



Intellectual Property Rights

*Compendium of
UNICE Position Papers*



UNION OF INDUSTRIAL AND EMPLOYERS' CONFEDERATIONS OF EUROPE

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Foreword

A moment's thought makes it clear that strong intellectual property protection produces long-term economic benefits. In the context of globalised trade, competitiveness is essential. A vital element of competitiveness is innovation, which is supported by intellectual property.

The economic purpose of intellectual property is to encourage creative activity, notably by fostering an adequate payback on the investments necessary for innovation. It is only by providing strong and comprehensive protection to creations of the human mind, together with competition laws which do not inhibit research and technology transfer, that European industry will have the confidence to invest in the research activities essential to the development of new products and the maintenance of technical leadership.

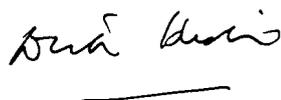
Without that essential combination of R&D and intellectual property, many European businesses will fail in the face of low-cost foreign competitors, with serious consequences for employment and economies generally in the European Union.

In Europe, the concept of "intellectual property" is still approached with diffidence, mistrust even. Broadly speaking, the handling of intellectual property, which is still perceived by decision-makers to be a technical subject, is therefore left, not to say abandoned, to specialists. However, its integration into business strategy and economic policy is the responsibility of top management and governments, and should be of general concern due to its impact on the competitiveness of companies.

Companies represented by UNICE are worried about a progressive erosion in the level of protection of intellectual property rights, a situation which it has brought to light and deplures, calling once again on the European Union to adopt a more coherent intellectual property policy as a matter of urgency. Intellectual property must be given the political support it enjoys in Japan and in the USA, urgently. UNICE would also urge EU institutions to assess SMEs' needs in this field more carefully.

In order to help EU institutions in this task, we are pleased to convey, with this compendium, UNICE's views on a number of specific instruments or debates launched at both Community and international level in the field of intellectual property, as well as on the strategic importance of intellectual property rights.

We hope that this document will help Europe build up a framework for protection afforded by intellectual property rights that meets users' expectations and needs.



Brussels, January 2000

Dirk F. Hudig
Secretary General of UNICE



Strategic Importance of Intellectual Property Rights

In the present economic situation, when the attention of policy-makers is focused essentially on employment and corporate competitiveness, it is useful to recall the role played in these aspects by protection of intangible investments, among which intellectual property rights occupy a special place. They are economic assets whose value to companies, and to European economy as a whole, is of strategic importance.

I. JUSTIFICATION FOR INTELLECTUAL PROPERTY PROTECTION

Regimes for protection of intellectual property allow companies to avail themselves of a range of rights which enable their holders temporarily to prevent third parties from manufacturing, selling or exploiting their creations without authorisation within a given territory. This confers a considerable competitive edge which is given concrete form through:

- ◆ patents and models which protect technical inventions (products or processes);
- ◆ trademarks which protect brand names, logos and other distinctive features associated with products or services, as well as company names and trade names;
- ◆ designs which protect the external appearance of products;
- ◆ copyright which protects literary and artistic works as well as computer programs.

The economic justification for intellectual property rights is to encourage creative activity, notably by fostering adequate return on investment in research, innovation and marketing.

The existence of intellectual property rights is one of the prerequisites for innovation: it encourages creative activity by making it possible to exploit the published results of earlier creations and research. It fuels the process of innovation which generates new creations and makes it possible to transfer these creations.

II. DECISIVE ECONOMIC ASSETS FOR COMPANIES

Provided that they are adequately integrated in business strategy, intellectual property rights can be the source of a large number of decisive economic advantages for companies:

- ◆ They make it possible to earn a return on investment in research, development and marketing. Such investments can be

considerable and allow the results of these activities to be transformed into commercial success.

- ◆ They help to foster and underpin competitiveness in both the short and the longer term:
 - through a gain in competitive advantage for innovative firms, by protecting their technological lead and allowing them to build on previous work with improved products and services;
 - they make it possible to conquer new markets and benefit from exclusive slots from which competitors may be temporarily excluded.
- ◆ They protect research results and creations of the mind against misappropriation or unauthorised copying.
- ◆ They promote quality and continuous improvement in product quality.
- ◆ They provide security for technology transfer by clearly defining the protected techniques to be transferred and by specifying the content and extent of the know-how that cannot be protected by a legal title.
- ◆ By clarifying the legal situation of rights in force, they reduce the number and scale of conflicts with third parties.
- ◆ Obligatory publication of protected inventions fosters dissemination of knowledge and makes it possible to avoid unnecessary and expensive research activity ('re-inventing the wheel').
- ◆ They create and reinforce the brand image of companies vis-à-vis the public by distinguishing their products and services from those of their competitors.
- ◆ By appearing as the vectors of the reputation of the company, its products and its key services, they are truly a considerable capital at the service of marketing policy

III. IGNORING INTELLECTUAL PROPERTY RIGHTS CAN PROVE EXPENSIVE

Ignoring intellectual property rights is tantamount to leaving a door open for a firm's inventions, trademarks and other intellectual assets to be copied. This harmful situation can rapidly lead to :

- a loss of profit sources which have often been acquired and developed at great cost;
- a massive waste of research investment;
- a slowdown in the company's activities and development in the face of competitors' conflicting rights.

This negligence :

- ◆ in most cases hinders the firm's activities and its development in the face of the valid rights of more astute competitors;

- ◆ involves conflicts with third parties and generally results in a considerable loss of competitiveness for the company in question.

IV. IMPACT ON COMPETITIVENESS AND ECONOMIC GROWTH

Intellectual property rights have been an important vector in the economic growth of industrialised countries, in expansion of their foreign trade, and in dissemination of their technologies, arts and culture. In the context of globalised markets, it is clear that the future of the European economy depends on its companies being competitive.

One of the crucial elements of competitiveness is continuous pressure for change and refinement. This pressure is a major incentive for innovation which in turn is supported by intellectual property rights. Innovation and new technology must be seen in the Member States of the European Union as a resource to be fostered, conserved and protected as is the case in the USA and Japan.

- 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 the development of new products and the maintenance of technical leadership.
- Solid protection of inventions and creations of the mind will have direct beneficial consequences on employment and the resulting income, and on the economic situation in general.

V. WITHOUT FULL EXPLOITATION OF CREATIVITY, R&D AND MARKETING THROUGH INTELLECTUAL PROPERTY RIGHTS :

- ◆ many European firms will reduce their investments in this area;
- ◆ technical research and development of new products will be carried out outside the European Union in countries which provide adequate protection of intellectual property and thereby guarantee a satisfactory return on investment; these countries will be the home of the most modern technologies, products and services and will benefit from the associated economic fall-out while maintaining a high level of competitiveness;
- ◆ the economy and social well-being in the European Union will be affected.

• • •

At the dawn of what has been dubbed the "age of knowledge", protection of creations of the mind assumes a higher profile. If the European Union wants to restore its competitiveness vis-à-vis its foreign competitors it is crucial for intellectual property to be integrated urgently in European economic and political strategies.

UNICE Memorandum on Community Intellectual Property Policy

In its capacity as spokesperson for the European business community, UNICE represents virtually all the holders of intellectual and industrial property rights in Europe and all those who use these rights in their industrial and commercial activities. For this reason, UNICE has for many years monitored closely the Community's legislative activities in this area and worked actively with the Union.

In recent years UNICE has noted an increase in the difficulties surrounding adoption of Community instruments in this field and it notes that this development has progressively brought about a deterioration in the level of intellectual property protection in the European Union.

Bearing in mind the economic importance of innovations for corporate competitiveness, UNICE believes it essential for the European Institutions to be aware of the dangerous drift in this area and to adopt the policy measures needed to rectify this situation urgently.

I. THE CONTEXT

The issue raised here is one of the facets of the general debate on the competitiveness of European companies and requires the European Institutions' urgent attention.

1. The economic purpose of intellectual property is to encourage creative activity, whether in the arts or in the fields of trade and industry.

In the world of trade and industry, intellectual property underpins competitiveness. The latter requires not only a high level of efficiency but also the industrial strength to make necessary investments in innovation as well as an environment conducive to an adequate payback on such investments. This is the message underlying the TRIPS agreement in the Uruguay Round.

2. Moreover, in a rapidly changing world marked by unprecedented technological change, the need to protect intellectual property is becoming obvious, while the globalisation of trade is bringing about increased competition which calls for the adoption of a level of protection equivalent to that enjoyed by American and Japanese companies on their respective markets, and at comparable cost.
3. Against the background of the debate on the competitiveness of European industry, UNICE concludes that the time has come to strengthen the protection of European companies in this area.

In this regard, UNICE is very pleased to note that, with the

adoption of its communication on "An industrial competitiveness policy for the European Union" [COM(94) 319 final of 14 September 1994], the European Commission addresses the concerns of rightsholders by listing as a priority the promotion of intangible investment and, more specifically, development of an integrated approach for better protection of intellectual property rights in all areas.

II. ANALYSIS OF THE DRIFT OBSERVED BY UNICE

1. When evaluating legislation protecting their inventions, rightsholders look essentially to two types of provision which have a direct impact on the profitability of investments, i.e. those which touch on the scope and the exercise of their rights and those which lay down measures influencing the cost of the protection systems put in place.

UNICE notes that, in these two respects, European companies have suffered a progressive erosion of their rights and that the level of protection presently available to them is below that enjoyed by their direct competitors in the United States and Japan on their own markets.

2. When examining successive examples of this drift in intellectual property protection, UNICE has noted that the difficulties arise in the different stages of the legislative process and can emanate from any of the Union's three main institutions which have a decisive influence on this process, i.e. the Commission, European Parliament and Council.

UNICE sets out here, without distinction, all the examples of "erosion" that it has noted. However, it is keen to point out that it is aware of the efforts deployed by the Commission in many cases to defend respect for intellectual property rights and it is not unaware that some elements are completely beyond its control.

It is important to stress that UNICE's aim here is not to apportion blame but to analyse a disquieting situation so that remedies can be applied.

3. Taken individually, examples seem of minor importance. Seen as a whole, they take on a totally different complexion: their effect is that European companies do not have a level of protection equivalent to that enjoyed by their American and Japanese competitors on their own market, and UNICE believes the time has come to correct this situation, which has developed despite the protests of industry.

III. CAUSES OF EROSION

Analysing the causes of this situation, UNICE sets out here the most important, which can be summarised as follows :

1. *Competition rules* and the rules governing intellectual property rights have by their very nature opposing objectives though they are not irreconcilable and their co-existence is based on mutual respect and the right balance between them.

However, UNICE believes that this balance has shifted to the detriment of holders of intellectual property rights. The Commission's proposals regarding block exemptions for some categories of technology transfer agreements are a striking example of the present imbalance, and of the damaging consequences that adoption of the proposed rules would have for companies' capacity to innovate and hence their competitiveness.

2. *Standardisation* can also come into conflict with the rules protecting intellectual property though standardisation bodies have generally adopted a respectful approach to intellectual property, a line of conduct that must be maintained in all sectors.
3. *Consumer law* is becoming increasingly important in western societies, a happy development which is to be welcomed. However, here too, concern to protect the consumer must not be a roundabout way of allowing competition rules to prevail over the legitimate interests of rightsholders.
4. Similarly, *environmental concern* and the willingness to come to the aid of less favoured countries must not lose sight of the fact that the existence of intellectual property rights underpins a significant portion of the wealth of industrialised countries and, consequently, of the jobs which flow from this wealth. Technology transfers to third countries must therefore not be imposed by national or Community rules but with the freely given consent of the rightsholders and under conditions which they themselves determine.
5. All too often, *unconnected political considerations* take precedence over the interests of rightsholders. This is the case, inter alia, with the unfortunate compromise solutions imposed on companies with respect to the language regimes chosen for Community Offices.
6. The *urgency* often invoked for adoption of a proposal can also entail harmful consequences for companies. For instance, the proposal may be the subject of insufficient consultation, based on studies it has perhaps not been possible to flesh out in detail, leading to texts whose wording leaves much to be desired.

In many cases, however, companies would prefer, for obvious reasons of legal certainty, to wait longer for adoption of an instrument, provided that this will ensure the level of protection and quality they need.

7. UNICE notes that the Commission has adopted a *fragmented approach* to intellectual property. This approach is particularly inadequate in this area, where legislation takes the form of systems which must remain coherent in order to survive and where departure in one area from the fundamental principles governing that area are bound to have repercussions in all related areas.

In addition, this fragmented approach, by limiting the scope of legislation, encourages political pressure for limited special interests, which pushes into the background the general interest of society and the importance of respect for fundamental principles of law.

8. Lastly, UNICE believes that the main reason for the drift described above lies in the absence of a true Community *intellectual property policy*.

IV. REMEDIES RECOMMENDED BY UNICE

Having looked at the causes of the situation it has described, UNICE recommends the following remedies:

1. UNICE believes that the European Institutions' top priority in the field of intellectual property should be to adopt a policy capable of ensuring respect for the most fundamental and most elementary principles in this area.

In this context, UNICE regards it as indispensable that the European Institutions jettison their fragmented approach and identify an overall and coherent policy.

2. This policy must achieve a new balance between the forces involved when the Commission tackles questions at the interface between protection of intellectual property and competition policy. It should have the same balancing effect in cases where intellectual property is in opposition to other considerations such as standardisation, consumerism or environmentalism.

3. UNICE very much hopes that adoption by the European Commission of a policy in this area will exert a positive influence on the approach of the other Community institutions to these often highly technical questions. This could in time extricate this area of law from unconnected political considerations and which undermine holders' rights.

4. UNICE believes it essential for this policy to be worked out in a framework of very close cooperation with business, which must be involved in the work from the initial stage of conceptualisation.

5. At practical level, UNICE believes that intellectual and industrial property should be entrusted, within its Directorate-General, to its own powerful Directorate with the autonomy needed to guarantee neutrality and the spirit of universality which must preside over the drafting of legislation in this area.

6. This Directorate should also be given the resources to exercise effective control over all the instruments prepared outside this domain but which could directly or indirectly affect systems to protect intellectual property.

7. Lastly, noting that rules in this area are moving very naturally towards a global approach, UNICE considers it essential to stimulate close cooperation within the Triad.

In this context, it is quite instructive to point out that it is the shared needs of the Triad's business communities that made it possible to strengthen intellectual property rights during the Uruguay Round of multilateral trade negotiations.

5 December 1994

UNICE Position Paper on the Green Paper on the Community Patent and the Patent System in Europe

31 October 1997

EXECUTIVE SUMMARY

UNICE welcomes the Commission's green paper on the Community patent and the patent system in Europe [COM (97) 314 final], as a step further in promoting innovation in the European Union. UNICE has long stressed that making the legal framework more favourable to innovation is a prerequisite for any integrated policy in favour of innovation. UNICE is therefore pleased to take the offered opportunity to express its views on this subject.

In order to break the deadlock existing under the Luxembourg Convention amended by the 1989 CPC and Protocol on Litigation, UNICE would welcome the establishment of a new unitary system which would facilitate the management of rights, reduce patenting costs, and offer an effective court system for enforcement and greater legal certainty.

UNICE proposes that the new unitary Community patent system, replacing the existing proposals for the Community patent, should meet the following main requirements :

- ♦ one patent covering the whole territory of the Community;
- ♦ the patent application could be filed in any Community language provided that an English translation is made available within a specified and reasonable period of time;
- ♦ prosecution of the application and any other proceedings in English;

- ♦ no translation of the granted patent specification, or the claims;
- ♦ one single system of European courts, procedural rules and means of enforcement.

In addition, UNICE clearly wants the European patent to be maintained and improved regarding costs and opposition practice. Stronger links should be established between the EPO and the Community institutions with regard to the running of the new Community patent. The EPO should pursue its task of managing the European patent, but should also run the newly created Community patent. The existing national patents and national patent offices must be maintained and the allocation of fees between the European Patent Office and national offices must be modified in favour of the EPO.

UNICE would reject the following :

- ♦ ending the option to obtain national patents ;
- ♦ running down or placing barriers in the way of the present EPC system ;
- ♦ translations of the whole text or even the claims ;
- ♦ revocation by the EPO or courts with insufficient expertise in patent matters ;
- ♦ Community exhaustion of national patents by implied consent.

I. INTRODUCTION

UNICE welcomes the Commission's green paper on the Community patent and the patent system in Europe [COM (97) 314 final], as a step further in promoting innovation in the European Union. In its comments on the green paper on innovation [COM (95) 688 final], UNICE has stressed that making the legal framework more favourable to innovation is a prerequisite for any integrated policy in favour of innovation. A strengthening of regimes to protect industrial property rights at Community level is one of the important contributory factors to improve the innovative activity of European companies and thereby helps to increase their competitiveness.

The Commission is quite correct to point out the need to heed the growing globalisation of trade. European business is less successful at converting its skills and the results of its scientific research into marketable products than other regions of the world precisely because it is more fragmented and because its intellectual property protection system is still not fully in place. In a Memorandum on "Community Intellectual Property Policy" (5 December 1994) UNICE stressed that the level of protection presently available to European companies was below that enjoyed by their direct competitors in the United States and Japan on their own market, and called for urgent action.

Patents play a key role for corporate Europe and its competitiveness. 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. This increases companies' competitiveness and fosters the free movement of goods. Research investment has to be protected by property rights like any other investment and the fruits of this investment are to be attributed to the businesses that generated them.

For this reason, UNICE notes with interest this new Commission initiative, given concrete form in this green paper, whose aim is to try to help in the quest for solutions to improve the patent system in Europe. UNICE welcomes this laudable initiative, and is pleased to take the offered opportunity to express its views on this subject. UNICE will not give a systematic response to the questionnaire contained in the green paper but is ready to develop its position on any specific aspect if needed.

II. THE PATENT SYSTEM AND THE SINGLE MARKET

The 1975 Luxembourg Convention was a brave attempt to provide a single and unitary protection right valid throughout the EC. The aims of the CPC, to provide a cost-effective Community right and to achieve the aims of the single market with special reference to fair competition and free movement of goods, were indeed praiseworthy. Nevertheless, the system proposed by the CPC has never become operative and UNICE believes it is high time to relaunch thinking about its adequacy to meet the needs of today's users.

The debate launched by the Commission's green paper confirmed UNICE's view that industry is not interested in the system devised by the Luxembourg Convention. The 1989 CPC and its Protocol on litigation are much too risky, the system for filing translations is too expensive, the risk of revocation by a national court is too great and the jurisdiction system is faulty because of possible stays and uncertainties. In addition, patentees are forced to litigate country-by-country. Most patentees simply cannot afford the cost of a 15-country Community patent requiring 10 translations. This problem will get worse as the Community expands to more members, requiring additional translations.

UNICE fully agrees with the green paper (executive summary, 4th paragraph) when it states that the main issue to be examined is how the 1975 Luxembourg Convention needs to be adjusted in order to offer to its users a system that is accessible, legally certain and at a reasonable price.

In order to find new solutions, UNICE would welcome a new Community patent system replacing the existing proposals enabling companies to use a unitary title covering the whole

territory of the European Union, provided that it meets the requirements which are developed in the following sections.

III. THE COMMUNITY PATENT

1. The need for a unitary patent system

There is clearly a need for a new unitary Community patent in terms of costs, legal certainty, translation requirements. A new unitary title which would cover the whole territory of the Community and which would be enforceable by a unitary judicial system would solve existing problems of geographical coverage, distortion of competition, and would ease monitoring of infringements.

2. The weaknesses of the Luxembourg Convention

As noted above, in UNICE's view the main weaknesses of the present CPC are :

- ♦ the high cost of Community patents due to translations which will get worse as the EU expands to more member states ;
- ♦ legal uncertainty associated with the present arrangements for jurisdiction and stays. If the court is that of the defendant's domicile or where he has an establishment it will have general jurisdiction over all acts of infringement in the Community and if an action is commenced before it, all subsequent actions in other countries must be stayed ;
- ♦ the unacceptable risk of the loss of an extremely important right, at least in the first instance, due to cases being heard before inexpert courts.

3. The problem of the cost of translations and possible solutions

UNICE is interested in a Community instrument only if it is inexpensive and comparable in cost to a US patent. The Luxembourg Convention foundered on fudges and a compromise language regime would mean that the new Community patent would not fulfil its essential criteria. A new solution must therefore be found.

UNICE believes that, in order to ensure both the unitary character of a newly created Community patent and reasonable cost, there should be one single language for proceedings. Since English is the common language used in any technical field, and the language used most by patents experts, UNICE favours the new Community patent being prosecuted and granted in English without any further translations. UNICE proposes that it should be

possible to file a Community patent application in any Community language, provided that an English translation is made available within a specified and reasonable period of time.

Any solution which would constitute exceptions to the unitary character of the new Community patent should be rejected.

4. The problem of judicial arrangements and possible solutions

The operation of the judicial system in the individual member states emphasises the need for collegiate judgments at a very high standard rather than non-collegiate judgments following national traditions. Legal certainty is not just a matter of having a system of uniform substantive law. Having a system with a single set of rules and appeal to a common court is indispensable to obtain consistent decisions, but having courts with the necessary expertise in patent matters is also essential.

UNICE believes there is no case for minor adjustments to the judicial machinery but only a case for radical alteration. There is too much concentration on the second instance. It is essential for there to be EU-wide jurisdiction, to have a new set of EU procedural rules and EU rules of evidence, and to have a complete and unified set of rules for preliminary injunctions. It is also necessary to keep the costs down, so any discovery and seizure of evidence must be fully justified and controlled by the court.

The flaw in the 1975 arrangements is that if validity and infringement are judged separately, the interpretations of the claims may well be different. The patentee is bound to seek a narrow interpretation when considering validity, but wants as wide as possible an extent of protection.

Another difficulty is that if, as is acknowledged at the top of page 11 of the Green Paper, validity is no longer decided by the infringement court, but only by the EPO, it would be necessary to limit the obligation to stay to cases where the infringement court thinks there are serious grounds affecting the validity of the Community patent. Otherwise most cases will involve counterclaims and stays, and the EPO will be swamped.

The suggested system of referring validity to the EPO is doubted - not only because of the need to judge infringement and validity on the basis of the same interpretation but because it might take the EPO several years to come to a decision - with the result that there is greater pressure for immediate justice through Community-wide preliminary injunctions.

Infringement actions under a Community patent are too important to be left to courts without the necessary expertise in patent litigation, which apply different standards and where the procedure is inefficient and costs unreasonable. UNICE believes that in order to enforce the new unitary patent properly it is necessary to create a new collegiate Community Patent Court

which can handle all issues to the satisfaction of the users of the system.

This new Community Patent Court would deal with validity, infringements and injunctions and could be constituted by a single peripatetic court with judges of high patent expertise drawn from different countries. If this requires amendment of the Treaties creating the European Community, this should be done. Such a court should be sufficiently skilled to be able to deal with validity and infringements and it must have full powers to deal with civil law actions, i.e. the power to demand evidence, to issue injunctions including preliminary injunctions and to award damages and require destruction of infringing goods.

UNICE believes that appeals must go to a newly created Appeal Court empowered to review both facts and law.

UNICE is against the alternative solution and its exception suggested on page 12 of the green paper because it places the unitary character of the new Community patent at stake.

5. Fees

It is agreed that the EPO, which should be in charge of technical operation of the Community patent system, should operate in financial balance, as is required by Article 40.1, EPC.

It is agreed that the EPO should not be able to make over any share of the revenue to other national bodies. However this raises the question of the survival of the national patent offices. UNICE believes the national offices perform valuable services to their local industries, especially SMEs. Closer cooperation of national offices with the EPO must be encouraged.

In UNICE's view the financial arrangements should be amended so that the EPO obtains the revenue from Community patent renewal fees in full. The Community patent system should set a single yearly renewal fee which should be substantially less than the total amount of fees for a European patent covering the average number of designated countries.

6. Links to be established between the Community patent and the European patent.

One essential item of needed flexibility is that the "option" to take out European patents or national patents should be preserved for all time. It is essential that a new unitary Community system is offered in parallel with national patents, whether obtained from the EPO or the national patent offices, with which it will co-exist. By maintaining both systems, companies will be able to enjoy the desired advantages of the Community patent without losing the proven advantages of the European patent.

UNICE agrees with the idea of conversion from a Community patent application to a European patent, during or towards the end

of the granting procedure. To make these possibilities work, UNICE insists that something be done about possible exhaustion of rights by implied consent, ie first sales by third parties in patent-free countries.

7. UNICE's suggestions

In light of the above considerations UNICE desires the establishment of a new system whose essential feature would be the granting of patents with unitary character, having equal effect throughout the Community, and which could be granted, transferred, revoked or allowed to lapse only in respect of the whole Community. In order to meet industry's expectations a new Community instrument should be offered at low cost and provided with an effective court system to enforce it.

In order to meet its users' expectations the new Community system would have to fulfil the following requirements:

- ◆ one patent covering the whole territory of the Community ;
- ◆ the new Community patent application could be filed in any Community language provided that an English translation is made available within a specified and reasonable period of time. Any other proceedings should be in English ;
- ◆ no translation of the patent specification or claims. This would produce major savings in cost (24 translations of claims only for an average patent will cost DM 24,000; 24 full translations of an average patent will cost about DM 61,000) ;
- ◆ one single system of European courts, procedural rules and means of enforcement. Infringement actions under a Community patent are too important to be left to courts without the necessary expertise in patent matters. There has to be a new Community patent court composed of experienced patent judges with jurisdiction to decide for the whole EU on validity, infringement and injunctions ;
- ◆ the existing national patents and national patent offices must be maintained.

8. Other questions

It is noted that TRIPs deals only with the conditions for compulsory licences and not the grounds for them. There is a case for rationalising the grounds, eg limiting them to failure to supply the market sufficiently, to cases where there is anti-competitive behaviour, to cases of urgent and overwhelming public need such as earthquake and epidemic, and to the dependent patent case as defined in TRIPs. The conditions for compulsory licences set out in TRIPs should be reproduced in full or explicitly referred to as suggested.

Prior use rights are rare, but if such rights are not harmonised, the rights to stop others working under the patent will vary around the Community. UNICE believes that there should be a Community-wide right to continue a prior use for which serious and effective preparations have been made in good faith for use on a commercial scale before the effective date (normally the priority date) of the patent concerned and this must involve a financial investment in the invention. Mere personal possession of the invention should not be sufficient to establish a prior use right.

IV. FURTHER HARMONISATION AT COMMUNITY LEVEL

1. The need for further harmonisation at Community level

There is a pressing need for harmonisation of patent law in the area of biotechnology. The present situation is hurting European business and has already driven the majority of research-based activities away to the United States. UNICE urges the EU institutions finally to adopt the proposed Directive on this subject.

The limitations of experimental use in relation to patent infringement should also be harmonised.

2. The patentability of computer programs and software-related inventions

As far as the patentability of computer programs and software-related inventions is concerned, UNICE believes that existing differences between judicial precedents in the member states do not create barriers to trade or distort competition to a considerable extent. Nevertheless these differences should be examined with a view to harmonisation. If differences between Europe and its main trading partners do prove likely to create difficulties for European firms outside Europe this is a problem for international agreement, not for making unilateral concessions in Community patent law.

Article 52(2)(c) causes difficulties since it is often taken to relate to inventions concerning computer programs generally. However, it could be deleted if it is made clear elsewhere in the EPC and its Implementing Regulations (or successors) that mathematical principles per se are not patentable and that patentable programs must at least enable the technical solution of a technical problem. The simultaneous application of copyright law and patent law to the same creation or invention is necessary in order to protect the basic invention and its software development. The present guidelines for EPO examiners do not appear to need amendment, either in respect of parallel protection or generally.

3. Employees' inventions

The differences between member states' laws on employees' inventions may have an impact on employment conditions and/or

the freedom to provide services and/or the conditions of competition in some member states, but there is no evidence that formal compensation systems encourage innovation and some authors think they discourage it. UNICE is of the opinion that the differences are caused by the social laws governing conditions of employment in those member states and are a matter for them. There is no justification for harmonisation at the Community level, which could well have the effect of imposing the laws of the few on the great majority of the Community, together with heavy compliance costs. UNICE believes this is an issue where the Community principles of proportionality and subsidiarity should apply.

4. Formalities, use of patent agents and recognition of qualifications

4.1. Formalities

The WIPO Patent Law Harmonising Treaty contains many useful measures, but it is not complete in all details. Furthermore, it sets out a list of maximum requirements. This does not produce uniformity since countries will make their own choices up to the maxima. National laws around Europe should be aligned more closely on EPC and a new unitary Community patent system. The EPC and its Implementing Regulations and the guidelines for EPO examiners contain further harmonising measures with which the patents profession is fully familiar. It is necessary to ensure conformity of the EPC, its Implementing Regulations and the corresponding Community patent provisions and the guidelines for all of them, with the WIPO treaty and also set out a uniform European practice.

4.2. Use of patent agents

The requirements of domicile and address for service need to be rationalised within the Community legal order so that there is free movement of services. Industry needs to be able to use a single representative domiciled in one member state, with no restrictions on whether this representative is employed by the patent applicant, employed by another company commercially connected to the patent applicant, or a free practitioner.

It is noted that under the ACP, so far as the Community patent is concerned, only one representative will be needed to deal with applications for and grants of Community patents. Then there is the question of whether qualified European patent agents and attorneys should be able to represent any patentee or defendant, regardless of domicile before a newly created Community Patent Court and any Common Appeal Court. UNICE believes that in view of the fact that such representatives have to pass a qualifying examination in European patent practice, this should be the case, possibly after that qualification has been supplemented by an aptitude test for appearance in these courts.

4.3. Professional qualifications

Industry is concerned to ensure that the quality of services is sufficient to avoid difficulties in assessing the patent rights of others. Persons having professional qualifications in one member state should be able to practice in others, if an aptitude test is passed. The latter should be limited to what is necessary following the proportionality principle. The four fundamental requirements in Gebhard appear satisfactory. There should be no domicile restrictions within the EU - a qualified representative should be able to take the test of any member state regardless of his place of domicile within the EU.

In UNICE's view harmonisation at Community level is necessary, but should be within the ambit of the suggested new Community system and it must take account of the WIPO PLT. It should cover the use of patent agents, address for service and choice of domicile.

5. Additional measures to make the patent system more attractive

UNICE has already replied (12 February 1996) to the Commission's Green Paper COM(95)370 final and concluded that Community action to protect utility models is premature and does not necessarily correspond to the priority economic needs of European companies; that any Community instrument must actually correspond to and be proportional to the economic needs of all European companies; that only harmonisation of national legislation is desirable under specific conditions.

In the patents field the idea of legal costs insurance has been discussed for many years without becoming popular. The difficulty is the unpredictable nature of patent litigation and its very high cost. However it might well help European SMEs if public financing of the system of legal costs was combined with a vigorous attack on the cost of litigation. UNICE believes:

- The best way to implement the protection afforded by patents is to simplify the patent system and render it cheaper in operation. The European patent system is simple in its substantive law provisions, but suffers from rigorous interpretation.
- Legal costs insurance may be a good idea but does not work well in practice. A legal aid scheme for SMEs might work if the system were much more predictable, but probably the private sector should be the place for insurance if it is thought to be needed.
- It is difficult to imagine further harmonisation measures beyond what is already in ACP, CPC and EPC. Harmonisation of the extent of protection would help practitioners and those advising on legal aid. Thus it could be laid down that henceforth one of the highly developed national systems will be applied, i.e. the one whose results are most predictable.

V. THE EUROPEAN PATENT

1. General structure of the European patent

UNICE is not satisfied with the present system and believes that it must be improved regarding costs, biotechnology, and opposition practice. It needs a unifying European-level Appeal Court.

UNICE believes that stronger links should be established between the EPO and the Community institutions with regard to the running of the new Community patent. The EPO should pursue its task of managing the bundle European patent, but should also run the newly created unitary patent. Arrangements should be made with those countries which are not members of the European Union so that they can still have access to the European patent.

2. The problem of the cost of the European patent

2.1. Fees

UNICE believes that the designation fees should be eliminated and the search fees reduced. This should be financed from renewal fee receipts, that being the conventional way of using them. Nevertheless, if designation fees are not eliminated they could be collected at grant of the patent.

2.2. The distribution of revenue from renewal fees

UNICE has repeatedly called for an increase in the so-called distribution key in favour of the EPO and for further fee reductions. The use of European patent fee receipts by the national offices for other purposes than patents amounts to a tax on innovation to which UNICE is totally opposed. Funds must be hypothecated and shared out in a transparent manner and allocated only to patent-related activities. Also it is unacceptable that some patent offices levy high fees for validating the granted European patent in their countries.

The national innovation-related tasks that could be financed from a share-out of revenue from renewal fees for European patents might include encouragement of SMEs to use the patent system and provision of patent information.

2.3. Translations

UNICE has since the outset supported the "package solution" as a step in the right direction for reducing the patenting cost of the European patent system. It would nevertheless be too expensive for the proposed Community patent.

The viability of the enhanced abstract scheme for the European Patent system depends on how many translations of the abstracts are needed and on how they are paid for. If the applicant has to pay up-front, then the prospects for the scheme are probably poor¹,

although it might be better than the present system where full translations for a number of states have to be produced at grant. However, if the costs were met from renewal fees, and a greater share of these were remitted to the EPO in order, inter alia, to meet these costs, then the system might work very satisfactorily.

UNICE believes that the package solution should be further discussed and soon proposed to the countries which are willing to join it.

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¹ UNICE calculates that the enhanced abstract would cost at least DM 250 and its translation, bearing in mind that the specification has to be read by the translator to render it accurate, would cost at least DM 350 (this would mean DM 2800 for 8 designated countries). If the abstract has to be translated into 26 languages (add Iceland and Norway), the translation costs at the 18-month publication stage would be about DM 9100.

UNICE Position Paper on the Proposed Introduction of a Grace Period in National Patent Laws

14 July 1998

I. INTRODUCTORY REMARKS

1. UNICE is closely following the discussions which are currently taking place in various fora¹ on the possible advantages of introducing a grace period in national patent laws. UNICE would like to use this statement to present its position on a subject which is of direct concern for the companies it represents.

2. The main argument used to favour introduction of a grace period is that, without it, universities, SMEs and inventors inexperienced in patent matters, might be deprived of proper protection because of the novelty-destroying effect of disclosure of an invention within a period prior to filing a patent application².

UNICE believes that this is a simplistic presentation of a very technical issue whose underlying arguments need to be much more carefully assessed. In particular, the grace period needs to be assessed in the context of the patent system in Europe and the consequences of the changes it would imply should be carefully studied.

3. No grace period for patents has been available in Europe for the last 20 years after harmonisation of patent laws in line with the Strasbourg Convention and EPC, and for the majority of users its introduction in Europe would severely affect the legal certainty on which the European patent system is based.

II. THE US EXCEPTION OF THE FIRST-TO-INVENT SYSTEM

1. The advocates of a grace period often cite the example of the USA. This comparison is mistaken. The USA is the only country in the world to apply a first-to-invent system whereas first-to-file is applied internationally. What is referred to as a "grace period" in the United States is embedded in a completely different legal system. Under US law the inventor is given twelve months to file after any publication or commercial activity. But his priority date is not his date of filing as in the rest of the world, but his date of invention. Any intervening act such as a publication or a patent filing is disregarded if the inventor's date of invention is earlier.

2. The so-called grace period in the USA is not a grace period but a period in which an inventor has to file a patent application if he wants to avoid a statutory bar. In addition, the American system contains a trap for the European inventor. If the latter takes advantage of a twelve month grace period in Europe and

then files twelve months after his European filing date in the US, he would have lost his rights because of the statutory bar. In a reverse case, an American inventor would not suffer this kind of prejudice. This is a clear evidence of how misleading it can be to compare the American system with a grace period.

III. ASSESSMENT OF PROS AND CONS OF A GRACE PERIOD FOR INVENTORS

1. While it is generally accepted that those who are familiar with the patent system can manage their disclosure of technology and do not need a grace period, it is claimed to be necessary to enable less experienced users of the patent system to exchange research results prior to patenting them. The biotechnology area is often used as an example.

It cannot be denied that there may be cases where a grace period might be of help. It has to be noted, however, that reliance on a grace period can be detrimental to a patent applicant because it opens up many traps which will affect, in particular, inexperienced inventors. Thus, the purported advantages of a grace period could very easily turn against those who are supposed to benefit from it.

2. There is no global provision for a grace period. Proposals to amend the Paris Convention to provide for a universal grace period running up to the first filing date in the framework of WIPO/PLT have so far failed. Thus, a prematurely disclosed invention might benefit in a grace-period country, but would fail to be validly patented in other countries. Accordingly, the introduction of a grace period will create a false sense of security and will result in an increased tendency to disclose (often prematurely) before filing. Inexperienced users of the patent system, such as universities and SMEs would suffer most from the legal uncertainty resulting from introduction of a grace period and will easily fall into the traps it opens at international level³.

IV. FURTHER DISADVANTAGES FOR INVENTORS

1. The above disadvantages arise from the mechanics of the patent system, but others arise from the actions of competitors who see the premature publication of the invention. Such competitors can take advantage of the disclosure, completely legally and in good faith, or might be spurred into filing patent applications based on what they already know. Such applications might concern improvements or ways of applying the disclosed invention. Competitors might start using the

information commercially or at least start to make serious and effective preparations to that end.

A prior use right for a competitor in such circumstances cannot be excluded so that a subsequent patent cannot be invoked against it. Strategic patenting by competitors of their improvements, processes, combinations and the like - even prior to the patent application of the inventor who published first - could seriously affect his rights to exploit his own invention and also prevent him from obtaining a patent.

2. To counter such possibilities the USA not only want a grace period in Europe, but also want the publishing inventor to enjoy priority from the graced disclosure so that acts by later inventors, even if based on the latter's own knowledge, can be set aside and ignored. The argument is that the later inventor must have directly or indirectly derived the invention from the publishing inventor, i.e. from his publication. The burden of proof then falls onto the later inventor to show he acted independently. This would import the American first-to-invent system into Europe, considerably raising the cost of patenting and in particular cost of litigation, to the great disadvantage of all European companies, and therefore European competitiveness.

V. LEGAL CERTAINTY

1. Legal certainty is one of the most important and leading criteria for a patent system, which is an advantage to the innovating and investing community. The pressing need to avoid legal uncertainty is one of the main considerations in international discussions on intellectual property generally.

In Europe the existing system is based on a clear legal situation: the filing date is decisive and novelty is absolute. In this first-to-file system, the advantages of the absolute novelty rule have been appreciated for years. Prior art searches need only take into account the date of the first filing. All acts made available to the public before this date are to be considered prior art⁴. It is a clear-cut situation which has met users' expectations, avoids costly, uncertain and lengthy litigation, and facilitates predictability of the outcome and safe assessment of the rights of others.

In the American first-to-invent system, establishing the decisive "invention date" is not easy. Lengthy, uncertain and expensive interference proceedings have to be undergone which eventually lead to a decision on who is entitled to the patent. For the parties involved, as well as for competitors, e.g. for an interested licensee, there is a long period of uncertainty and introducing a grace period in Europe would import part of this legal uncertainty, add seriously to cost and make investment decisions difficult⁵.

2. Patents are used also by wide circles for technical information and legal assessment. Questions concerning infringement and validity of a third party's patent have to be answered every day.

This is already complex with the existing system, but would be even more so with a grace period⁶. SMEs and isolated inventors would be particularly affected.

3. Introducing a grace period to aid inexperienced users would result in all users of the patent system facing these difficult questions and a longer uncertainty period⁷. These considerations apply not only to investment decisions but to clearance studies with respect to third parties' rights generally.

VI. ALTERNATIVE SOLUTIONS TO ENSURE PROPER PROTECTION OF INNOVATION FOR SMEs AND ISOLATED INVENTORS

1. One of the stated reasons for introducing the grace period is to help inexperienced inventors who are unaware of the patent system and of the consequences of disclosure before the filing date in a first-to-file system.

UNICE is of the strong opinion that instead of changing an efficient regime which provides the legal certainty required by large and small companies, it would be much more productive to concentrate efforts on informing those few people who lack experience of patenting rules, procedures, formalities and strategies and who could be misled by a grace period.

¹ In particular, the draft report presented by Mr W. Rothley to the "Legal Affairs" Committee of the European Parliament.

² This means that once their invention has been disclosed, it can no longer be patented as it has lost its novelty which is one of the three criteria for patentability (art 52 EPC).

³ An illustration is what would happen in Japan and USA. Japan has a grace period of six months. A European researcher makes a disclosure, relying on an assumed grace period in Europe of six months, files a first patent application in Europe five months later and then, within the Paris Convention year, 11 months later in Japan. He then finds he is 10 months too late for the Japanese grace period shelter! He should have filed in Japan within 6 months of his disclosure, i.e. about the same time as his first filing in Europe, much earlier than he would otherwise have filed in Japan under the Paris Convention. The result would be that he benefits from the European grace period but he loses the 12 months benefit provided by the Paris Convention. Even more importantly, he will lose his American rights if he does not file in the United States within 12 months of his disclosure.

⁴ With the very rare exceptions of Art. 55 EPC.

⁵ In the dialogue held with the USA under the Patent Law Treaty and TABD concerning a switch to the first-to-file principle the main supportive argument has been the legal uncertainty that is connected with the first-to-invent principle. Introducing a grace period in Europe would mean switching from absolute novelty to relative novelty and increasing legal uncertainty.

⁶ In a patent right under assessment, you need to know if a relevant disclosure was made available to the public within its grace period. If so, did it stem directly or indirectly from the inventor or the applicant for that patent right? It will then be disregarded. Is any later disclosure, also within the grace period, directly or indirectly derived from it? Does a relevant competitor's patent application claiming priority from an application filed in the grace period concern an invention, which stems wholly or in part from such a disclosure? These difficult questions need not be considered under the present European patent system.

⁷ After filing a patent application on a new development, the applicant must under the present law wait for 18 months in case a senior application is published before his own application. If no senior priority patent application on the same or a related invention has appeared during that time this first applicant is safe to make investment decisions. But if there is a 12-month grace period he must wait 12 months longer. There may be a second applicant in a position to claim priority. The second applicant may point to his own earlier publication within his grace period and allege that the first mentioned applicant must have seen it and has derived the invention in the first mentioned application from that publication. Under the WIPO proposal the first application is then disregarded.

If these people are unaware of the functioning of the existing system, they will also be unaware of a grace period, the length of such grace period and all possible consequences. Thus, there will still be a need for education.

2. UNICE therefore urges European institutions and national governments to launch and promote initiatives aimed at ensuring that SMEs, scientists and other inexperienced inventors are properly educated about the patent system and are informed that they have a number of possibilities to secure their rights without need of a grace period.

This is possible through entering into confidentiality agreements if disclosure to or testing by third parties is involved. Filing provisional patent applications at low cost or even free of charge to secure a priority date prior to any public disclosure is another alternative.

VII. CONCLUSION

- ◆ Weighing the reasons given for introducing a grace period calls for a single and firm answer. Claimed advantages, which can be seen only in fairly few real cases, would not strike a balance against serious losses of legal certainty for wide circles of patent applicants, for the disclosing inventor and for the competition as well.
- ◆ The legal uncertainty deriving from introduction of a grace period would severely affect European companies, and in particular those which are not familiar with patent application rules. The proposal for establishing a grace period in the European patent system is therefore strongly rejected by UNICE.
- ◆ UNICE is of the strong opinion that rather than changing a well-balanced system for a minority of inexperienced users, efforts should concentrate on educating those users who are not familiar with the patent system. UNICE is concerned that all users of the system be properly informed of its functioning and it therefore urges the highest authorities of the European Union to launch appropriate efforts to inform inexperienced users of the system, in particular individual inventors and SMEs, about the possibilities provided by the existing system for effectively securing protection of their inventions.

UNICE Position Paper on the Proposal for a Directive Approximating the Legal Arrangements for the Protection of Inventions by Utility Models

27 April 1998

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.

I. 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.

II. 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 title.

III. 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.

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.

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?

IV. COMMENTS ON SPECIFIC ASPECTS OF THE PROPOSAL

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.

1. 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.

2. Novelty

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.

3. Term of protection

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.

4. 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 wide.

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.

5. Compulsory search

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

6. Article 13 and limitations of number of claims (art 13.2)

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.

7. Grounds for revocation

- 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.

- In addition, UNICE believes that giving the rightsholder 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.

8. Exclusions from protectability

- 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 sensible case law.

- 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.

- It is also questioned whether inventions related to foods and foodstuffs should be excluded. Some parts of the food industry object to it.

V. ALIGNMENT WITH THE EUROPEAN PATENT CONVENTION (EPC) AND TRIPS

1. Possible confusion with EPC and TRIPS articles

- 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.
- 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.
- 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.
- 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.

UNICE Position Paper on the Proposal for a Directive on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society

25 June 1998

I. PRELIMINARY REMARKS

UNICE has noted the European Commission proposal for a Directive on the harmonisation of certain aspects of copyright and related rights in the information society. It proposes to use this position paper to outline the present state of thinking on the subject within European industry.

All the sectors of activities which UNICE represents are or will be involved in the new digitalised world created by the information society. Their future development prospects in this area will be highly influenced by the legal framework put in place. The issues dealt with by the proposed Directive are of great importance to rightsholders, users, service providers and equipment manufacturers. All these players have a specific contribution to make to development of the information society and neglecting any specific interests would run counter to establishment of the harmonious framework needed in the digitalised world.

In this position paper, UNICE voices general views on the proposed Directive with a view to contributing to building a framework for protection of copyright and related rights and the information society which will not hinder the development of any of its participants.

II. GENERAL REMARKS

UNICE sees the development of the information society as a powerful means to increase the well-being of society at large. Effective protection of copyright and related rights is one of the many steps in this process and UNICE therefore welcomes the Commission proposal for a Directive aimed at harmonising this subject within the European Union, thereby implementing the WIPO Copyright Treaties signed in 1996.

UNICE believes that the following basic principles should guide the contents of any legislation governing the information society:

- ◆ recognition of the importance of rapid ongoing technical developments in the area of electronic data transmission and information society in general;
- ◆ need for a flexible, legislative framework that should encourage and facilitate such new developments;
- ◆ need to protect authors and rightsholders;
- ◆ need to recognise and protect the interests of service providers

and equipment manufacturers as regards their investment in new technologies;

- ◆ need to recognise and protect reasonable interests of users;
- ◆ need to put in place a regulatory framework at international level.

Protection of intellectual property rights is a key issue in the role that the creative content and innovative features will play in the information society. In this context, adequate remuneration of rightsholders is indispensable.

One of the most crucial problems in the area of private copying is that of copying from digital medium to digital medium. By doing so, an exact, original quality copy is created that is in fact a master copy, equal in quality to the original and that can in turn be copied or transmitted an infinite number of times, again without loss of quality. The threat to the normal exploitation of works for rightsholders is evident. This was clearly recognised in the Directive concerning the Legal Protection of Computer Programs and is also acknowledged in recital 27 of the present proposal. This means that, in the digital environment, the current exceptions as exist under national copyright law need to be re-examined.

UNICE believes that the proposed Directive is a first step in the right direction for the required harmonised approach at EU level. Nevertheless, after a thorough assessment of the proposal, UNICE believes that the proposal has not fully reached its objective on a number of points, as explained below. The following comments are a yardstick to evaluate the current proposal in the light of the interests of all parties involved, which UNICE represents.

III. DETAILED COMMENTS

In UNICE's view, the most important issues raised by the proposed Directive are the following: the scope of rights (articles 2, 3, 4); the exceptions to the rights (article 5); the protection of technological measures (article 6); the issue of liability and the issue of levies.

1. Reproduction right (Article 2)

1. UNICE supports a broad harmonised reproduction right, since this would resolve the current disparities among the EU Members States. In the digital environment it is essential to avoid having different reproduction rights for different types of work. UNICE therefore recommends that the scope of the

reproduction right in this connection is harmonised with the reproduction right provided by the EC Directives on legal protection for computer programs and databases.

2. However UNICE strongly believes adequate exceptions must be defined for certain special cases and when appropriate for the functioning of the internal market, within the framework of Article 10 of the WIPO copyright Treaty and Article 16 of the WIPO performances and phonograms Treaty, in order to take into account the specific interests of rightsholders, users, service providers and equipment manufacturers.

2. Right of communication to the public, including the right of making available works or other subject matter (Article 3)

1. In principle, UNICE supports the introduction of this right, which is in line with the text of the WIPO Treaties and the EC Directives on computer programs and databases.
2. Nevertheless, UNICE believes that many provisions of this article are far from clear and need to be clarified.

For instance, the meaning of “the public” is not sufficiently well defined. The specific case of retransmission of works or other subject matter beyond the authorised user should be addressed by this article.

This is also true of the wording “may access them from a place and at a time individually chosen by them”, which needs to be clarified. This notion which refers to interactivity i.e. the ability of users to select and access work, should not exclude *a priori* near-on-demand services which broadcast on a point-to-multipoint basis.

In addition, considering the convergence of infrastructure and of contents in the information society, UNICE believes that there should be equal treatment in the digital environment regarding exclusive rights granted to content providers (e.g. publishers, software, phonographic or film producers) and article 3.2 should therefore respect this principle.

3. Even though clarification is needed, all these definitions should remain flexible enough to allow them to evolve with future technological developments.

3. Exceptions to the restricted acts (Article 5)

3.1. General comments regarding Article 5

1. For UNICE, the fundamental requirement for all exceptions is adherence to the principles of Article 10 of the WIPO copyright Treaty and Article 16 of the WIPO performances and phonograms Treaty .

2. In UNICE’s view, it is unacceptable that the proposal does not attempt to harmonise exceptions to the restricted acts when this has an impact on the internal market. This is a prerequisite for legal certainty for all interested parties.

In addition, it is not clear from the text of article 5(4) whether any such exceptions could apply without (any) remuneration for the author or rightsholder, in other words whether and to what extent the exceptions that Member States would be allowed to provide for would be legal licences, or whether they should be exceptions for which rightsholders are to be remunerated.

3. UNICE believes that any exceptions to the restricted acts should be made mandatory and apply on the same basis, in all EU Member States, at least for those exceptions which would have an impact on the functioning of the internal market. This should not, however, preclude future exceptions if technological developments so require, provided that any such adapted or new exceptions follow the same test as under this Directive and provided that they are introduced on a harmonised basis.

4. As regards exceptions, the fundamental question is what criteria will be used in order to judge whether specific exceptions to the restricted acts should be allowed.

3.2. Specific comments on Article 5

1. Article 5(1) should deal strictly with reproductions which are primarily the *result of technical responses* to requests made by other acts and do not constitute consumption within the meaning of copyright law. Article 5(1) should not attempt to deal with liability issues². It should merely deal with the aspect of temporary copying which occurs within the limited environment of hardware equipment/transmission media and which is inherent to a technical process.

As recital 23 of the proposal correctly sets out, the term “temporary” should be interpreted in this context and not in such a way as to allow users to make copies of a work for any period of time which would exceed the intended use of the work.

2. The wording of article 5(1) should be revisited and efforts should be made to clarify its intended scope which should also cover copies incidental to a primary use as occurs within hardware equipment, and which are inherent to the use of a work . In this context, the wording of recital 23, should be incorporated in the text of article 5.1. In any case, it must be made clear that these copies should not survive the intended use of the work concerned, and should not be separately accessible.

3. As currently drafted, Article 5(2) does not harmonise the private copying exception, which implies that neither will harmonisation be achieved as regards existing levies on blank recording media and recording equipment. At present, the levels for such levies vary considerably between Member States and this creates serious distortions of competition within the internal market,

particularly among manufacturers of hardware equipment. Such distortions of competition can also be seen in the area of reprography. This is detrimental to the interests of European industry and contrary to smooth functioning of the internal market.

UNICE believes that levies are not the appropriate solution in the digital environment. Given the rapid development of technologies, there are increasing possibilities for direct individual licensing and there is a new wide range of technical mechanisms which can ensure adequate remuneration for rightsholders right. Imposing levies on blank recording media and recording equipment is no longer the right solution for remunerating rightsholders. Instead, such remuneration should be left to the marketplace, provided that the principal rights of rightsholders are effectively protected.

- Whereas the above comments regarding levies apply primarily to the new digital environment, UNICE would like to take the offered opportunity to recall that the existing different systems of levies as they apply in the analog environment and the distortions of competition they generate in the internal market should be urgently addressed by the European Commission.

UNICE believes that whatever solution is adopted it should not oblige any Member State to introduce in their legislation a system of levies where none exists today.

In UNICE's opinion, providing a special right for certain user groups - such as disabled persons, the education sector, students and researchers, etc. - to have access to copyright works is a complex and controversial issue, particularly in the digital environment. Opinions differ in industry as to how such provisions should be formulated in order to be appropriate and equitable. In any case, it is questionable that rightsholders should carry the burden of financing such social objectives.

4. Liability

- UNICE has taken note that the Commission has announced that liability for activities in the network environment will be addressed in the context of a forthcoming directive covering, inter alia, electronic commerce. UNICE welcomes the intention to address the issue of liability horizontally. As a general remark, that Directive should avoid imposing undue burdens on intermediaries and service providers in relation to any liability for unauthorised transmission of protected matter over the network.

The liability issue is of utmost importance for companies providing equipment, network infrastructure and services for telecommunications and their role in the information society will be greatly influenced by the regime which will apply to them. They must be ensured that their responsibility will not be

engaged unless they are responsible of copyright infringement, in the strict sense.

- Many provisions of the proposed directive cannot be properly assessed, in particular articles 2 and 3, without knowing what will be the liability regime in the digital environment. UNICE therefore urges the Commission to present this proposal as soon as possible.

5. Technological Measures (Article 6)

- This article is of utmost importance for equipment manufacturers and telecommunications service providers. If they are to survive such enterprises must be able to manufacture and provide state-of-the-art goods and services even after adaptation of the copyright rules, without undue unilateral restrictions. Nothing in this article shall require that the manufacturing of any device, component or service should respond to any particular technological measure.

UNICE supports the principle laid down by article 6 but believes that it should be made clearer that the key criterion that should determine liability is that of intent (whether the equipment has been "produced, designed or adapted to circumvent" for illegal purposes).

- UNICE agrees that so-called general purpose devices should escape liability pursuant to this provision. By way of example, whereas these devices would not, *as such*, be illegal, the marketing of such devices with the specific and clear aim of promoting illegal copying by using those features of such devices as can be used for such copying (or other illegal acts) should be an illegal act in itself.
- UNICE would like to stress that circumvention of technical measures will be possible not only with devices but also with software. UNICE therefore suggests addition of the word *software* before *devices* in article 6.1.

6. Obligations concerning rights management information (article 7)

UNICE fully supports this provision which is complementary with the directive on the legal protection of services based on, or consisting of, conditional access.

7. Application over time (Article 9)

UNICE disagrees with the text of Article 9(3) and 9(4). These two subsections are contradictory and Article 9(4) is simply wrong. As regards Article 9(4), there is no reason why contracts concluded before the entry into force of this Directive could not already be

interpreted in accordance with its provisions, if such interpretation is in perfect line with the clear intention of the parties to the contract concerned. In the interest of legal certainty, the interpretation of contracts against the background of this Directive, should be left to the competent courts.

The current wording of Article 9(3) and Article 9(4) fails to take into account the fact that contracts may well have been drafted in such a way as to anticipate future introduction of new rights, as resulting from this Directive. This would mean that contracts dealing with transfers of rights concluded before the introduction of such new rights would need to be redrafted. This is clearly contrary to the legal certainty needed by industry. Parties should be allowed to devise their contracts in such a way as to take future developments into account.

IV. CONCLUSION

- ◆ First, and most important, UNICE believes that the global nature of the information society cannot be over-emphasised. The global information infrastructure is intended to cover the whole planet and the business community therefore sees *worldwide cooperation* as absolutely crucial to development of the information society. Consequently, while it acknowledges the need to consider the functioning of the internal market, UNICE urges the European Commission to take an international perspective in this area and to cooperate very closely with the EU's main trading partners.
- ◆ UNICE supports the Commission's view that harmonisation of national copyright legislation must be based on a high degree of protection. However, any harmonisation of copyright legislation that is designed to adapt it to the digital environment must be implemented in such a way as to take into account participation of all parties involved, including users, in development of the information society.
- ◆ UNICE is of the opinion that the Commission's proposal is a first commendable step towards achieving such an objective but that the current proposal falls short in the areas addressed above. These are important areas, which need to be revisited, and on which UNICE is willing to provide any needed expertise, in addition to these written comments.

UNICE Comments on the Effect of Enlargement on the Community Trademark System

9 November 1998

UNICE is following closely the current discussions on the EU enlargement and would like to share with the Commission and OHIM its thoughts on the possible effect of this process on the Community trademark system.

I. GENERAL COMMENTS

UNICE reckons that by the year 2000, when the proposed negotiation with the new candidates for EU membership should be completed, there will be over one hundred thousand Community trademark registrations. In this context, enlargement will raise questions of a legal and an administrative nature.

UNICE understands that informal talks have already begun with the candidates for accession and that the following basic principles for the entry into force of the CTMR for the new Member States have already been proposed:

- there should be an automatic extension of existing Community trademarks and CTM applications to the new Member States;
- the unitary character of the Community trademark should not be affected by enlargement;
- the language regime under the CTMR should remain unchanged.

UNICE would like to comment further on the above points.

II. AUTOMATIC EXTENSION OF EXISTING CTM AND CTM APPLICATIONS TO THE NEW MEMBER STATES - ABSOLUTE GROUNDS FOR REFUSAL

One of the cornerstones of the CTM is its unitary character. As Article 1 of the CTMR states: "*A Community trademark shall have a unitary character. It shall have equal effects throughout the Community.... This principle shall apply unless otherwise provided in this Regulation.*" It follows from this Article that it is only possible to file a CTM application for the whole territory of the

EU without the possibility of limiting the application to a specific number of Member States. Enlargement should in no way affect this basic CTM principle. Nevertheless, UNICE cannot deny that some problems might arise from automatic extension, for example:

- ♦ A candidate Member State may wish to invoke absolute grounds for refusal against the extension to its territory of a CTM. This could happen when a CTM consists of a word that is generic, immoral or otherwise objectionable in one of the languages of the candidate Member State. However, Member States have no power to refuse a CTM application on absolute grounds. They may only act when the CTM has been converted to a national application under Articles 108-110 of the CTMR. UNICE believes that if the same should apply to new Member States, an inequity may be committed, so a limited power of refusal, perhaps for a specified period of time, could be granted to the new Member States.

III. THE PROBLEM OF PRIOR RIGHTS - RELATIVE GROUNDS FOR REFUSAL

In a case where two conflicting trademarks – one national and one a CTM – have been obtained in good faith, there seems to be no reason why one of the two owners should be deprived of his rights solely on the ground that the relevant country has now become a member of the EU. It would be inequitable and morally wrong to remove unilaterally the valid rights of the holder of an earlier but conflicting prior national right.

In order to ensure legal certainty, both for the CTM owner as well as for the owner of a confusingly similar prior national right, UNICE suggests that there should be a specific procedure which would allow the owners of prior conflicting earlier national rights to make their objections known to the OHIM. Subsequently, during a specific transition period, there should be an obligation upon the parties involved in the dispute to settle their differences with the CTM owner, either by agreeing to live and let live, or by an outright purchase by one of the other's trademark, or by cross-licenses, or by some other means. If no such amicable agreement can be reached in this time then the matter will have to be adjudicated, perhaps by the courts, perhaps by the Office, perhaps by the Boards of Appeal. One obvious solution already exists in Articles 106 and 107 of the CTMR.

Apart from any such specific cases, the new Member States should not have the power to prevent *ex officio* the extension of a CTM on relative grounds.

IV. PIRACY

UNICE believes that piracy could still be a problem, i.e. the deliberate filing of known CTMs in one or all of the new EU Member States with a view to selling the resulting registration back to its true owner when membership is assured and CTM system is extended to new candidates. UNICE believes that one solution might be to give the owner of national trademark that is identical to a CTM with an earlier filing publication or registration date, no rights against the CTM if the national trademark was filed after a certain date, for example 1 January 1998 and unless it has been genuinely used in the country concerned.

V. LANGUAGE REGIME

The language regime of the Community trademark system has been discussed at length. It is working successfully and UNICE is adamant that no change should be made to it. None of the languages of the new Member States should become a language of the Office.

VI. MAGNITUDE OF THE PROBLEMS

The magnitude of many of the problems which will arise from enlargement is considered difficult to assess by UNICE.

It would seem that SMEs are more likely to be affected than larger sized companies, as the latter will be more likely to be already trading in the accession candidate countries and so have their trademarks protected there. But this will probably only be the case for European Industry, and as thirty percent of CTM applicants are American. UNICE is of the opinion that the specific position of US companies needs also to be assessed.

VII. CONCLUSIONS

The above comments are UNICE's preliminary views on the possible problems which will arise from enlargement. UNICE will continue its discussion on this subject and will remain in close contact with the Commission and OHIM to share any useful thinking or additional piece of information.

UNICE Position Paper on TRIPs Implementation in the Context of a Possible Millennium Round

13 November 1998

I. INTRODUCTORY REMARKS

- ♦ From the very start of the Uruguay Round in September 1986, UNICE worked very hard, alongside the Commission, on drafting and adoption of the Agreement on trade-related aspects of intellectual property rights (TRIPs). This unique agreement, which defines minimum standards for intellectual property protection, aims at guaranteeing the worldwide level playing-field for protection of intellectual property necessary to reduce distortions and impediments to international trade.
- ♦ European industry considers adoption of the TRIPs agreement to be one of the most fundamental and important results of the Uruguay Round but only a starting point in the achievement of its aim. The effective value of the agreement can only be assessed through its effective implementation by all WTO member countries.

II. STATE OF PLAY

- ♦ The TRIPs agreement is still in its infancy as only four years have elapsed since its adoption which is nothing for an agreement which aims at establishing a worldwide level-playing field among countries whose culture, economies, politics and level of development are extremely disparate.
- ♦ As a result of concerted efforts and use of the dispute-settlement mechanism, industrialised countries have broadly implemented the agreement satisfactorily and in time.
- ♦ On 1 January 2000, the transition period for implementation of the TRIPs agreement by developing countries (LDCs) will expire (Article 65.2). If some of them have prepared to meet this deadline actively, many others tend to see this date as a starting point to bring their legislation into line with the agreement. The year 2000 deadline will therefore be respected by only a minority of WTO member states and UNICE sees the years to come as the beginning of a real crusade to ensure effective implementation of the agreement by all its signatories.
- ♦ In addition, the TRIPs agreement grants least developed countries (LLDCs) a further additional period until 1 January 2006 to make the required changes to their legislation. This of course is based on the assumption that they will see this date as a deadline and not as a starting point. UNICE is concerned that a large number of these countries will not by that date have adopted the laws and regulations bringing them into compliance with both the letter and spirit of TRIPs ("*pacta sunt servanda*").

It can easily be foreseen that TRIPs implementation by LDCs and LLDCs will not be smooth and timely.

III. ANALYSIS OF THE SITUATION

- ♦ This global picture shows that the TRIPs agreement, which represents a radical change to the philosophy and legal framework of many WTO member countries, has to be seen in a long-term perspective. If developed countries have started to reap the benefits of the agreement, many LDCs or LLDCs have still to understand the added value that this agreement can bring to their economy, namely increased research activities, increased investment opportunities, and increased transfer of the latest technology. In this context, a major educational process is needed.
- ♦ UNICE considers this as a major challenge which will require active involvement of industry at worldwide level in the years ahead. In this context UNICE has welcomed the various initiatives from WIPO, WTO and developed countries to provide LDCs and LLDCs with the technical assistance which some of them need to carry out the necessary legislative reforms.
- ♦ As indicated above, industry takes this action very seriously, in particular in the light of current discussions in various international bodies which directly oppose and challenge some of the provisions of the TRIPs agreement on the basis, among others, of environmental, public health consumer protection, trade and traditional knowledge grounds. UNICE is concerned that several WTO members openly call their TRIPs commitments into question, and might invite others to follow.
- ♦ UNICE notes that several developing countries feel that because of the Uruguay round single-undertaking principle, they have had obligations imposed on them in the field of intellectual property that they would like to renegotiate downwards. The attitude of some leading LDCs towards the year 2000 deadline and their TRIPs obligations clearly shows their current thinking on the subject.

IV. UNICE'S VIEW ON A POSSIBLE "TRIPS II"

- ♦ UNICE understands that the possibility of placing intellectual property on the agenda of a possible forthcoming new WTO

round is currently being discussed. UNICE would like to make clear that this suggestion derives more from political consideration than from a real request from industry. Before the current discussions, nobody in industry ever mentioned the need to relaunch further WTO negotiations in the field of intellectual property.

- ◆ As indicated above, industry believes that there is still a tremendous work programme to implement and that time needs to be given for the agreement to mature and to allow WTO members to come closer to the basic philosophy of TRIPs and to reap the huge benefits which can derive from it if it is adequately implemented. This is not the case for the time being and industry does not want to see attention distracted from proper implementation of TRIPs. If this were to happen the value and strength of the agreement would be put in serious jeopardy.
- ◆ Before going any further, UNICE would also like to express its scepticism about the term "TRIPs II" which is often presented as a completely separate agreement. UNICE can hardly subscribe to assurances that the provisions of the TRIPs agreement would not be affected by further WTO negotiations on the field of intellectual property, a formulation UNICE prefers to TRIPs II. UNICE understands that the future round would also be based on the single undertaking principle. This kind of negotiation is based on compromises and horse-trading. If intellectual property were to be further negotiated at WTO level, nothing can be excluded from the agenda.

Concessions will have to be made on some subjects and nobody can ensure that this will not affect the content of the TRIPs agreement. Just to give an example, if the Commission could not oppose international exhaustion or further compulsory licensing regimes it would undoubtedly affect the TRIPs agreement. Extensions of transition periods can also be taken as another example to show that it is impossible to assume that compartmentalisation will be maintained between the TRIPs agreement and further global negotiations.

- ◆ Further WTO negotiations on intellectual property would mean, for European industry, strengthening and widening the scope and content of the TRIPs agreement. This would indeed send a bad signal to LDCs and LLDCs countries whose transition periods have not elapsed and which show from passive to active reluctance in implementing the basic provisions of the TRIPs agreement. A step-by-step approach is needed on this subject and, before any further building-up exercise is launched, it should be ensured that the basis of the TRIPs agreement is consolidated. The converse would create a growing rift between demand and reality and could call into question the implementation and value of the whole agreement.
- ◆ UNICE is not saying that no further improvements could be achieved at world level. Some sectors might be interested in

further discussing uniform rules on specific aspects of intellectual property protection. But there is a time and a place for everything and in the light of the above arguments UNICE, which is the umbrella organisation for all sectors of European industry, believes that the time is not ripe to include intellectual property as a subject for new negotiation in an imminent WTO round, apart from what is foreseen by the built-in agenda. This conclusion is based on a thorough assessment of the situation in the fields of patent, trademark and design and copyright.

- ◆ In addition, UNICE would like to stress that in order to ensure the on-going enforcement process, it is indispensable that any moratorium on dispute settlement cases is explicitly excluded from the launch of a new round. UNICE urges the Commission and EU governments to adopt a clear statement that enforcement of past WTO agreements and dispute settlement cases will continue unaffected by the launch of a new round.

V. THE WAY AHEAD

- ◆ UNICE could easily draft a list of subjects on which improvements at worldwide level would be welcomed by European industry. It is also easy to guess what sort of demands LDCs and LLDCs would have in negotiating what they see as more balance in their favour. Current discussions in the TRIPs Council, the Trade and Environment Council and other international fora are extremely revealing. But this is not the question at stake.
- ◆ The question which matters for the companies UNICE represents is how to ensure effective improvement for the protection of intellectual property in order to benefit from the level playing-field which TRIPs can allow. This will not be achieved for the time being by further WTO global negotiations. What matters now is enforcement. If in ten years from now the TRIPs agreement is efficiently implemented by most WTO member states, then the TRIPs agreement could be regarded as a success. Having potential improvements on paper will not help in this.

VI. HOW TO ACHIEVE THE NEEDED IMPROVEMENTS

- ◆ UNICE believes on the contrary that efforts aimed at improving the international situation in the field of intellectual property must be based on the existing TRIPs agreement, its dispute-settlement mechanism and its built-in agenda. Looking at the latter, it can rapidly be seen that a full work programme has been agreed by WTO members. This work programme is progressive, well scaled in time and leaves room for sensible improvements. The built-in agenda includes :

- review of the exclusion from patentability for certain plants and animals (Article 27.3) which should start four years after the date of entry into force of the WTO agreement, ie 1999;
 - review of TRIPs implementation in the year 2000 (Article 71.1);
 - review of the TRIPs agreement itself in 2002 (Article 71.1), on the basis of the experience gained in its implementation;
 - possibility under Article 71.1 to undertake review in light of any relevant new developments;
 - use of the dispute settlement against countries that failed properly to implement their TRIPs obligation.
- ♦ This is a very extensive programme which should be respected and which is the right way to build upon the TRIPs agreement. The built-in agenda already represents a challenge in itself for European industry of how to negotiate improved protection of intellectual property without calling into questions the ongoing implementation of the agreement.
 - ♦ The provision of Article 71.1 could be used to discuss specific questions as, for example, the impact of technological changes on copyright protection, or any other new development, without having to discuss intellectual property in the context of a global round based on the single-undertaking principle. This could be discussed in the TRIPs Council if all its members agree.

VII. CONCLUDING REMARKS

- ♦ The TRIPs agreement is one of the major achievements of the Uruguay round and it must be given time to develop and to allow all WTO members to work together towards its full and effective implementation. UNICE is concerned that a failure by a substantial number of developing countries to implement TRIPs in a proper and timely fashion will seriously call into question its viability and its value.
- ♦ UNICE believes that the right strategy that will allow the building-up of strong and harmonised intellectual property protection is to concentrate for the time being in injecting life to the provisions of the agreement at worldwide level by proper implementation, enforcement and assistance to those countries which need it.
- ♦ UNICE is of the strong opinion that the time is not ripe to include intellectual property as a subject for further negotiation in an imminent WTO new global round. The European and international atmosphere in the field of intellectual property is not propitious to this exercise. This would endanger the “acquis” of the TRIPs agreement and would upset its effective implementation.
- ♦ In addition, UNICE is of the firm opinion that instead of imposing to those countries which are already showing resistance to implementing the basic provisions of the TRIPs agreement higher standards for protection for intellectual property rights, industry needs to concentrate on further education of and discussion with those countries to help them in fulfilling their obligations.
- ♦ Discussions in the field of intellectual property should therefore be limited to ensuring effective and timely implementation of the TRIPs agreement and pursuing the work programme embodied in the built-in agenda. Once the agreement has been consolidated, further negotiations could be launched, on the basis of experience.
- ♦ UNICE and the companies it represents do not want to see attention distracted from implementation of the agreement and urge the Commission and EU governments to restrict any discussion to this field rather than embarking on risky and hazardous negotiations which might result in compromises which can undermine irremediably the content and implementation of the TRIPs agreement.
- ♦ In this context, UNICE urges the Commission and EU governments to adopt a clear statement that enforcement of past WTO agreements and dispute settlement cases will continue unaffected by the launch of a new round.

UNICE Comments on TRIPs in the Context of the Millennium Round

28 June 1999

I. UNICE BASIC POSITION

Before commenting any further, UNICE would like to recall its basic conclusions as set out in its previous position paper of 13 November 1998 on the above subject.

The TRIPs agreement is one of the major achievements of the Uruguay round. UNICE is concerned that failure by a substantial number of developing countries to implement TRIPs in a proper and timely fashion will seriously call into question its viability and its value.

UNICE believes that the right strategy to allow a building-up of strong and harmonised intellectual property protection at international level is to concentrate for the time being in injecting life into the provisions of the agreement.

The priority for strengthening intellectual property protection at international level is to ensure effective and timely implementation of the TRIPs agreement and pursue the work programme embodied in the built-in agenda.

Once the agreement has been consolidated, further negotiations could be considered but UNICE remains of the opinion that the time is not yet ripe to include intellectual property as a subject for further negotiation in an imminent WTO new global round. The European and international atmosphere in the field of intellectual property is not propitious to this exercise. It might endanger the "acquis" of the TRIPs agreement and could upset its effective implementation.

UNICE is of the firm opinion that, instead of imposing higher standards on those countries which are already showing resistance to implementing the basic TRIPs provisions, industry needs to concentrate on further education of and discussion with those countries to help them fulfil their obligations.

UNICE and the companies it represents do not want to see attention distracted from implementation of the agreement and urge the Commission and EU governments to restrict any discussion to this field rather than embarking on risky and hazardous negotiations which might result in compromises which could undermine irremediably the content and implementation of the TRIPs agreement.

II. USE OF THE "BUILT-IN AGENDA"

As explained in detail in its 13 November 1998 position, UNICE is

of the opinion that improvements of intellectual property protection should be based first on the TRIPs "built-in agenda" work programme (Articles 27.3b and 71).

Article 71.1 empowers the TRIPs Council to review experience gained in the implementation of TRIPs from 1 January 2000, two years after that date and at two-year intervals thereafter. As noted, the TRIPs Council may also undertake reviews in the light of relevant new developments which might warrant amendment of TRIPs.

Article 71.2 can be used to adjust TRIPs to higher levels of protection achieved under other multilateral agreements, in accordance with Article X.6 of the Agreement establishing the WTO.

III. COMMISSION PROPOSALS

UNICE has taken note of a Commission working document on TRIPs in the context of a new round. UNICE is pleased to note that the Commission seems also to regard implementation of the agreement as the main priority.

Nevertheless, if contrary to UNICE's recommendations the Commission were to decide to propose further negotiations in the field of intellectual property in the millennium round, the possibility of achieving substantial progress at WTO level should be more thoroughly assessed before any further position is taken. This is the case, in particular, concerning:

- amendment of Article 27.3 b to introduce plants and animal varieties *per se*;
- prohibition of a "Bolar" type exclusion and introduction of indirect infringement as in the Community Patent Convention (Article 26.1);
- prevention of any backsliding on compulsory licensing;
- introduction of patent-term restoration in article 33 to compensate for delays due to market approval;
- improvements of article 39.3 to allow for ten-year protection of data against disclosure or unfair commercial use;
- adoption of first-to-file at worldwide level;
- introduction of universal provisions on novelty (based on absolute novelty as in EPC);
- introduction of requirement that all WTO members use the PCT standard for unity of invention;

- improvements in article 70.8 and 70.9 to ensure that the standard of protection is not less than that accorded under TRIPS parts II and III, ensuring that member states that have failed to implement these provisions do so retroactively and that exclusive marketing rights means that no other product under the patent claims are allowed onto the market;
- strengthening of provisions against counterfeiting.

This is not an exhaustive list but an indication of topics on which a Commission study of realistic TRIPs improvements should be carried out urgently.

In addition, UNICE would once again urge the Commission to take into account industry's position on exhaustion of IPRs (see UNICE's position paper of 21 April 1999).

IV. CONCLUDING REMARKS

- ◆ UNICE can only reiterate its strongest reservations about launching new WTO negotiations in the field of intellectual property. UNICE remains convinced that further improvement of the agreement should be first sought making use of the "built-in agenda".
- ◆ If nevertheless the Commission believes that some subjects are ripe for negotiation at WTO level and that this can be done without endangering other provisions of the agreement, either on the substance or on its implementing deadlines, then UNICE would urge the Commission to share with industry an assessment of the probability of improvement on these topics. Until now industry has only seen shopping lists without evidence as to the chances of achieving substantive progress on any of the items listed. Indications about the positions of key WTO members on these subjects need to be studied.
- ◆ Industry wants to concentrate its efforts on effective implementation of the agreement. In this context UNICE would like to invite the Commission's services to supply detailed information on the progress made on this subject. Additional information about the possible use of the WTO dispute settlement for specific cases would also be appreciated.
- ◆ UNICE has welcomed the various initiatives from WIPO, WTO and developed countries to provide LDCs and LLDCs with the technical assistance which some of them need to carry out the necessary legislative reforms in order to comply with the TRIPs agreement. UNICE also remains committed to supporting any Commission initiative in the field.

UNICE Position Paper on TRIPs and the Environment

16 September 1997

EXECUTIVE SUMMARY

European industry considers the TRIPs Agreement to be one of the most fundamental and important results of the Uruguay Round and places therefore much emphasis on correct and timely implementation of TRIPs minimum standards for patents by all WTO Members. In so doing, Members should be careful to comply with both the letter and spirit of TRIPs ("Pacta sunt servanda").

TRIPs constitutes an opportunity for *all* WTO Members. The transition periods which less developed countries enjoy should allow them to carry out adequate reform of their intellectual property regimes. This will enable them to reap the benefits of TRIPs implementation, namely increased research activities, increased investment opportunities, and increased transfer of the latest technology.

UNICE is dismayed that a number of non-governmental organisations seem to oppose effective protection of intellectual property rights on environmental grounds. They request amendments to TRIPs, e.g. to exclude biotechnological inventions, while it is generally recognised that the protection of these rights fosters the invention of products and processes supporting sustainable development and contributes directly to the invention and dissemination of environment-friendly products and processes. UNICE believes that some of the proposals tabled in the Committee on Trade and Environment will not lead to the desired results but to a confiscation of private rights incompatible with the TRIPs Agreement.

In this respect, UNICE:

- ◆ notes that the Rio Convention on Biological Diversity and the TRIPs Agreement are two different bodies of law which exist

in parallel but do not govern the same subject-matter. The obligations under the Convention on Biological Diversity (usually referred to as the "Biodiversity Convention") are not in contradiction with the obligations under TRIPs. The Biodiversity Convention states that it cannot be applied in a manner inconsistent with adequate and effective protection of intellectual property rights (e.g. TRIPs) unless the exercise of those rights would cause serious damage or threat to biological diversity. Article 27.2 of TRIPs allows Members to exclude from patentability inventions the exploitation of which would seriously prejudice the environment;

- ◆ regards article 27.1 TRIPs as fundamental. It clearly prohibits discrimination as to the place of invention, the field of technology and whether products are imported or locally produced. It follows that excluding biotechnological inventions from patentability violates both the letter and the spirit of TRIPs;
- ◆ supports the transfer of technology between States providing the terms of this transfer do not amount to a confiscation of private rights. UNICE would like to stress that one of the achievements of the Uruguay Round was a clear demonstration of the benefit in refraining from unilateral measures for purely domestic purposes, and in relying instead on internationally agreed rules and principles. The price to be paid for this is the commitment by all WTO Members to implement the substantive provisions of the Uruguay Round agreements and to apply them correctly. If WTO Members now openly call this commitment into question, they themselves will invite others not to follow the rule of law.

INTRODUCTION

UNICE has taken note of the work programme of the WTO Committee on Trade and Environment and has, in the past, adopted positions on some of the items on this programme. The present position paper is an industry contribution to the discussions on item 8 "Trade-related aspects of intellectual property rights and the Environment". It elaborates on issues (such as patents, biodiversity and biotechnology, technology transfer and environmental technology) which have been discussed during the Committee's first two years of work.

I. TRIPS, ENVIRONMENT AND INVESTMENT

1. UNICE's Basic Position on Patents

The European business community considers the TRIPs Agreement to be one of the most fundamental and important results of the Uruguay Round and therefore places great emphasis on correct and timely implementation of TRIPs minimum standards, notably for patents, by all WTO Members. The transition periods granted to less developed countries should allow them to carry out adequate reform of their intellectual property regimes. In so doing, they should be careful to comply with both the letter and spirit of TRIPs.

UNICE would like to point to Article 27.1 of TRIPs, which it regards as a fundamental provision in respect of discussions on TRIPs and the Environment. This Article clearly prohibits discrimination as to the place of invention, the field of technology and whether products are imported or locally produced. It would be a clear violation of TRIPs if a WTO Member were systematically to exclude the granting of patents in a certain field of technology. A general exclusion such as to exclude patenting for biotechnological inventions involving life forms would constitute a violation of Article 27.1 which European companies would fight with all the legal means provided for by European trade law. UNICE is determined to request the European Union and/or its Member States to use the WTO dispute settlement system to redress any violations of Article 27.1.

Having analysed many of the contributions from other non-governmental organisations, and in view of the scepticism of some less developed countries about the subject, UNICE would like to stress that the granting of a patent to an inventor does not, in itself, allow the inventor to *exploit* the invention; rather it enables him to prevent others from commercially exploiting the invention, for a limited period of time and in a defined geographical area. Patents protect the rights of the inventor against piracy and give him the opportunity to make an equitable return on his investments, a necessary basis to underpin innovation and foster competitiveness in both the short and the longer term. By the compulsory publication of any patented invention, patents prevent secrecy, promote transparency and further technological advance for the benefit of mankind. Denying patent protection only benefits unscrupulous opportunists, certainly not the public at large.

2. TRIPs and Sustainable Development

The concept of sustainable development, which European industry supports, is explicitly mentioned in the preamble to the WTO. Development of new technologies is necessary to solve today's environmental problems and respond to the needs of future generations. Adequate and effective intellectual property protection regimes will contribute to achieving sustainable development by stimulating investment and research and by promoting new environment-friendly technologies and products. The absence of intellectual property protection does not mean cheap new products instead of expensive new products, but old products and processes with some degree of negative environmental impact instead of new environment-friendly ones.

If developing countries are involved in early research for the solution of environmental problems, this will ensure that their companies obtain the rights and benefits associated with manufacture of new products rather than having to import them. However, in order to foster a sound research base to do this, effective intellectual property protection regimes are a prerequisite.

3. TRIPs, Investment and Technology Transfer

Even though other factors have to be taken into account, the link between intellectual property protection and investment is of significant importance. Quite legitimately, IPR owners will always be reluctant to transfer their knowledge to countries with weak intellectual property protection regimes. Adequate protection is one of the most decisive factors in sectors such as chemicals and pharmaceuticals. In a world where countries compete with each other for investment, compliance with TRIPs minimum standards will influence the investor's perception of the attractiveness of a location and will encourage technology transfer, in particular to less developed countries. UNICE firmly believes that implementation of TRIPs will promote North-South transfers of technology.

In this context, it is worth noting that the Financial Times recently indicated (*in "Patent medicine promises recovery for drugs sector"*, FT, 18 February 1997) that liberalisation of the industry and planned introduction of new patent laws have renewed foreign investors' interests in India's domestic market and in the country's potential as an exporter of low-cost drugs.

4. TRIPs and Environmental Concerns

One of the many misconceptions about patents arises in the context of exclusions from patentability. A number of arguments are often put forward for using intellectual property laws as a panacea to deal with societal concerns, e.g. protection of the environment. The TRIPs Agreement rightly distinguishes between those concerns which fall under the scope of intellectual property legislation and those which the legislator needs to address under public law. The idea that threats to the environment can be countered by discouraging investment in research in areas thought to be environmentally damaging is unsound. On the contrary, research in areas in which better protection for the environment can be expected should be fostered.

The suggestion by the government of India (first non-paper presented to CTE by India - March 1996) to *"amend the TRIPs agreement in order to take into account the environmental objective of discouraging the global use of technologies incorporating intellectual property which harm the environment"* is one such misconception. This suggestion aims to deny intellectual property protection in the chemical and pharmaceutical fields – which would be in keeping with current practice in India. Since exclusions from patentability can be considered a confiscation of private and commercial rights, such exclusions need to be checked against the strict legal limits which TRIPs imposes on WTO Members.

Article 27.2 TRIPs makes it quite clear that an exclusion from patentability applies only when exploitation of the invention would be contrary to *ordre public* and morality. The fact that an invention might – *if exploited* – have a negative impact on the environment

is not as such sufficient reason for denying the *grant* of a patent. For such an exclusion from patentability to be justified, the concept of *ordre public* and morality requires fundamental or constitutional objections to the invention itself, not just to its use. *Ordre public* is not an abstract feeling of what is good or bad, but relates to fundamental laws and social values and has to be interpreted with reference to these. The European Patent Office's Guidelines state that "a fair test to apply is whether the general public would regard the invention as so abhorrent that the grant of patent rights is inconceivable".

UNICE is of the view that this is the proper test to apply to Article 27.2. All other concerns need to be addressed, at national level, through legislation or, at international level, through negotiation of an International Environmental Agreement. Intellectual property laws are not a universal remedy for environmental problems, they merely confer private rights.

This interpretation is also confirmed by the last part of Article 27.2 which explicitly shows that the threshold for excluding an invention from patentability needs to be higher than a mere prohibition under domestic law to *exploit* the invention. It is essential for CTE negotiators to bear in mind that the *use or exploitation* of an invention might be prohibited by law while a patent may nevertheless be *granted* on such an invention. Chlorofluorocarbons, hand guns and automatic rifles or pathogens are patentable but their use is sometimes prohibited by law.

II. TRIPs AND BIODIVERSITY

1. The relationship between TRIPs and the Convention on Biological Diversity (CBD)

In UNICE's view, it is quite clear that these two agreements exist in parallel and that the two bodies of law can coexist harmoniously and be applied in parallel without creating conflict. The Rio Convention on Biological Diversity (hereinafter referred to as "CBD") makes it clear that the Contracting Parties have a sovereign right over the biological resources in their territories. TRIPs sets out minimum standards for intellectual property protection which all WTO Members have to respect. Hence, TRIPs may not be applied in a way that undermines the objectives of CBD, and conversely CBD cannot be applied in such a way that it would undermine the objectives of TRIPs.

It cannot seriously be argued that CBD is more specific with respect to IPRs than the TRIPs agreement. Even the most creative interpretation of Article 16 CBD must adhere to the wording in paragraphs 2 and 5 of this provision. TRIPs must be relied on for the interpretation of "adequate and effective protection of IP rights". Article 16.5 CBD speaks about cooperation and mutual supportiveness. Strong intellectual property protection in less-developed countries might therefore be just the right way for them to secure the fundamental objective of CBD, namely the

conservation of biological diversity and the sustainable use of its components.

Article 22 CBD cannot be interpreted as meaning that CBD supersedes TRIPs because it clearly cannot be argued that TRIPs *per se* causes serious damage or a threat to biological diversity. In some extreme cases, the actions of governments could have an effect of this kind, such as permission by governments for total clearance of rain forests. This cannot, however, be the case when patent rights are granted. While a patent confers a right to exclude others from commercial exploitation of an invention, it does not actually grant the patent holder a right to *exploit* the invention. In addition, as mentioned above, TRIPs already contains safeguards in that Member Countries may exclude inventions to protect *ordre public* and morality, including avoidance of serious prejudice to the environment (Article 27.2). UNICE considers that less developed countries must have an interest in strong intellectual property protection since this might help them secure the conservation of biological diversity and its sustainable use.

In this whole debate, UNICE would like to comment briefly on the emotional slogan "no patents on life" often used by some non-governmental organisations to oppose effective protection of biotechnological inventions. The TRIPs agreement does not make it possible to grant patents on life. A clear distinction must be made between life "*per se*" and life "*forms*". Life "*per se*" is neither an invention nor a material and cannot therefore be patented under any intellectual property regime. Nevertheless, if all criteria for patentability are fulfilled, the TRIPs agreement makes it possible to grant a patent on some biological material. This cannot seriously be equated to granting "patents on life". Therefore excluding or delaying patents on biotechnological inventions would amount to a direct violation of Article 27.3 TRIPs. UNICE is confident that all WTO signatories intend to respect their obligations in this matter.

To sum up, it is UNICE's considered opinion that adequate protection of IPRs is a key to developing the very technologies which will contribute to the conservation aims of CBD. Examples of such technologies would be: innovative products and processes which help preserve the ozone layer and thereby the earth's biosphere, inventions aimed at improving the climate in conservation regions, or the development of plants with the capacity to absorb a higher level of carbon dioxide.

2. Biodiversity and Technology Transfer

CBD recognises that there is a link between a right of access to biological resources and the transfer of technology. While the right of access to biological resources is based on a contractual relationship between the country rich in biodiversity and a company, the transfer of technology is a commitment which States have agreed to. Industrialised countries have agreed to facilitate technology transfer to help countries conserve and use sustainable biological diversity. CBD does not contain an obligation for private citizens to transfer their rights over a given technology.

The rules on technology transfer have to be seen in the light of developments in international economic law. While the development of international environmental law has led to the conservation of biological diversity being attributed to States, the parallel development of international economic law, in particular the results of the Uruguay Round and more specifically TRIPs, has led to international recognition that rights over a technology are granted for a limited period of time to private persons who invented and developed the technology.

The first set of rules is in the realm of government-to-government relations, while the second deals with the government-to-person (or government-to-company) level. The general thrust of these joint sets of objectives is that, while the benefits arising out of the utilisation of genetic resources are to be shared in a fair and equitable manner, States must nevertheless respect intellectual property rights whether or not these are embodied in relevant technologies aimed at the conservation and sustainable use of the environment.

Although the ambiguity of some aspects of Article 16 CBD might be seen as allowing for conflicting interpretations, it clearly does not, however, authorise confiscation of private rights. It follows from this that there is no obligation whatsoever to transfer technology without remuneration or without respecting property rights, except based on a contractual relationship, e.g. in exchange for access to genetic resources. The European Union, in its interpretative declaration to CBD, states that transfer of technology will be carried out in accordance with Article 16 CBD and in compliance with the principles and rules for protection of intellectual property.

3. TRIPs and Indigenous and Traditional Knowledge

The Biodiversity Convention requires that, *"as far as possible and appropriate, signatories respect, preserve and protect indigenous and traditional knowledge that encourage the equitable sharing of the benefits resulting from the use of such knowledge"*.

The question of indigenous knowledge is another bone of contention and it demonstrates that arguments against patent laws are misconstrued for ideological purposes. The European business community recognises the importance of indigenous knowledge and encourages all WTO Members to protect this knowledge in order to maintain the earth's diversity and the sustainable use thereof.

However, it is erroneous to argue that intellectual property regimes usurp the knowledge of indigenous peoples and local communities. Patent laws do *not* deprive local communities of continued use of their indigenous products and processes. The requirements for obtaining a patent are: novelty, inventive step (non-obviousness), and industrial applicability (usefulness), and Patent Offices

rigorously distinguish between "inventions" and "discoveries". Furthermore, indigenous knowledge may be the foundation on which a novel patentable process or product is developed. When this happens, UNICE believes that this must be acknowledged by the inventor and compensation should be provided for on mutually agreed terms, as required by CBD.

Examples surrounding the neem tree might help to clarify the misconceptions. The US National Research Council noted:

"...For centuries, millions have cleaned their teeth with neem twigs, smeared skin disorders with neem-leaf juice, taken neem as a tonic, and placed neem leaves in their beds, books, grain bins, cupboards and closets to keep away bugs. The tree has relieved so many different pains, fevers, infections and other complaints that it has been called the village pharmacy..."

TRIPs does not require patenting of diagnostic, therapeutic and surgical methods for treatment of humans and animals. Thus, such methods of treatment can be denied patentability, including treatments based on neem leaves. Furthermore the indigenous production of a pesticide made out of neem leaves or juice would destroy the novelty and inventive step of a patent claim to the same pesticide. In other words, even where a country *does* grant patents for the treatment of humans (e.g. the USA) the invention, to be patentable, must fulfil the above-mentioned criteria. Consequently, if a particular use of neem or a composition thereof is known, it just *cannot* be patented and, in addition, patents on other, novel production methods or compositions can never prejudice the *continued use* of pre-existing production methods, including their non-inventive variants.

Some circles argue that, because the starting point of any biotechnological invention is material existing in nature, no patents should be granted because these are discoveries and not inventions. UNICE rejects this as being in flagrant contradiction with TRIPs and with existing patent laws in many countries. The innovative element of such inventions lies in isolation and characterisation of a novel natural product and the instructions on how to use the product industrially. It is this combination of features and technical character that makes it an invention, which may be considered patentable *if* there is an inventive step.

To treat biotechnological inventions in a way that differs from the way other inventions are treated would be contrary to Article 27.1 TRIPs and would stifle research in this generally recognised area for future technological progress.

To give a concrete example. It is known that camomile has a sedative effect and camomile tea has been used for centuries for that purpose. Nevertheless, isolating and characterising the chemical substance contained in the camomile plant and responsible for the effect, and giving instructions on how to produce the compound and use it industrially, could be regarded as patentable *if* unobvious. Such a patent would not cover the compound in the camomile plant or any other plant of which that substance is a natural component and could not be used against any traditional or known use of the plants.

III. ENVIRONMENTAL TECHNOLOGY

Regarding technologies that benefit the environment, the government of India suggests (in its "non-paper" submitted to the Committee on Trade and Environment on 20 June 1996) that the generation of environmentally sound technologies and products should be encouraged by international law.

UNICE fully supports this suggestion. It is one of the tasks of international environmental agencies or negotiating fora to conclude agreements whose purpose is to improve the global environment. UNICE has stated time and again that international measures are to be preferred over unilateral ones. It would however distinguish between the development of public international law and the granting of property rights at national level.

In this context, the suggestion by the government of India regarding how to allow access to patented environmentally sound technologies and products raises much concern:

"The owners of the environmentally sound technologies and products shall sell these technologies and products at fair and most favourable terms and conditions, upon demand, to any interested party which has an obligation to adopt these under national law of another country or under international law"....."Members have to revoke or cancel patents already granted in order to allow for free production and use of such technologies as are essential to safeguard or improve the environment".

This proposal amounts to confiscation of private rights which, in most countries, are enshrined in the constitution. Here again the reasoning is based on an assumption that might seem logical at first sight but would, when considered more carefully, amount to destroying the minimum patent standard provided for by TRIPs and would at the same time discourage investment in any future invention.

Patents support innovation, including the development of environmentally sound technologies and products, and promote the sustainable use of the earth's resources. UNICE believes that market forces are well suited to promoting such inventions that have been proven to provide the best and most economic solutions to specific problems. The proposal tabled by the government of India would not help provide the international community with new, environmentally sound technologies and products but would, on the contrary, stifle research and development. If the inventor fears that his property rights will not be respected, he will think twice before providing the public with the benefit of his invention. Therefore, the argument should not focus on whether bringing environmentally sound technologies and products into the public domain will give easy access to technologies at reasonably low prices. Rather, it is a choice between having innovative – and therefore protected – environmentally sound technologies and

products, and not having them at all. For UNICE the choice is clear.

UNICE believes that WTO Members should demonstrate their willingness to comply with their commitments undertaken by ratifying the Uruguay Round results, and implement the TRIPs agreement. Thereafter the WTO can examine whether the provisions in TRIPs are sufficient to *encourage* reasonable dissemination of environmentally sound technologies and products.

In addition, UNICE firmly rejects the suggestion that patents already granted should be revoked or cancelled to allow for free production and use of environmentally sound technologies and products. Such a suggestion would render meaningless Article 27.1, which requires patents to be available and patent rights to be enjoyable without discrimination as to the field of technology. UNICE submits that Article 27.1 TRIPs imposes a fundamental non-discrimination requirement which might also be invoked against revocation of patents in a given field of technology.

The many and very creative suggestions to amend TRIPs seem to have the common goal of granting a level of protection for patents which would be lower than that currently provided. Given the hostility to intellectual property protection regimes in some circles, UNICE would like to stress that one of the achievements of the Uruguay Round was a clear demonstration of the benefit in refraining from unilateral measures for purely domestic purposes, and in relying, instead, on internationally agreed rules and principles. These advantages are obtained through the commitment by all WTO Members to implement the substantive provisions of the Uruguay Round agreements and to apply them correctly. If WTO Members now openly call this commitment into question, they themselves will invite others not to follow the rule of law. UNICE can only call on all WTO Members to contribute to item 8 of the Committee on Trade and Environment work programme having in mind the success, and the consequences, of the Uruguay Round for the multilateral trading system.

UNICE Position Paper on the Green Paper on Combating Counterfeiting and Piracy in the Single Market

24 February 1999

EXECUTIVE SUMMARY

UNICE very much welcomes publication of the above-mentioned Commission Green paper, which it sees as a step forward in the quest for further improvements in combating the plague of counterfeiting within the European Union.

UNICE welcomes the Green paper's broad definition of counterfeiting and piracy as infringement of any intellectual property and "sui generis" right. Nevertheless, UNICE is of the firm opinion that it is also essential to include actions which infringe fair competition such as flagrant imitations and look-alike products. Hence, slavish copies of non-protected products, currently excluded from the scope of the green paper, should be included.

Generally speaking UNICE is of the opinion that provisions in Member States' legislation which outlaw counterfeiting and piracy are reasonably satisfactory although there is a perceived need for greater harmonisation. In UNICE's view, one of the major problems for combating transborder piracy is the implementation of different types of protection in individual countries under different legal orders and with different procedural rules. Action against counterfeiters is all too often unsuccessful: this is the weakness of the system and the fight against counterfeiting should therefore concentrate on improving enforcement aspects.

In this respect, UNICE is of the opinion that co-operation between national authorities is on the whole insufficient and that greater co-ordination is required. Similarly, closer co-operation between rightholders and authorities is essential, and considerable improvements are needed in this area.

Altogether, sanctions at EU level would certainly be more effective than sanctions at the level of the individual state since piracy is usually organised on an international and transboundary basis, often with the aim of exploiting legal loopholes or weaknesses.

In addition to these preliminary remarks, UNICE has taken a close look at the specific questions asked in the Green paper and would like to offer the following comments attached.

ANSWERS TO THE QUESTIONS POSED IN THE GREEN PAPER

I. NATURE AND CHARACTERISTICS OF THE PHENOMENON

Question 1

a) UNICE welcomes the Green paper broad definition of counterfeiting and piracy as infringement of any intellectual property and "sui generis" right. Nevertheless, UNICE is of the firm opinion that it is also essential to include actions which infringe fair competition such as flagrant imitations and look-alike products. Hence, slavish copies of non-protected products, currently excluded from the scope of the green paper, should be included. Lastly, the protection of geographical indications should also be included.

Many cases of copying of non-protected products have been observed in industrial sectors with a particular effect on SMEs (e.g. mechanical engineering). This is also true for sectors ranging from cars to textiles.

In order to combat piracy of products and services properly, all these actions which do not infringe intellectual property rights directly but which can be counted as unfair competition should be included in a broad definition of counterfeiting and piracy.

b) Almost all sectors suffer from counterfeiting and piracy. Examples include chemicals, cars, electrical and electronic products, watches, toys, textiles, tool-making and mechanical engineering. All chemical products with high value-added are affected. These include:

- pharmaceuticals (finished products and active ingredients);
- phytosanitary (finished products and active ingredients);
- animal health (finished products and active ingredients);
- photographic articles, in particular amateur films.

In the textile industry, piracy occurs in all areas/niches; the focus is on fashion products.

The causes of this phenomenon are described in great detail in the green paper. Industry has also noted the following reasons :

- lower barriers to market entry because of copied products and/or brand names;

- relatively low risk of discovery and punishment, i.e. production almost risk-free;
- possibility of making high profits without business risk;
- weak perception of injustice among consumers.

Question 2

The companies represented by UNICE encounter piracy in the first three areas mentioned: manufacturing, distribution and in intra-Community trade in goods imported beforehand from a third country.

Question 3

The phenomenon manifests itself in different ways in each EU Member State. Broadly speaking, sale of counterfeits occurs world-wide. Counterfeits often originate in China, Taiwan (and Southeast Asia as a whole), India, Brazil, South Africa, Israel, the Middle East, Turkey and the former communist bloc. In addition, there are cases in which pirated goods are made in an EU country and are then sold inside or outside the EU.

For the watch, electrical and electronics sectors, the main counterfeiting countries are Taiwan, China and Thailand. However, now that tighter regulation is in place, there has been some reduction in pirated goods from Taiwan. Against that, the wave of counterfeits from mainland China is apparently still on the increase. For electrical/electronics, mention should be made of Wenzhou, a city/region which is home to hundreds of firms which produce counterfeits and sell them world-wide. For instance, Chinese counterfeits have been found in Turkey, the Middle East but above all in South America.

The chemicals industry is in some ways a special case: pharmaceutical ingredients are produced in large quantities in third countries (India, China, Cyprus) and distributed via the EU to other third countries. The goods are re-declared, given new papers and marked as goods of European origin. In addition, medicines and phytosanitary products/insecticides are produced illicitly in Spain, Italy, Greece, an outside the EU (Cyprus and Turkey) and imported into (other) EU countries under the guise of an apparently legal parallel import.

Question 4

The type of infringed right depends on the industrial sector. In the textile and toy industries, this is mainly design or copyright. In other sectors trademarks, patents and/or copyright are infringed.

Question 5

a) The circumstances under which illegal acts are committed depend on the sector in question. In the textile industry, the authors of counterfeits are found at all levels of the textile market, from the owner of the patent down to the retail trade, which sometimes actually places the order. In machine tools,

copied products are often displayed at trade fairs. Distribution usually takes place directly or through building and consumer markets. In the electrical industry, there are copies in both wholesale and retail. Here, too, display at trade fairs is common, albeit mainly for trademark infringements.

The following cases of illicit actions are reported from the chemicals industry:

- cases of apparent transit through the EU (see example in question 3);
- cases in agriculture where pirated goods (chemicals, medicaments) are sold direct from the lorry to the farmer, sometimes when they are not even authorised in the country of import;

b) Some companies are convinced that there is a link with organised crime, some only think that this is the case. However, there is the problem of proving a link with organised crime.

II. ECONOMIC ANALYSIS: SCALE AND CONSEQUENCES OF THE PHENOMENON

Question 6

It is difficult to give reliable figures for counterfeits.

In textiles, the share of copies represents about 10% of total turnover. In the toy industry, the estimate is 10-12%. In machine tools, copies are usually flooded onto the market in very large numbers. In these cases, trade in the copies can be as high as or higher than trade in the originals for a given period. The European market for counterfeit car parts is extremely high.

Question 7

Here, too, it is difficult to give concrete figures. The high share of copies in total turnover clearly means lower turnover for the companies concerned, which has an indirect effect of jobs. Job losses also occur when market regions are totally lost to a company because of cheap copies.

In addition, manufacturers of original products are often damaged by loss of a reputation built up over years because the copies are generally of inferior quality. At the very least, copies mean that customers lose confidence. This is because externally identical or almost identical products appear on the market at a clearly lower price. This distortion of price levels is difficult to repair and leads to considerable economic losses in the countries in question. This, in turn, holds back the commitment to innovation.

The effects that counterfeits can have on the health and safety of consumers depend on the product. Textile copies can have effects

on consumer protection if banned chemicals are used. Consumer health is also endangered by counterfeit tools, which are not always safe to use. Electrical appliances can also be unreliable and may cause personal injury or material damage. Counterfeit pharmaceuticals may be of poorer quality or contain a lower dose of the active ingredient (or even none at all). This is a constant danger to patient health.

III. LEGAL ANALYSIS

Question 8

In UNICE's view, one of the major problems for combating transborder piracy is the implementation of different types of protection in individual countries under different legal orders and with different procedural rules. Patent and design protection inside and outside the EU provide a good example of these differences.

A further problem is tracing counterfeits back to the original makers. This is especially difficult with copies from Asia. Prosecutions can only be successful if the plaintiff can produce actual products, proof of protection and the address of the maker.

SMEs (but also large companies) face other problems which stand in the way of effective defence against product piracy:

- cost of acquiring and maintaining rights,
- incomplete information in companies about the existing legal instruments,
- difficulty for customs to recognise copies on import,
- rapid flooding of markets with copies, usually in the form of special offers which rapidly sell out,
- difficulties in tracing such cases to their source,
- problems of co-operation with the authorities in the country where the copy was made.

All in all, it is a problem that the measures in place to combat piracy take too long to be effective and are often unwieldy. The costs of prosecution are too high in some countries. It is also regrettable that courts give different interpretations to "product piracy" in individual countries.

Question 9

UNICE believes that the existing legal provisions governing intellectual property should be strengthened in order to prevent piracy in the internal market. Improvements to the existing provisions should come in the first place from a harmonisation of national provisions at a high level of protection. For example, it should be possible to protect designs through the law on copyright, as well the law on industrial designs. Unfortunately, this option does not exist in all EU countries.

To help SMEs in particular to acquire protective rights for the products, a reduction in the associated costs is essential. This is

the case, for instance, for the future Community patent and Community design.

There should also be a separate, no-fault right to information. There is positive experience with this in Germany. Often this right is the only way to trace a copy. In 1990 a provision was incorporated in German laws to protect intellectual property; the wording of the right to information in the copyright law will serve as an example:

- (1) A party infringing copyright or other right protected by this law in commercial transactions through production or distribution of copies may be required to provide the injured party with immediate information about the source and distribution chain of these copies except in cases where this would be disproportionate.
- (2) The party obliged to submit information in pursuance of paragraph (1) shall provide the names and addresses of the manufacturer, the supplier and all other previous owners of the copies, the commercial distributor or party ordering the copies, and information on quantities made, delivered, stored or ordered.

Question 10

UNICE believes that the provisions on measures and procedures for enforcing rights are not yet adequate for preventing and punishing infringements in the internal market. One way of removing this deficiency would be better co-ordination of measures by national authorities in the internal market. In addition, international exchange of information could be improved. Where possible, customs checks at the internal market's external borders should also be improved.

There are a range of problems for implementing rights, especially patents. These are set out below:

1. One problem for efficient implementation is the time factor. With a few exceptions (e.g. Germany) preliminary injunctions are not available in the EU for patent infringements in the area of product piracy (pure copies). Yet, only immediate and direct action makes effective combating of product piracy possible.
2. Court orders are possible in various countries so that allegedly infringing products, or manufacturing processes can be described by experts, e.g. in Belgium, France (saisie contrefaçon), Italy, Spain, UK (Anton Piller order). However, conditions differ substantially and there is no uniformity of effective remedies, even within some countries.
3. A third real problem is that the investigative and enforcement authorities with competence for product piracy are not everywhere equally efficient.

4. Furthermore, acts of piracy in the form of infringement of rights are still regarded essentially as civil matters by investigative authorities and courts. Uniform treatment of product piracy within the EU as a criminal matter is urgently needed, since the sanctions are more effective and easier to enforce. UNICE is aware that the EU has no competence for criminal law. Nevertheless, it could send out important signals to raise the awareness of national legislators to this problem. In addition, claims for damages are often difficult to enforce.

UNICE is of the opinion that the existing protection under civil law should be extended so that action can be taken against the infringing party as rapidly as possible.

Question 11

It will be seen from the response to question 10 that the existing measures and procedures are not effective in practice. In particular, the procedure for patent infringements promises little success.

Question 12

Customs authorities, on the basis of case law, sometimes reject application of the regulation for trademark rights which are not subject to exhaustion. An important tool for the injured party to enforce his rights is the principle of EU-wide exhaustion of trademark rights. This principle must be preserved for trademark protection and not extended world-wide.

Question 13

There is an industry-wide view that patents and trademarks offer effective protection in civil cases. For the textile and toy industries, to this can be added design law (copyright under English law). An inexpensive Community patent and Community design would strengthen protection.

IV. POSSIBLE SOLUTIONS

1. Monitoring by the private sector

Question 14

Very few sectors have market monitoring systems. The pharmaceuticals sector has product and/or turnover databases (IMS) from which conclusions about unauthorised activities can be deduced.

The question of whether monitoring systems would be desirable receives different responses depending on the sector. The textile industry rejects this solution since such a market monitoring system would be unworkable because of the wide range and frequency of new designs. New designs are usually put on the market at least twice a year. In this case, the companies in question try to monitor the market themselves.

Other sectors think that introduction of a monitoring system would be a very positive development. Given the dimension that the problem of piracy has progressively built up, appropriate monitoring systems to which the industries in question have access would be desirable. They should be both sector-specific and overarching, they should be crossborder but also country-specific.

Question 15

- a) Public awareness campaigns and collection and dissemination of information in any form is useful for combating the problem. Databases may be a suitable tool in this case. One of our sectoral members (machine tools) has in past years performed a number of activities to raise public awareness, and these have proved their worth. Other companies report good reactions to publicity campaigns. Hence, public education can help to make the problem more manageable.
- b) UNICE believes that only a long-term initiative at EU level will lead to success since business and industry are becoming increasingly international.

It must be made clear to consumers that pirated goods are not "bargains" but are based on criminal activities which damage the economy and – especially in the area of health – can be dangerous to the consumer. Regular publication of a report to help combat piracy could be considered as a flanking measure.

Question 16

Co-operation and exchange of information between the authorities and professional organisations could be reinforced by organisations providing the authorities with information. There could also be feedback from the authorities on the measures implemented, which would improve co-operation.

Co-operation agreements between the authorities and professional organisations is advocated. All in all, we believe that an intensive exchange of information is essential if piracy is to be combated properly.

Question 17

UNICE believes that the relevant authorities should continue to be responsible for combating piracy. However, an improvement in the legal framework for action by federations may be desirable, provided that these organisations represent their member's collective interests, or that they are entitled by individual companies to act on their behalf.

Question 19

UNICE is of the opinion that national bodies are not able to be wholly effective, since they can usually take action only after counterfeits have entered national distributions channels. Some

national customs authorities nevertheless have a good record in catching counterfeits at national borders. At international level, the World Customs Organization and professional organisations can perform very useful work in taking action at an earlier stage in the distribution chain.

2. The use of technical devices

Question 20

The answer to this question depends on the sector. Technical devices play no role for effective protection of designs. With very few exceptions, recognition of copies generally poses no problems.

In tools there are currently no technical devices to protect intellectual property rights. This is partly the result of the difficulty of putting such devices in place for manual tools and partly because copies of tools have sufficient features which clearly mark them out from the original. Efforts to inform consumers about the existence and function of such technical devices are regarded as particularly expensive and ineffective.

In electrical engineering and electronics, security against counterfeits can be provided, *inter alia*, by specially prepared stickers. However, use of this device does not appear to be very widespread. In chemicals, technical devices are sometimes used.

However technical devices are often very expensive and can in turn be counterfeited. This is particularly the case for products with relatively low manufacturing costs. It should also be borne in mind that training is needed at dealer level so that dealers on the periphery can recognise whether they are being offered an original or a pirated good.

Questions 21 and 22

UNICE believes that there is little merit in specific legislation for protection devices. However, giving legal force to such concepts might be useful (eg: the music industry's voluntary code system for CDs). UNICE is also of the opinion that there is no need to standardise rules for the protection of devices which are often subject to rapid technological change.

Question 23

It is difficult to describe the requirements for an ideal security device. On the one hand, it should be difficult for pirates to identify and, if identified, difficult to counterfeit. On the other hand, it should be possible to identify it simply and rapidly, and without a particular technical effort or special preliminary knowledge. It is almost impossible to marry these two criteria. In order to allow effective information to the consumer, far-reaching harmonisation of these security devices across several product groups is thought to be sensible. This harmonisation should be limited to the nature and functionality of the security device, while the specific

characteristics should be individual to companies. Lastly, it is important that this should not make the goods more expensive.

3. Sanctions and other means of enforcing IPRs

Questions 24, 25 and 26

UNICE believes that further improvements in implementation of intellectual property rights in the internal market are essential. For instance, it would be desirable to harmonise differences between national legal orders in EU countries in the area of product piracy. Thought could also be given to harmonising the provisions on unfair competition which would make it possible to act against slavish copies. Harmonisation would be particularly worth considering with regard to a harmonised patent (Community patent). Such a harmonised right should make it possible to enforce this right in a uniform manner and not depending on the different national legal orders.

This also applies for the Community design for which a regulation is currently being drafted and which will create a single EU right to protect designs. Here, too, a separate no-fault right to information is needed. This would make it possible to deal with the instigator in a chain of copying and/or piracy activities.

Altogether, sanctions at EU level would certainly be more effective than sanctions at the level of the individual state since piracy is usually organised on an international and transboundary basis, often with the aim of exploiting legal loopholes or weaknesses. It would be useful to close down sales points or production plants in extreme cases. But it should be remembered that this will not protect against the activity being restarted under a different guise. In addition, the tools needed for the production of counterfeit products could be confiscated.

Questions 27 and 28

UNICE believes that further improvements in implementation of intellectual property rights in the internal market are essential. Thought could be given, for instance, to improving or introducing the possibility of temporary injunctions in the different countries. Further dissuasive measures should also be considered. These might include publication of legally binding decisions across the entire region in co-ordination with the companies in question. Consideration should also be given to the possibility for rightsholders to claim damages from landlords tolerating the presence, on their premises, of tenants who manufacture or commercialise articles infringing intellectual property rights.

In any event, distribution of copies should be impeded. Under no circumstances should seized products be passed on to third parties because this would ultimately harm the original manufacturer and support the pirates. Wherever cheap copies turn up, they generally damage sales of considerably more expensive original articles.

Neither can it be countenanced that confiscated counterfeit pharmaceuticals should be passed on.

As an auxiliary measure, the right of legitimate owners of rights to information and accounts should be extended. The procedure under the Anton Piller order is regarded in some quarters as too expensive; reference is also made to the fact that the rightsholder needs to prove that the infringing party acted with criminal intent.

Question 29

UNICE is of the opinion that publication of judgements is a suitable and effective instrument for combating counterfeiting because it has a dissuasive effect. In the interests of the affected companies, publication of judgements should be made dependent on the agreement of the companies and/or federations concerned.

Question 30

The rightsholder's right to information is regarded by all industrial sectors as an essential condition for effective prosecution (see also question 9). It not only has proved its worth as a suitable measure for combating counterfeiting but is also the main condition for effective prosecution in many cases. The right to information must be separate and no-fault, i.e. not attached to any conditions. Misuse of the right to information for market research purposes need not be feared: this is proved unequivocally by experience with the separate and no-fault right to information in Germany.

UNICE refers here to its response to question 9 which contains the wording of the German right to information. This right could go even further.

Questions 31, 32

Experience is very limited in view of the difficulties in obtaining effective cross-border injunctions and cross-border orders for enforcement of judgements. In those few cases where these have been obtained, they are almost impossible to enforce due to the delays in processing them through the court systems of the various countries involved. There are few difficulties in determining which court has jurisdiction, and national laws are often fairly similar in that they are TRIPs-compliant and have been harmonised to a large extent within the EU.

There are nevertheless difficulties in enforcing judgements against counterfeiters. Defendants may declare themselves bankrupt, move assets to other family members and resort to other financial subterfuges to avoid loss of assets and paying compensation. UNICE calls for greater assistance from courts, police and financial authorities in seizing the assets of counterfeiters.

In some countries it is not possible to intercept goods in transit. There are problems concerning goods in storage at "free" ports

and zones. Such facilities should be prohibited in terms of intra-community trade.

Questions 33

UNICE is in favour of closer alignment of both criminal and civil national laws affecting counterfeiting and better co-operation over granting and enforcement of cross-border remedies, including injunctions.

4. Administrative cooperation between the competent authorities

Question 34

The question of whether there should be a single contact point in each Member State is answered differently by the companies UNICE represents. On the one hand, there are doubts as to whether this would make exchange of information easier. On the other hand, establishment of such a single contact point is welcomed to provide the industry in question with an experienced and informed discussion partner. This also applies for creation of a co-ordination group.

Questions 35, 36, 37 and 38

Co-operation between the national authorities responsible for combating counterfeiting and piracy in the single market is unsatisfactory at the present time. In particular, to UNICE's knowledge there is no co-operation between EU customs authorities, and there are no shared databases. Although efforts have started to build up the latter, it is unlikely that this goal will be achieved for several years.

Even in the case of co-operation between police forces and judiciaries, national borders have proved to be an obstacle. What is urgently needed here is establishment of supra-national co-operation to combat this most highly organised form of crime.

Questions 39, 40 and 41

As pointed out above, awareness of the extent of economic crime has not yet been sufficiently developed. In this context, training measures are sensible in order to raise this awareness among the investigating authorities. UNICE cannot judge whether or not staff exchanges between Member States would be successful. Against that, a practical guide for national authorities would be very helpful. Thought could be given to producing sector-specific guides.

UNICE Comments on Exhaustion of Trademarks and Other Intellectual Property Rights

21 April 1999

I. INTRODUCTORY REMARKS

UNICE is surprised that the recent decision of the European Court of Justice in the "Silhouette Case" did not put an end to the present tendency at EU level to discuss alleged advantages of international exhaustion in the area of trademarks and more generally for intellectual property rights.

In this paper, UNICE would like to voice the particular concerns of intellectual property rightsholders. The manufacturers of branded products represented by UNICE are extremely concerned about the consequences that changes in the Community exhaustion regime could have for intellectual property rights in general. Apart from the specific consequences in the field of trademarks, it would inevitably have a repercussion on designs, patents, copyright and other IPRs. The whole intellectual property framework could be affected and the outcome of such a change would be a general dilution of these rights, which are vital to innovation and economic growth.

II. DEFINITION OF EXHAUSTION

1. The theory of exhaustion of IPRs has been developed by courts. Exhaustion doctrines establish the limits of territorial distribution rights of intellectual property owners after the first sale of their protected goods/works.
2. In the EU, a regional exhaustion theory prevails. It means that if a rightsholder has first sold goods on which he has IPRs in the market of one EU member state, or given his consent to do so, his rights on that good are deemed to be "exhausted" and he cannot oppose its import to, or sale in, any other EU member states. This regime is based on one of the cornerstones of the European Community: the creation of a single market. Since this market is considered as an area without internal frontiers, goods, services, persons and capital should move freely.
3. Under international exhaustion, the rightsholder loses his exclusive right of distribution after the first sale or distribution of a protected product anywhere in the world.
4. The ECJ has confirmed on many occasions the well-enshrined principle of EU regional exhaustion. Legal arguments are not questioned. The debate is now centred around economic consequences of a choice of exhaustion and UNICE will focus its comments on these aspects.

III. ECONOMIC ARGUMENTS AGAINST INTERNATIONAL EXHAUSTION

1. UNICE would like to recall that the countries covered by the WTO Agreement do not constitute a customs union and economic area such as the European Union, or even a free-trade area. There are still many tariff and non-tariff barriers, and important differences in economies, legal systems, wealth and development, state price controls and regulations.

Product prices within a given market are still affected by such matters as company taxation, state regulations and other infrastructure expenses, salary levels determined by local conditions and interference of local governments with the normal operation of markets.

International exhaustion is therefore not consistent with economic reality in the present state of global trade.

2. If prices are established not by the free market but by state intervention, international exhaustion can have devastating effects since it can lead to partial expropriation of rightsholders' rights. This arises in particular where prices are controlled in the country of first sale (as with price-controlled pharmaceuticals).
3. International exhaustion creates barriers to international trade. To protect themselves from its effects, innovators are in effect barred from selling in, or transferring technology to, countries where prices are low. Developing countries will also be negatively affected since rightsholders will not grant licences in low-price countries or in countries with non-existent or low intellectual property protection.
4. It has been argued that the USA and Japan follow the international exhaustion principle. This is a misinterpretation of the US and Japanese exhaustion regimes. As the NERA study points out in the few cases where international exhaustion is applied in these countries, it concerns only certain categories of products and often on a case-by-case basis.

Whatever Europe does, UNICE is of the opinion that the USA is unlikely to follow if that is contrary to US trade interests. Any country that adopts international exhaustion in circumstances where the US does not, will not only shoot itself in the foot by holding back technology transfer and the export and import of goods at reasonable prices; it will also give a competitive

advantage to US trading corporations and to US exporters to low-price countries.

5. The increase in parallel imports resulting from a move to international exhaustion would be an open door for counterfeit goods. Since the Commission is willing to reinforce the fight against counterfeiting, it should carefully assess the impact of a change in exhaustion regimes on counterfeiting.

IV. WHO WOULD BENEFIT FROM INTERNATIONAL EXHAUSTION?

1. UNICE notes that the NERA study shows that parallel trade is not a consumer/price issue. It is a manufacturer/trader issue. The principal question at stake is therefore: who should be allowed to control distribution? Is it innovators or is it traders?

International exhaustion would simply rob innovating companies of the means to finance innovation and research activities since it would prevent them from achieving an adequate return on their investment in innovation. Instead it would divert resources to traders who have made no contribution to innovation.

2. International exhaustion would enable trading companies to buy the product in quantity in a market where prices are relatively low and transport it to a market where prices are relatively high. Parallel traders would maximise their own profit and would sell goods at the highest market price they can, keeping for themselves the lion's share of the price difference.
3. International exhaustion would therefore mainly benefit trading companies, often not based in EU countries.

V. ILLUSORY ADVANTAGES FOR CONSUMERS

1. As shown above, consumers will not benefit in large proportion from a change to international exhaustion. The NERA study confirms the very small effect on retail prices (retail prices may decrease by only zero percent to two percent).
2. In addition, a move to international exhaustion might affect consumer confidence because a product sold under the same brand name in different countries often varies in taste and quality. The product put on the foreign market will be adapted to that market and will often have different characteristics¹.

In addition, brand manufacturers in Europe ensure that their packaging conforms to European or national requirements such as labelling, re-usability and re-cyclability. The same brand sold

outside Europe may well be packaged differently because of different local conditions (local packaging requirements, climate, etc.).

All these differences might undermine the rightholder's reputation if goods are put on the wrong market as a result of international exhaustion and parallel trade. The consumer will be disappointed, and the reputation and image of the firm concerned might be affected.

3. Parallel trade resulting from international exhaustion may also affect consumer safety. A product imported into the EU by parallel traders may well contain instructions in non-EU languages. The consumers might end up either with instructions that are not understandable, or no instructions at all if the trader decides to remove them. This would fly in the face of the 1999 Council resolution on operating instructions for technical consumer goods, and in the Commission efforts to strengthen consumer safety.
4. International exhaustion damages selective sales and marketing channels which provide benefits to the consumer from quality control, trained staff, after-sales service, guarantees and product information.
5. UNICE was heavily involved in the discussion concerning the proposal for a directive on the after-sales guarantees on consumer goods. Consumers have been pleading for a high level of after-sales service and guarantees. In the context, it is difficult to understand that they could favour cheaper products with no after-sales service or guarantee, instead of European products which have to comply with the high standards they have asked for.

¹ For instance, European brands of toothpaste do not taste as in Asia or Africa; a television for Asian terrestrial reception may not have the full band-width for the European cable network and a European consumer acquiring these products could not use them.

VI. CONCLUSION

- ◆ The established regime of Community exhaustion, while ensuring free movement of goods in the internal market, guarantees European companies the necessary protection against parallel imports from third countries. This regime is a crucial element in maintaining and protecting EU competitiveness and innovation.
- ◆ A move to an international exhaustion system would reduce the economic value of intellectual property rights and would place European companies at a competitive disadvantage vis-à-vis competitors from countries which do not apply this regime. Moreover, if some Member States were allowed to apply international exhaustion, this could ruin the proper functioning of the internal market for trademarks and rental rights.
- ◆ Consumers would not benefit in large proportion from parallel trade. UNICE notes that the NERA study shows that parallel trade is not a consumer/price issue. It is a manufacturer/trader issue. Parallel traders want to maximise their own profit and they would sell goods at the highest market price they can.
- ◆ The NERA study points out as a consequence to adopting international exhaustion retail prices may decrease by zero percent to two percent. On the other hand, it points out falls in profit for European companies between three and thirty five percent. The figures speak for themselves.
- ◆ It remains UNICE's considered opinion that only an exhaustion regime limited to the territory of the European Union can provide the level of intellectual property protection needed by European companies in globalising markets.
- ◆ UNICE will therefore continue to oppose international exhaustion as long as there is no single world market with a uniform commercial, economic and legal framework.