual sourcing functional articles in the UK to ensure that UDR is not infringed. This involves keeping full and accurate records of any communications between the parties through all stages of the design process to mitigate the risk and cost of any litigation relating to the resulting designs.

The extension of UK UDR to foreign corporate entities adds a further impediment to the manufacture of functional components in the UK for UK-based manufacturing companies, both small and large, as UK based manufacturing companies will now need to assess and navigate through the UDR rights of foreign corporate entities.

Conclusion

The present reciprocity provisions on UDR are well considered and should be retained.

UK UDR was introduced by Government to offer protection to more utilitarian and functional designs. If there is value in offering protection to functional designs then reciprocity needs to be maintained. Reciprocity encourages other countries to introduce laws protecting UDR in return for protection in the UK. Only when UDR is recognised globally will true parity exist that will benefit all those involved in the design and manufacture of functional articles.

If the proposed amendments to Clause 3 proceed and reciprocity is lost then there will be no motivation for other countries to adopt UDR protection, and UK companies manufacturing in the UK will remain strategically disadvantaged.

Clause 3 of the IP Bill should not therefore be enacted in its current form due to the negative impact it will have on all those engaged in the manufacture of functional articles.

Amendments have been proposed to Clause 3 which will protect the beneficial system of reciprocity and avoid disadvantaging British businesses. These changes are necessary and are currently being considered by the design policy officials at the UK IPO and others involved with the IP Bill.

Ruth Barcock, 23 October 2013

LITIGATION

Patents, Trade Marks and Design Rights: Groundless Threats

The consultation

On 17 April 2013, the Law Commission published a consultation paper on groundless threats. This consultation relates to their Patents, Trade Marks and Design Rights: Groundless Threats project. The Commission was consulting on two approaches to reform:

- The first is to build on the reforms made to patent law in 2004 and to extend these to the other rights. We also propose that legal advisers should be protected from liability for groundless threats.
- The second approach is to treat groundless threats as a form of unfair competition and to introduce a new and broader cause of action based on the Paris Convention.

IP Federation response

The IP Federation responded on the closing date, 17 July 2013 - see policy paper PP12/13. The IP Federation agrees with the general consensus that the unlawful threats provisions should be retained in some form. The main problem we see with the current law is that it is too complex (due, in large part, to the differences in the threats provisions with respect to different IPRs) and, in places, overly broad. For example, we believe that, as a general matter, rights holders should be able to notify potential secondary infringers of certain factual matters, without risking a threats action. It is also unnecessary for the provisions to catch professional advisers writing on behalf of their clients.

We therefore agree with the Law Commission's proposal for an evolutionary approach to reform, rather than the "wider approach" discussed in Chapter 9. Whilst if looked at afresh the "wider

approach" has its benefits (e.g. it would be more obviously in line with the "unfair competition" provisions of the Paris Convention and the approaches taken in most civil law jurisdictions), the introduction of such a regime in the UK would cause considerable uncertainty, and hence additional cost, in the short-to-medium term. Given that the existing regime is reasonably well understood, and can certainly be improved, we do not believe it would be sensible to discard it.

As for the details of the reforms, consistent with the above, we believe the position for the different IPRs should be aligned. We also believe it would be sensible to clarify exactly what can be said to secondary infringers without triggering a threats action (as noted above, we believe rights holders should be able to notify secondary infringers of certain factual matters, without any risk of a threats action). On the other hand, where there is no clear argument one way or the other, we would suggest maintaining the status quo, in order to avoid confusion and additional cost to businesses.

Outcome of the consultation

Preliminary indications are that the Law Commission does not believe that there is sufficient support to do away with the current threats provisions altogether, although it may consider this in the future. There is reportedly wide support for reforming the law for trade marks and design rights along the lines of what was done for patents in 2004, and for changes to protect legal advisers from liability for groundless threats.

The Law Commission's final report is expected in spring 2014.

David England, 13 November 2013

Privilege

Attorney–client privilege generally

If a client is involved in litigation in a common-law country, then discovery

(disclosure) may be sought of his communications with IP advisers. Clients have encountered serious and often insuperable obstacles to asserting

privilege against such discovery with respect both to local advisers and to foreign ones. These obstacles are essentially unique to IP cases because (a) internationalised IP activity is the norm, and (b) so-called "non-lawyer" patent and trade mark attorneys/agents⁶ are trusted major providers of IP legal advice and drafting. Privilege in general is in the public interest, and the anomalies which have arisen are accordingly contrary to the public interest. In the UK, these anomalies have been rectified to a limited extent in CDPA s. 280 and TMA s. 87, but much remains to be done both in the UK and elsewhere. (An extended discussion, albeit to be read in the light of the recent developments reported below, can be found in *Trends and Events*, December 2010, pages 24-27.)

Proposed WIPO Treaty on attorney-client privilege

In the 2010 report just referred to, it was forecast that progress on a WIPO Treaty on privilege in IP matters would be slow. At a colloquium in Paris in June 2013 at which governments and WIPO itself were represented, it was accepted universally that such a Treaty was off the agenda altogether. This is a pity because the unique problems encountered in IP litigation would be best addressed by such a Treaty. Instead, any further progress is likely to be by jurisdictions acting unilaterally, bilaterally, or in small groups.

Australia and attorney-client privilege

The situation as reported in 2010 was that in the Australian courts communications with UK solicitors were privileged, but not those with UK patent attorneys. This was serious for plaintiffs in Australia whose inventions had been made in the UK, because most patent specifications for such inventions are drafted by UK patent attorneys, only a minority of whom are also solicitors. The matter had come to prominence in Pfizer's litigation in Australia of its patent for a UK-made invention relating to drugs for treating erectile dysfunction.

⁶ "So-called" is a reference to the UK situation. The Legal Services Act 2007 treats barristers, solicitors, patent and trade mark attorneys, and other specified legal professionals all as "lawyers".

Effective 13 April 2013, the Australian patent law was changed so as to extend privilege to communications with "individual[s] authorised to do patents work under a law of another country or region, to the extent to which the individual is authorised to provide intellectual property advice of the kind provided". It is to be hoped that communications with private practice and in-house UK and European patent attorneys used by Federation members are thereby covered.

Unified Patent Court (UPC) and attorney-client privilege

The attorney-client privilege provisions in this court will be very important. The UPC will be the court of exclusive jurisdiction for all patents issued through the EPO, whether unitary patents or "bundle" national patents, subject to the limited opt-out discussed in this article in this issue on EU Patent Reform. Among the issues arising are these:-

- (i) The court itself will have significant powers of discovery. Therefore, the clients of UK, US, and European patent attorneys could, absent adequate provision for privilege, be worse off before the UPC than they are now before national courts.⁷
- (ii) Any lack of privilege would have serious implications for clients of UK patent attorneys when engaging in US litigation. In the past, US courts have ("in comity") privileged communications with UK patent attorneys on the basis that the relevant local courts would privilege them under CDPA s. 280; in contrast, they have declined to privilege communications with other non-US practitioners where a similar case could not be made. In future, the US courts can be expected to look at the UPC Agreement and Rules of Procedure rather than the CDPA, except where the corresponding

⁷ The present situation is quite favourable. In the UK, where there is substantial discovery, privilege is provided by CDPA s. 280 in relation to UK and European patent attorneys, and under the common law in relation to US patent attorneys (who are fully-fledged "lawyers"). In Continental civil law countries, the matter scarcely arises because discovery is limited.

patents in Europe are outside the UPC's jurisdiction⁸.

- (iii) IP-intensive clients, such as Federation members, commonly use in-house patent attorneys for the most sensitive work associated with patents (*i.e.* for drafting priority applications and for infringement opinions). In contrast to UK courts, some courts in Europe do not give any special status to in-house legal practitioners. It is important that the UPC should do so (in respect of privilege at least) lest, again, many companies find themselves worse off before the UPC than they are now before the national courts.

It was therefore with some dismay that the Federation noted that Rule 362 of the draft Rules of Procedure of the UPC as they stood in 2010 failed to address effectively any of (i) to (iii) above. However, it seemed that this failure was inadvertent, and the Federation submitted paper PP6/10 setting out the arguments.

⁸ Once "opt-outs" have expired, the only patents effective in the UK which escape UPC jurisdiction will be those obtained *via* the national route.

Intermediate drafts were published which were a considerable improvement, and the Federation made further submissions *via* PP10/12 and PP1/13, and also less formally. In the latest, fifteenth draft of the Rules of Procedure, the comments of the Federation have been taken fairly fully into account (in what is now Rule 287). Provided that no adverse changes are made before the Rule is finalised, and provided that the Rule is neither challenged nor interpreted in a perverse manner, Federation members can take considerable comfort.

Unified Patent Court (UPC) and litigation privilege

Litigation privilege is necessary if an orderly conduct of a trial is to be possible. It privileges documents generated for the purposes of the trial, even if they are not generated by or communicated to legal practitioners. In PP6/10, the Federation pointed out that the draft Rules of Procedure currently had no provision for litigation privilege at all. The latest Rules of Procedure include Rule 288 relating specifically to litigation privilege.

Mike Jewess, 30 October 2013

PATENTS

Claim format harmonisation

The Federation's proposal for international claim format harmonisation, to facilitate cooperation between patent offices and to help users

The Federation's members are all engaged in international commercial activity and patenting. As patentees and/or as potential infringers of third-party patents, they waste time and money to the extent there are unnecessary differences in law and procedure between major territories. The same differences waste the time of patent office examiners, who are less able to take advantage of each other's work. There are differences whose elimination -

- (a) should be readily negotiable internationally because they do not raise fundamental issues of principle (as differences in grace periods, exceptions and limitations, and industrial applicability do); and

- (b) should offer particular savings because they are of practical relevance to most inventions rather than just to a minority of inventions (as are the more fundamental differences just referred to).

Accordingly, in 2013, the Federation issued a policy paper PP2/13 suggesting that the existing arbitrary and wasteful differences in claim format should be eliminated. The paper noted particularly that applicants, examiners, and competitors of applicants all waste time and money because of the formal differences between claim sets for the same invention before the EPO and the USPTO, as follows:

Difference	EPO	USPTO
N° 1	Two-part ("characterised in that") main claim form is required wherever appropriate (EPC Rule 43).	Two-part form is inadvisable for the applicant.
N° 2	Sub-claims may depend on any one or more preceding claims to the extent this is logically permissible.	Sub-claim dependencies are restricted (35 USC 112).
N° 3	Reference numerals are required wherever appropriate (EPC Rule 43).	Reference numerals are inadvisable for the applicant.
N° 4	"Modification" claims referring to previous claims are allowed.	"Modification" claims referring to previous claims are barred (35 USC 112).

Differences (1) and (3) have the effect that main claims of essentially the same scope will mostly read differently in Europe and the USA. Differences (2) and (4) mean that the logical structures of two precisely equivalent sets of claims would in general differ from each other - and in practice that the claim sets are not precisely equivalent at all.⁹

⁹ A set of 10 PCT claims in which each of claims 2 to 10 depends on every preceding claim can be used directly in the European regional phase (provided EPC Rule 43 is taken into account). A precisely equivalent set of claims for the US national phase complying

The Federation's paper has been widely disseminated, and it is hoped that the above issues will be addressed by the IP5 group of offices considering patent law harmonisation.

Like collaborative search and examination in the international phase of PCT applications (also promoted by the Federation - *Trends and Events*, December 2012, pages 32-33), harmonised claim format would, if implemented, significantly enhance the international patent system.

Mike Jewess, 30 October 2013

with the restriction on dependencies would number 257, incurring prohibitive claim fees.

Patent Consultations

In 2013 the IP Federation, based on discussions in the Patent Committee and at Council, has responded to various consultations and discussion papers from the UK IPO and EPO.

UK Intellectual Property Office (IPO) 'Superfast' accelerated patent processing at the IPO

This consultation, launched in April for a June response, sought views on whether a proposed '90 day' patent system could be beneficial. Accelerated examination processes already exist in UK examination; this consultation was in respect of a 'superfast' version which would accelerate both examination and publication, on payment of a significant fee, and could lead to grant within 90 days.

The IP Federation response (PP8/13) foresaw many problems with such a system both for applicants and third parties alike, particularly since a full search covering Section 2(3) co-pending prior art was not possible in the time frame, nor could extensive assessments by third parties be made and submitted as third party observations in the minimum one month between publication and grant predicted by the consultation proposal. There was also concern that inexperienced applicants could damage their own future patenting prospects if applying for the superfast processing for a priority, or first filed, application.

All in all, it was felt that little benefit and potentially significant problems could arise from a 'superfast' accelerated examination, when in fact the existing accelerated examination system works

well and (in our view) meets business needs.

Recently it has been indicated by the IPO that the 'superfast' accelerated patent processing proposal will not be taken ahead.

Discussion paper on an appointed person for patents

Launched in March for response in May, this proposal was for an appointed person appeal system for patent appeals that operated in a similar way to the existing appointed person appeal system for trade marks.

In the trade marks appointed person system, cases are, on request by one of the parties, referred on appeal to an appointed person, instead of to the Court. The appointed person makes a definitive and binding judgement which is non-appealable. It is indeed a quick and effective route for trade mark issues. The system is currently also proposed for design issues.

The discussion paper mooted the possibility of introducing an appointed person system as a route of appeal in patents matters, including those for Supplementary Protection Certificates (SPCs), that would work in a similar way.

The IP Federation response (PP6/13) makes clear that the issues in trade marks disputes and patents (SPC) disputes are not of the same order of complexity. Patents and SPC matters are highly complex from a technical and a legal perspective, and are viewed as unsuited to an appointed person appeal system. In particular, entitlement disputes, infringement & revocation, and employee compensation disputes should be out of scope for such an appeal route, which, in our view, if brought in at all, should only be available in *ex parte* matters where the applicant has some control over whether an appeal would be heard only by an appointed person.

At the time of writing, the IPO has given no indication that it will pursue an appointed person appeal route for patents and SPCs.

European Patent Office (EPO)

Divisionals and Rule 36 EPC

Rule 36 imposed a time limit for the filing of divisional applications and was brought in because of the EPO perception that significant numbers of divisional applications, including divisionals of divisionals, were being filed unnecessarily.

The EPO initiated a consultation as part of its "transparent, inclusive, and participative process" to collect views on the impact and effectiveness of this Rule.

The IP Federation response (PP4/13) put forward the view that the time limit imposed was unduly restrictive. It had often expired prior to the reaction of the Examining Division to the response to the first examination report, and therefore was believed to put the applicant at a disadvantage, leaving the applicant's only option being the filing of precautionary divisional applications, the very practice that the EPO had sought to eliminate. The IP Federation preference was still to have an imposed time limit but one that was of a longer duration. We also wanted to see a clear requirement on the EPO Examining Divisions to continue and conclude examination once started, ideally also within a similar time limit.

Recently the EPO announced that Rule 36 would be amended to remove the time limit completely and allow the filing of divisional applications at any point during the pendency of the parent application; subsequent filings of second, third and subsequent generation divisionals would attract an additional fee.

Carol Arnold, 29 October 2013

Patent-related incentives and impediments to transfer of technology

Decision of the SCP

The Standing Committee on the Law of Patents (SCP) comprises all Member

States of WIPO (World Intellectual Property Organization) and/or of the Paris Union, and, as observers, certain

Member States of the UN non-members of WIPO and/or Paris Union, as well as a number of intergovernmental and non-governmental organisations.

At its nineteenth session held from 25 to 28 February 2013 in Geneva, the SCP decided that the Secretariat should revise the document on transfer of technology (document SCP/18/8) by adding further practical examples and experiences on patent-related incentives and impediments to transfer of technology on the basis of input received from members and observers of the SCP, taking into account the dimension of absorptive capacity in technology transfer. Thus the IP Federation was invited, in its capacity as observer to the SCP, to submit such examples to the International Bureau on or before 30 June 2013.

IP Federation response

The IP Federation responded on the closing date, 30 June 2013 - see policy paper PP9/13. The practical examples set out in document SCP/18/8 discussed in the Eighteenth Session relate to the experiences of individual inventors or inventors from Universities. This does not reflect the experiences of large multinational companies such as those which make up the membership of the IP Federation.

It should be noted that our members span a wide variety of technologies and businesses and so their practical experience of technology transfer varies widely. Moreover, many of these experiences are commercially sensitive and, if recent, are rarely able to be shared publically.

However, we can make some general observations. A number of our members are engineering companies where few products are protected by one patent only, or only by patents - other forms of intellectual property are equally important. Technology transfer is rarely seen as the primary goal - it is a means to underpin a new business relationship with an existing or new partner. The technology transferred enables that partner (the recipient of the transferred

technology) to develop a new market, either geographically or by field of use, instead of the technology owner developing that market themselves. This may be because the new partner can develop that market more quickly or more economically than the technology owner. In such cases a patent cannot be regarded as an impediment to the technology transfer - the patent helps to frame the scope of the technology transfer. However it is most usefully accompanied by confidential know-how. The effective transfer of the know-how helps to cement the technology relationship between the partners and ensures maximum absorptive capacity of the recipient. Often the technology transfer will be carried out in stages with the amount of technology transferred increasing as the parties grow to trust each other's abilities. The know-how transfer usually has to be accompanied by face-to-face training and secondments of staff.

This form of technology transfer is often carried out internally or to joint venture companies. When technology transfers between group companies, the implementation of a formal technology transfer framework ensures that the group properly records and accounts for the sharing of technology and recognises internally the value of the sources of technology within that group. This helps to enhance the perceived value of research, development and resulting innovation within the group.

Final comment

Although the practical experience of technology transfer of our members varies widely, and many of these experiences are commercially sensitive, it is hoped that the general observations set out above are of help in the revision of document SCP/18/8.

The twentieth session of the Standing Committee on the Law of Patents has been postponed slightly and is due to be held at the headquarters of WIPO in Geneva, from 27 to 31 January 2014.

David England, 13 November 2013

EU Patent Reform

In 2013, the Unitary Patent and Unified Patent Court (UPC) dossier has been among the Federation's highest priorities, following the long-awaited agreement between the European Parliament and Council in late 2012. The agreement resulted in the Unitary patent and Language Regulations being adopted in December 2012, and signature of the UPC agreement on 19 February 2013. It will be recalled that all EU countries but Spain and Poland signed the agreement at this time (although Bulgaria signed a little late), and notably Italy was also among the signatories, despite its not participating in the Enhanced Cooperation arrangement which gave rise to the Unitary patent regulations. Indeed, in July 2013, Italy indicated informally an intention to join the Unitary patent regime as well as the UPC.

The main focus of the Federation's work has been upon the UPC Rules of Procedure. In February, the Federation issued PP1/13 regarding the important issue of patent attorney privilege. The major efforts, however, followed publication of the 15th draft which was put out for public consultation on 31 May. In collaboration with the UK IPO and CIPA, the Federation hosted a public meeting in London on 3 September. This was chaired by President Bobby Mukherjee, with speakers including Lord Justice Christopher Floyd and Chairman of the Rules Committee, Kevin Mooney. The event was attended by not only 100 or so in person attendees, but around 2000 others from around the world tuning in to the webinar link.

The Federation also submitted its own comments on the draft Rules (PP15/13). Issues of importance identified included:

- The opt out regime;
- Language arrangements;
- Bifurcation and the grant of injunctive relief before invalidity defences have been adjudicated;
- The desirability of permitting the Court of Appeal to grant permission to hear procedural appeals so as to encourage harmonisation; and
- Fees.

It is understood that around 110 sets of submissions on the rules were made, and that a public consultation will be held in Brussels in late February 2014, with a view to a final set of rules being published in summer 2014.

Other issues addressed by the Federation have included the deeply unsatisfactory draft re-cast Brussels 1 Regulation. As explained in PP14/13 issued in October, if left unchanged, this will surely result in references to the CJEU for clarification of the priority to be given to national and UPC actions concerning European patents not opted out from the new regime. This issue was also raised with Kerstin Jorna of the Commission during a meeting in Brussels on a variety of issues including the UPC on 28 August.

Looking ahead, the UPC Preparatory Committee, formed in March, is now hoping that the new regime will come into force in "early 2015". This is, in reality, merely a target date, and some of the practical tasks it has to undertake are formidable, notably commissioning the Court computer system, a responsibility allocated to the UK.

The EPO has also started work toward agreeing its rules concerning the grant of unitary patents. The thorny question of renewal fees for UPs and the distribution key allocating fees among participating states may, however, take very many months to resolve.

Some clarity is also emerging as to the number and location of UPC local and regional divisions which may be created. Local divisions are expected in the UK, Germany, France, Italy, the Netherlands and Belgium. Regional Divisions are expected to be formed by at least three groups of countries, namely: the Scandinavian and Baltic countries; the Czech Republic and Slovakia; and most intriguingly by Romania, Bulgaria, Slovenia, Greece and Cyprus. Also of great note is that many of these Divisions will designate English among their languages. Indeed, the Scandinavian / Baltic division is likely to have English as its only language. As expected, Germany is proposing to have four local divisions, and lobbying is continuing in the UK for

there to be additional divisions outside of London, at least in Edinburgh, but possibly also in a northern city such as Leeds or Manchester and perhaps in Wales too. Whether the UK is entitled to this number of divisions depends on the esoteric question of how one counts patent cases, as well as the political will to fund more than one division. In total there might be as many as 16 local and regional divisions, with up to a dozen operating partly or exclusively in English, in addition to the three parts of the central division. Since each division will need at least one panel of three judges, taken together with the Court of Appeal, which will sit in panels of five, and the inevitable requirement for multiple panels in each of the three central division seats, this suggests the need for upwards of 100 legal judges, and probably at least as many technical judges so as to cover different disciplines. Happily, progress is also being made concerning appointment of judges, with expressions of interest being requested by 15 November 2013, and with a first selection of candidates and training beginning in 2014.

The key point in terms of process, however, remains that ratification of the UPC agreement (an international treaty) is required by the UK, France and Germany and 10 other states. So far only Austria has ratified. It seems highly unlikely that the UK and Germany will ratify before the fee arrangements are clear and some economic impact analysis has been completed. The UK is currently enabling ratification via the IP Bill, and its present position is that its target date for ratification is April or May 2015 (notwithstanding the promise of an EU membership referendum if the next election results in a Conservative government). Since the agreement says that the new regime comes into force 4 months after the last relevant ratification, this points to an earliest date for the start-up of the new system of autumn 2015, although 2016 or even later may be more realistic. The timing of German ratification is particularly uncertain, with rumours circulating that they are unhappy with their share of work allocation to the Central Division and wish to renegotiate this allocation before ratification so as to include more automotive work. The difficulties of such

renegotiation are enormous, since the allocation was enshrined in the UPC treaty itself (in Annex II). If these rumours are well-founded, and given the difficulty of re-opening any element of the package, this suggests a great deal more potential delay. Despite this, at present there appears to be considerable political will throughout Europe to press on, such that it is likely only a matter of time before this project becomes a reality.

There is still, however, one other major obstacle in the way, which has become known as the second Spanish challenge. In April 2013, the CJEU rejected a first challenge (brought by Spain and Italy), but before then (in March) Spain had already launched a more legally persuasive attack on the draft Regulations. The thrust of this is that the Commission has overstepped its authority in delegating powers to the EPO (in breach of what is known as the *Meroni* principle) and that the Regulations lack legal basis. On this second point, it is notable that one argument espoused by the Commission as to why the infamous Articles 6-8 were required was indeed to give proper legal basis to the Regulations. With their deletion (at David Cameron's insistence so as to avoid increased CJEU interference in patent law) the legal basis clearly became more shaky. The replacement provisions were described in a meeting of the European Parliament's Legal Affairs Committee which took place behind closed doors as "sub-sub-sub optimal", but in public the position taken by all EU officials and politicians is that the legal basis is adequate. Hence the Commission's position is that the second Spanish challenge will fail. Further, could it really be that the CJEU would strike down as unlawful a dossier which has taken 50 years to agree, whatever the legal merits of the challenge? We will be given some reasonable clue in 2014 when the Advocate General's opinion is released, although the decision itself is unlikely to be reached before spring 2015. Despite the legal merits, the most probable outcome seems to be that the challenge will fail, and what will be most interesting is whether in the process (as many suspect) the CJEU will take the opportunity to assert that it has just as much right to review and interpret patent law as it had when articles 6-8 were present. If it does, this will send further

shudders down the spine of industry given the CJEU's dubious track record in areas such as trade mark law.

Alan Johnson, 31 October 2013

Promoting clinical trials of pharmaceuticals in the UK

It has for a long time been uncertain whether the conduct by the innovative pharmaceutical industry in the United Kingdom falls within the defences to the Patents Act.

Monsanto v Stauffer ([1985] RPC 515) casts doubt over the extent to which the research exemption in Section 60(5)(b) of the Act applies to certain types of clinical trials, particularly Phase 3 trials (the larger clinical trials undertaken by the innovative industry).

The so-called "Bolar exemption" introduced into EU law by Art 10 of Directive 2004/27 (amending Directive 2001/83) applies only to activities in support of an abbreviated approval (i.e. one seeking approval of a generic product, not on the basis of clinical trials but essentially on the basis that the generic is bioequivalent to the innovator product).

Many Member States have extended the EU Bolar to cover innovative activity either expressly in statute law or through case law interpreting their research exemption. The UK has not done this, so there is doubt whether clinical trial activity in support of innovative drugs in the UK infringes or not.

The innovative pharmaceutical industry, supported by the IP Federation, has for some time been calling for an amendment to the Patents Act 1977 to permit acts in the United Kingdom done to obtain approval of innovative drugs. The policy rationale is clear. First, the current state of the law means that there is potential for some trials to be carried on outside the UK to avoid the

infringement risk, to the detriment of the UK economy and UK clinical trial expertise. Second, it is odd that companies wishing to bring generic products to market have more defences to patent infringement than companies wishing to bring innovative products to market.

Following an informal consultation conducted by the UK Intellectual Property Office (IPO) on the issue, in which nearly all respondents appeared to agree that something should be done and to which the IP Federation responded (PP12/11), the IPO launched a formal consultation on the same issue in October 2012. In February 2013, the Government response to the consultation was published on the IPO website¹⁰.

The Government accepted the need for change and indicated its intent to seek to amend the Patents Act 1977 by way of a Legislative Reform Order to introduce a new exemption from patent infringement. This exemption "would exempt from infringement the activities required to secure regulatory approval to market innovative drugs, and also activities necessary for health technology assessment e.g. data to support assessment by the National Institute for Health and Clinical Excellence (NICE)."

In September 2013, the IPO informally sought comment on proposals for the wording of the new exemption, and the IP Federation was one of a number of organisations to respond.

David Rosenberg, 25 October 2013

¹⁰ <http://www.ipo.gov.uk/response-2012-bolar.pdf>

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.



Presidents of the IP Federation

(formerly the Trade Marks, Patents and Designs Federation)

1920-1930	Mr Gerard Clay
1930-1935	Mr John McDowell
1935-1947	Mr J. James
1947-1957	Mr W. W. Wigginton
1957-1966	Mr L. A. Ellwood
1966-1971	Mr Fyfe Gillies
1971-1973	Mr M. F. Coop
1973-1975	Mr J. M. Aubrey
1975-1977	Dr J. T. Tyson
1977-1979	Dr H. Aspden
1979-1981	Mr Ralph Walter
1981-1983	Mr D. O. Lewis
1983-1985	Dr J. L. Beton
1985-1987	Mr P. Orton
1987-1989	Mr T. N. Gibson
1989-1991	Mr D. H. Tatham
1991-1993	Dr R. F. Fawcett
1993-1995	Mr G. W. White
1995-1997	Mr F. N. Blakemore
1997-1999	Miss E. M. Cratchley
1999-2001	Mr J. M. Pollaro
2001-2003	Mr R. G. Broadie
2003-2005	Dr Michael Jewess
2005-2007	Dr Mike Barlow
2007-2008	Mr Tim Frain
2008-2010	Dr Roger Burt
2010-2012	Mr James Hayles
2012-	Dr Bobby Mukherjee



IP Federation members 2013

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. The CBI, although not a member, is represented on the Federation Council, and the Council is supported by a number of leading law firms which attend its meetings as observers. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

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Email: admin@ipfederation.com | Tel: 020 72423923 | Fax: 020 72423924 | Web: www.ipfederation.com

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