



UNICE

Union of Industrial and Employers' Confederations of Europe
Union des Confédérations de l'Industrie et des Employeurs d'Europe

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**PROPOSAL FOR A DIRECTIVE APPROXIMATING THE LEGAL
ARRANGEMENTS FOR THE PROTECTION OF INVENTIONS BY
UTILITY MODELS**

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UNICE POSITION PAPER

UNICE has noted the European Commission's proposal for a directive approximating the legal arrangements for the protection of inventions by utility models in the internal market and proposes to use this position paper to outline its present state of thinking on this subject.

UNICE welcomes the Commission's efforts to further quest for solutions to improve industrial and intellectual property protection at Community level. These rights play a key role for corporate Europe. They promote innovative activities by companies in the European Union and allow rapid dissemination of the state of technological progress via the publication of protected inventions. Provided the dissuasive effect of excessive legal uncertainty is avoided, this increases companies' competitiveness, fosters the free movement of goods and has beneficial consequences on employment.

Only legislation which protects creations of the mind effectively, combined with competition rules that do not inhibit research and technology transfer, will give European industry the renewed confidence to invest in the research activities essential for development of new products and maintenance of technical leadership.

Nevertheless, before commenting on the content of the proposed directive, UNICE will make general comments on:

- the desirability of a Community initiative in the field of utility models;
- the assessment of the proposal;
- and the particular situation of SMEs.

It will then turn to detailed comments on the text of the proposed directive.

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DESIRABILITY OF A COMMUNITY
INITIATIVE 

1. According to UNICE, the proposed directive in no way convincingly demonstrates that the disparity in national laws relating to protection of utility models causes distortions of competition or barriers to the free movement of goods. Yet this is the Commission's underlying argument to justify action in the utility model area. This assertion by the Commission seems to be an assumption rather than the result of a careful study carried out prior to drafting of the proposed directive.

2. When the consultation on the green paper was launched, UNICE expressed the view that any Community initiative in this area was premature until the work already begun on patents, design and copyright had been fully completed. Before even raising the question of the European Union's requirements in this area, it is essential to examine the position occupied by utility models in the overall context of intellectual and industrial property in the Union.

In any case, UNICE believes that the Commission's proposal goes beyond the needs of industry and may have a stifling effect on research and innovation and on the development of improved products and processes.

3. Thus, while UNICE appreciates the Commission's desire to pursue actively its work programme in the field of intellectual property, it nevertheless regrets that the proposed directive seems to be based on a piecemeal approach to the problem.

Only once a policy based on needs has been worked out can there be a proper debate on the theme of utility models, a debate which should culminate with an instrument tailored to meet the real economic needs of companies in the internal market. If this is not the case, UNICE fears that some aspects of this proposal might run counter to efforts by EU institutions to build up an effective framework for a Community patent. In UNICE's view the Community Patent is more important and should have priority. Harmonising utility model laws may well hamper the process of changing the patent system and lowering the cost of a fully examined patent.

GENERAL LACK OF ASSESSMENT OF THE PROPOSAL



1. UNICE is of the opinion that the Commission has not thoroughly ascertained compliance costs before proceeding with the present proposals.
2. The Commission states on page 43 4.c) of its proposal that "*...there will be less need to consult industrial property experts or legal advisers. This will help resolve many an insurmountable administrative or financial difficulty*". This is wrong, not only because of the enormous cost of translations if applicants seek Community-wide protection, but also because it considers the utility model right solely from the point of view of its owner, ignoring the costs incurred by competitors. The main costs are :
 - scanning costs¹ ;
 - search costs² ;
 - evaluation³ and revocation⁴ costs;

In addition, because of the lack of an obviousness requirement undertakings will be forced to file more defensive applications to protect their own developments from the filings of others. The result will be a substantial increase in intellectual property costs in Europe.

3. UNICE is of the opinion that the Commission has not sufficiently assessed:
 - the effect of its proposals on the balance between justified protection as a monopoly right and freedom for third parties to compete on the basis of material in the public domain.
 - whether legal uncertainty caused by allowing parties to state a claim on material which is clearly obvious will discourage research into specific areas where there may be a plethora of utility model rights.
 - the effect on SMEs of the proliferation of utility model rights, which do not deserve protection since they are a simple extrapolation of publicly available information, and whether such rights are likely to benefit mainly large and foreign companies.
 - the possible distortions of competition or barriers to the free movement of goods that may appear if the criteria for granting utility models are different from those for granting patents, more specifically in matters which could be protected by both types of industrial property titles.

¹ where the relevant utility model abstract bulletin must be regularly perused for relevant items (cost of such a bulletin will be of the order of Euro 1,500 per annum).

² where each relevant utility model brought to light has to be searched for validity. The cost would be of the order of Euro 1,500 for each utility model found.

³ of the order of Euro 2,250 for each utility model found.

⁴ of the order of Euro 7,500 per utility model if in a patent office but much more in a court.

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PARTICULAR SITUATION OF SMEs



1. UNICE does not agree with the Commission's assertion that the majority of SMEs desire the extension of harmonised utility model laws over the whole community. If the question put to them is: "would you like to have this kind of protection?" without mentioning potential disadvantages the answer is naturally in the affirmative. If, however, the total costs of introduction of the Commission's type of utility model had been explained to them UNICE doubts that the answer would have been the same. The Commission proposals have not properly addressed this issue.
2. In this regard, it should be pointed out first of all that speed and low cost are an illusion. These advantages would be offset by legal uncertainty, the task of assessing the scope and validity of registered rights being devolved in practice to third parties.

SMEs, which do not have the same technical and financial resources as large companies, will be handicapped vis-à-vis the latter, for which the investment required for a search will represent a smaller percentage of their total R&D budget. There is a risk that SMEs might even be discouraged in their R&D efforts, thus hindering their innovative capacity, while paradoxically large European and foreign companies would benefit from a system seen primarily as a tool for SMEs. In addition, because of language requirements, SMEs will not file utility model applications in all member states of the Community, unless the member states agree they may be filed in one single language.
3. Furthermore the Commission has overlooked the normal pattern of filing by large companies, which is motivated as much by the desire to clear the way for future developments free from the rights of others as it is to obtain protection rights. UNICE believes that it is a false assumption that utility models would be of greater interest to small companies. The proliferation of unexamined rights would be very harmful to SMEs and the creation of monopoly rights in obvious developments and inventions might benefit mainly large and foreign companies.
4. The Commission has apparently not appreciated that encouraging SMEs to obtain a form of protection in Europe which does not exist in major important territories abroad such as the United States and larger Commonwealth countries (other than Australia), could lead SMEs to believe they can obtain such protection internationally and to make corresponding investments. The Commission should have investigated why there are no utility model rights in the USA where otherwise SMEs and individual inventors receive special consideration
5. UNICE urges the Commission to ascertain the degree of risk to SMEs operating in Community member states from utility models granted to third parties. What is the risk of being surprised by an unexamined utility model of a third party when making improvements, with the result that there is expensive litigation or even loss of investment in the improvements? What will be the extra cost of maintaining surveillance of utility models together with the cost of carrying out infringement and validity assessments on them?

COMMENTS ON SPECIFIC ASPECTS OF THE
PROPOSAL

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While UNICE believes, as stated above, that any Community initiative in this area is premature it has nevertheless examined the content of the proposed directive and reached broad internal consensus on the general lines described below.

I. INVENTIVE STEP

1. In discussions on the green paper within UNICE, opinions on this question were divided along the lines of the content of national systems, the majority of UNICE's member federations being fiercely opposed to the establishment of more than one inventive step.

The proposed Directive goes far beyond reducing the inventive step below what is currently required for a European patent. The basis of the inventive step requirement has always been non-obviousness. By eliminating non-obviousness, contrary to the legal and judicial traditions of EU member states, in reality the inventive step requirement has been eliminated altogether. UNICE strongly rejects the words "inventive step" being applied to mere technical progress and asks for reintroduction of some form of non-obviousness.

Under the present proposal which only requires technical progress or industrial advantage, almost all new products placed on the market would fulfil the requirements for protection. UNICE fears that the proposal might open the door to floods of defensive applications from large companies as well as from the USA and Japan.

2. A majority of UNICE's member federations is in favour of having the same inventive step as for a patent. A second possible way would be to have a lower level of non-obviousness inventive step than for a European patent (e.g. "not clearly obvious") and for the level in each country to be decided by national judges.

The way chosen depends on the objective of the proposed utility model law. Is it to confer a patent right until a patent can be obtained after some years or is it just to stop slavish copying, in which case the inventive step can be low-level non-obviousness combined with a short term or other restriction on the strength of the right? This deserves a clear answer.

UNICE is of the strong opinion that in any case a non-obviousness requirement must be additional to the technical progress requirements already stated in article 6.

II. NOVELTY.

1. UNICE agrees with the Commission that the novelty of a protected invention should be absolute. Furthermore, priority must be recognised for the claims of a utility model that validly claim priority.

Moreover, priority must be recognised for the content of earlier utility model and patent applications with a valid claim to priority.

III. TERM OF PROTECTION

1. The uncertainty resulting from a ten-year term for an unsearched, unexamined right is not acceptable to the majority of UNICE's member federations. Most inventions calling for utility model protection do not require protection beyond six years and given an inventive step requirement less than for patent protection, there is no justification for a longer time of protection.

For a majority of UNICE's member federations, the problem of uncertainty could be solved by charging a very high renewal fee, say at the five-year point, if the right is to be renewed beyond six years. This large fee could be used to pay for a search and publication of the search report. The consequence of this solution would be that unimportant and purely defensive rights would not be renewed, while for important rights the public would have the benefit of an official high-quality search report shortly after the end of the fifth year.

If the term is as long as 10 years without any restriction as to the quality and scope of the claimed invention, applicants will switch their patent applications to utility model applications and the patent system might be placed in jeopardy.

IV. SCOPE OF THE RIGHT

1. The scope of the right differs from country to country if it is intended to be the same as under national patent law. In some member states the scope of protection accorded by national judges can be very wide⁵. The combination of a wide interpretation with claims which are not examined, means that competitors are totally uncertain whether those claims are valid, and if they are valid how widely they can be interpreted. This is not acceptable for any kind of industry or any size of company. The claims of a utility model must therefore be narrowly interpreted in accordance with their literal meaning, otherwise bad practices will be encouraged together with unacceptable legal uncertainty.
2. This issue is closely related to that of inventive step. If that is less than for a patent the scope must be narrow. If the objective is to prevent slavish copying the scope of the right must be proportional to that objective.

V. COMPULSORY SEARCH

1. UNICE's member federations can only accept an unsearched unexamined utility model right if the term is very short, e.g. 5 or 6 years. If the term is to extend beyond 6 years, ipso facto the utility model must be valuable and therefore its owner can well afford to pay a substantial renewal fee - which should be used to pay the cost of a full EPO patent search. To make this provision effective the search should be paid for and carried out after 5 years. This is advantageous for the owner because:

- (a) he will then know whether it is worthwhile to pay the full large renewal fee due one year later;
- (b) at the 5 year point he need only pay the search fee - which should be EURO 850 as for a patent.

Furthermore the search fee should be deducted when the renewal fee is determined.

It is regarded as compulsory for the owner of an unsearched and unexamined right that in order to enter into enforcement proceedings he must have a search carried out by the EPO. Member states should be

⁵ In France if there is a new function protection is stretched to cover matter involving the same function to give the same result. In Germany similar matter which the expert would recognise as solving the problem underlying the patent to give the same results is covered. In Dutch law judges appear to have wide discretion to decide what are the essentials of the invention regardless of the wording of the claims. There can also be wide interpretation in the Nordic countries, Italy and Spain. In contrast in the United Kingdom and Ireland there has to be a purposive construction of the claim elements and in most cases this is no more than a generous literal interpretation. The same appears to be the case in France if there is no new function.

obliged to make such a search compulsory. The right to request a search report should also be given to third parties.

VI. ARTICLE 13 AND LIMITATIONS OF NUMBER OF CLAIMS (ART 13.2)

1. While article 13(1) is a necessary feature of a patent law, article 13(2) will only cause difficulties when the utility model is enforced in the courts. It is too subjective for a simple utility model right. UNICE is of the opinion that article 13(2) must be deleted. If not it will merely cause legal uncertainty as to the meaning of "clear and concise" in article 13(1). Point 71 of the explanatory memorandum states that this requirement makes it possible to limit the extent of the protection so as to compensate for the lack of any preliminary examination but has overlooked the means to achieve this goal. If such means are left to national law they can be expected to vary widely and in any case are likely to be contrary to article 24 - which lists the only grounds for revocation.

VII. GROUNDS FOR REVOCATION

1. UNICE believes that there should be a ground of revocation in article 24(1) corresponding to article 13(1):
(e) the claims are not clear and concise or supported by the description
With this exception, the grounds for revocation must be the same as for a patent, otherwise there will be confusion not only in the utility model laws but in the patent laws as well.
2. In addition, UNICE believes that giving the rightholder the possibility to amend the claims (or descriptions or drawings) would add more uncertainty to an already uncertain right. UNICE therefore suggests that the last sentence of article 24.2 should be deleted.

VIII. EXCLUSIONS FROM PROTECTABILITY

1. It is suggested that inventions "relating to" should be explained as excluding any invention in which such subject matter appears in the claims, but not where it is merely ancillary, e.g. where it is used conventionally in the examples of the utility model. If "relating to" is not explained in the directive it will take a long time for national courts to make a sensible case law.
2. A similar problem occurs with computer software. From the proposal it seems that the term "inventions involving computer programs" covers inventions related to software as well as to computer programs as such. This leads to considerable legal uncertainty. For instance, would a utility model with a "neutral" process claim protect only a hardware-implemented process, or would it also cover one implemented mainly by software. Will the whole contents approach to conflicting rights work? Can the "technical contribution" approach be maintained in examining protectability? Regarding the dividing line between protectable inventions involving software and software *per se*, UNICE believes that protectability should be as in the European Patent Convention. If article 52.2 EPC is deleted the corresponding change should be made in the directive.
3. It is also questioned whether inventions related to foods and foodstuffs should be excluded. Some parts of the food industry object to it.

ALIGNMENT WITH THE
EUROPEAN PATENT CONVENTION (EPC)
AND TRIPS
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I. POSSIBLE CONFUSION WITH EPC AND TRIPS ARTICLES

1. UNICE welcomes the fact that when appropriate, the Commission is adopting definitions according to the European Patent Convention (EPC). Nevertheless, in doing so, the Commission should make sure that it adopts exactly the same wording. If not, different wording for the same definitions might create confusion and possible divergent interpretations. A particularly pertinent example is calling technical progress inventive step in article 6, when this is defined as non-obviousness in article 56 EPC.
2. The same point arises in article 3(1), which refers to the grant of utility model protection under what appears at first sight to be the conditions of article 27.1, TRIPS and article 52(1), EPC. But this is completely misleading since the definition of inventive step is not the same. If at some time in the future utility models are dealt with under TRIPS it will be totally misleading as well as improper to use a definition of inventive step which does not involve obviousness.
3. It is also the case for article 4 which sets out the exclusions from protectability. They are based on article 53 EPC but in the English text of the proposed directive, the EPC wording of "ordre public", left in French has been replaced by "public policy". The meaning is therefore completely different and could lead to considerable problems if maintained.
4. There is no reason to change the wording of article 52 EPC in article 7(2) of the proposed directive concerning the definition of the exclusion of surgical and therapeutic treatment.
5. The limited exceptions which correspond to article 30, TRIPS will cause legal uncertainty as to what they amount to. It would be better to remove the reference to limited exceptions and to state the exceptions of article 27 (d) to (f) of the Community Patent Convention (CPC).
6. The reference to exhaustion of rights in article 21(1) should correspond to that in article 28, CPC and refer to the "express consent" of the proprietor.

II. MISSING EPC ARTICLES

1. Article 5 will not work if the priority provisions of articles 17 and 18 have no application. The corresponding provision in the EPC is article 89. A similar provision should be included.
2. There is no provision for early publication. This should be at 6 months after filing or on request (or if priority is claimed following the usual 18 month rule - see Article 93, EPC). It should also be mentioned in article 20 that the rights commence with utility model publication /grant.
3. There is no provision for conversion from a utility model application to a patent application. This should be allowed up to early publication provided new matter is not added (see article 76 and 123, EPC).
4. There is no provision for conversion from a patent application to a utility model application. This should also be allowed up to grant of a patent, again with exclusion of new matter.