

CITY OF LONDON LAW SOCIETY

GOWERS REVIEW

COMMENTS OF THE INTELLECTUAL PROPERTY COMMITTEE

The City of London Law Society acts as the local Law Society of the City of London. It represents the professional interests of City solicitors, who make up 15% of the profession in England and Wales, by commenting on matters of law and practice and by making representations on the issues and challenges facing the profession and their clients. It organises itself into committees, around legal topics. This response to the Gowers Review comes from the Society's intellectual property committee, whose membership is made up of representatives of members firms who practise solely or mainly in the intellectual property field and who have extensive experience in litigating IP rights and in transactions involving the exploitation of IP rights.

INTRODUCTION

Because of the wide-ranging nature of the review and the questions raised by the review, we have decided to concentrate on only a few of what we regard as the key issues where consensus could be reached amongst members of the Committee. To the extent that individual members of the Committee (or their respective firms) have particular comments to make, then it was agreed that they would make them themselves. We should also say that we have seen, and approve, the submissions of the Law Society and the Intellectual Property Lawyers Association.

Before we set out comments in detail, we do have a concern as to the apparent composition of the Review Team. As we understand it (although we have found it difficult to receive any formal confirmation) the team is principally, if not wholly, made up of civil servants and not those in industry or in private practice who are intimately involved with the intellectual property system. If that is the case, then we would regard this as a serious failing in the review given the importance not only of the review but of intellectual property itself. If it is thought appropriate, we will be happy to provide someone from the IP Committee to sit on any formal Review Team to consider the responses received.

General Questions

1(b) We wish to compliment the UK Patent Office on its approachability, its staff and the quality of both its website and its documentation. Where we think that a much greater need exists is to improve both the UK and the various European websites enabling proper searching to be carried out online of trade marks, designs and patents. We think a thorough review of these facilities should be undertaken as a matter of urgency. For example, the trade marks search capability on the Patent Office website is relatively easy to search, but historical information is not always accurate, licences are not generally not recorded and a proprietorship search conducted on the UK site does not show either Madrid or Community trade marks owned by proprietors. In addition, it is not possible on the UK site to search for a trade mark with less than three characters (e.g. O2 for mobile telephony).

The Espacenet website is very unuser-friendly and it is almost impossible to print off patents and those patents that are on the sites are generally not the B1 and B2 specifications, but pending applications only.

Online searches of registered designs (both at the Designs Registry and at OHIM) are particularly poor, although the OHIM search is slightly better in that it is possible to do proprietorship searches (so long as one knows the exact proprietor that has applied for the designs in questions).

A more general point is that these facilities should be available 24 hours a day, with very limited downtime.

3 (a) and (c) Difficulties in relation to the research exemptions/negotiating licences for commercial purposes

See also Specific Issues - Copyright exceptions – fair use/fair dealing

Following the introduction of the Information Society Directive (via the Copyright and Related Rights Regulations 2003, SI 2003/2498,) significant restrictions were placed on the amount of copying which could be carried out by commercial enterprises, including law firms. The previous exemption, permitting copying (including electronic storage) of works for research for commercial purposes was removed.

This has led, in our view, to an inequitable situation, affecting both law firms and their clients. Under the old regime, copyright owners were protected, since unfair amounts of copying could be stopped. Those doing research were equally protected, since they could make sensible use of a copyright work without fearing liability for copyright infringement. They could copy relevant extracts of a larger work for ease of reference, without causing commercial loss to the copyright owner. This was particularly useful given that much of the literature that we and our clients would want to use and reproduce is already available on the internet, and its storage elsewhere, for convenience, makes good commercial sense.

We would like to see that right re-instated. We believe that the current situation leads to one of two equally unsatisfactory positions. Either the researcher is forced to return repeatedly to the source material, which may be voluminous, or hard to access (eg, where web-sites are changed and the source material is no longer easily available). Or the researcher copies the extracts he requires in any event, ignorant, or regardless, of the fact that what he is doing is unlawful, where for many years it had been lawful.

The chances of the copyright owner discovering the infringement are low, and costs of pursuing an infringer who is doing no more than what was previously regarded as fair, are disproportionately high. The loss to the copyright owner is almost certainly negligible. The reality is, therefore, that either the copying continues without a licence, or the commercial enterprise is forced into long and tortuous negotiations with entities such as the Copyright Licensing Agency and the Newspaper Licensing Agency, who are imposing restrictive conditions and charging not insubstantial amounts for what is effectively access to and use of publicly available information, rather than a copyright fee.

It would be preferable, in our view, to return to the previous position, or to some similar recognition that commercial enterprises have legitimate reasons to copy fair amounts of copyright material, and that no damage is caused to the copyright owner by their doing so.

3(d) Barriers to licensing

There is a profusion of collecting societies authorised to collect royalties on behalf of a raft of rights owners, particularly in relation to copyright rights (music, publishing). Many have overlapping rights in the same material. They are fragmented, with apparently little co-operation between them. It is very difficult to find out which rights management entities own which rights, not least because some claim rights that others also claim. This leads to excessive administration costs and is over-burdensome for the potential rights user, who must ensure he has all the necessary rights, from the correct societies, before using the material.

The enormous disparities between different countries, and the wildly different terms and conditions offered by the different societies, are equally intolerable. Generally, collecting societies take a very bureaucratic and non-commercial approach to the licensing of rights. The lack of international bodies, or co-operation between national bodies, exacerbates the problem, particularly in today's pan-European/global market. Indeed there is a strong suspicion that they deliberately play off these disparities to the detriment of users.

If Europe is to be a single economic entity with minimal restrictions on free trade then this issue needs to be resolved. We would recommend the establishment of a single, unified body with

power to collect royalties on behalf of all owners of copyright in a work. This would lead to a single source of licences, reducing the burden on licensees, establishing common terms of licences, and reducing the ability to stack royalties to such an extent that use of the copyright work becomes uneconomical. It would improve the position of copyright owners, who would equally have a single body entitled to act on their behalf, and to ensure a fair return to all.

3(I) Compulsory patent licences

As a body, we have very little experience of compulsory licensing provisions, which strongly indicates that they are infrequently used and of little effect. This could be because of their complexity, their narrow application, or because the perceived harm they were intended to address does not exist, or is eliminated by the mere presence of the right.

We would recommend their abolition or simplification, provided that there is sufficient evidence that their presence has no deterrent effect on anti-competitive behaviour by patent owners. Their existence in UK legislation sits awkwardly in a pan European, let alone a global, market.

4(a) UK Court administration

One of the problems at the moment in enforcing IP rights in the UK is the poor quality of the administration of both the UK High Court and the County Courts. This delays the progress of actions and results in unnecessary cost to the parties. Files frequently get lost, letters are delayed, not sent out or incorrectly referenced and files are not properly maintained to keep copies of all correspondence, orders or filed pleadings. Better electronic records (and hard copy back-ups) need to be kept and procedures for tracking progress of a claim to be introduced. For instance, allocation questionnaires are only sent by the Court (and a date for a Case Management Conference set) if the defence is filed correctly with the Court on time by a defendant – this can lead to delays in progress of a claim to trial.

We are very concerned at this, particularly in the light of recent suggestions of Court staff numbers being reduced. It is imperative that our Courts have both an infrastructure and a procedure that not only provide a proper service to litigants but (particularly in the case of a global right like IP) recognises that litigants increasingly have a choice as to which jurisdiction to sue in. In IP cases it is now common for a claimant to decide which European country to sue in and Court procedures and costs are key determinants (see our comments below).

IP Judges and trials

Whilst we are in favour of maintaining the specialist Patents Court Judges, we also believe that the Court should maintain a list of dedicated Judges with experience in IP issues to be assigned exclusively to hear IP cases. This would ensure that IP cases are always heard by experienced Judges expert in the relevant law. This should remove some of the scope for inconsistency in application of the law in parallel cases. Similarly, for instance, the risk is that non-specialist Judges are reluctant to have claims or defences struck out at an early stage on the basis that they are not legally sustainable, as they have no detailed knowledge of IP law. This can lead to entire claims or issues in claims reaching trial that should have been properly struck out or at least dropped voluntarily by the party involved. For instance, a cause of action based on unfair competition was allowed to advance by a Judge in *L'Oreal v. Bellure* in 2005, despite the fact that the cause of action is not recognised by English law (and runs contrary to authority from the House of Lords).

We also believe that it is important that an IP Judge is assigned to a case at an early stage pre-trial to get over the learning curve involved in often complex technical disputes. Early allocation of an IP Judge should encourage more pro-active case management to focus down the issues in dispute and narrow the matters upon which argument and cross-examination is genuinely necessary at trial. One possibility that could be considered as an option for the parties is to request a preliminary indication by the assigned IP Judge on the merits, accepting that the preliminary indication by the Judge would be oral, non-binding and the case may evolve considerably by trial, as evidence is adduced and argument is advanced on the legal issues. This would require further consideration and consultation.

Orders made without hearing the parties

In addition, there has been a worrying trend recently whereby Court officials are making Orders without the input of one or other party (such as ordering directions without a Case Management Conference), in circumstances where it is left to the parties then to go back to Court to try to overturn that decision on appeal. This only increases legal costs for the parties and increases uncertainty for litigants. Whilst we applaud the desire to speed up litigation (although we note that the UK is probably one of the quickest in Europe already), the lack of consultation with the parties is worrying. It undermines the principle of fairness in allowing both parties to argue before a decision is made.

Lack of sanctions on non-compliance with orders

Of equal concern is the lack of commitment by Court officials to impose true sanctions upon parties who fail to comply with directions, absent legitimate good reason (such as meeting the timetable for the various stages to trial, such as providing disclosure or serving witness statements). This leaves the door open to unscrupulous litigants to exploit the Civil Procedure Rules, undermining the Court's commitment to more rigorous case management in order to ensure that cases come to trial more quickly. It further leads to wasted costs in parties issuing applications to resist requests for unmerited extensions of times or to strike out statements of case, as these seldom result in the Court officials adopting a tough stance with litigants. The Court officials should be invited to impose tough sanctions for failing to meet Court deadlines, absent good reason. The availability of Counsel, vacation periods or unexplained delay in providing instructions should rarely be accepted as good reason for delaying progress of a case to trial.

Lack of consistency of judgments and the ECJ

Equally worrying is the lack of consistency of decisions, both at the lower level and at the level of the High Court and of particular concern is the propensity of certain judges to refer cases to the European Court of Justice (ECJ), which invariably means at least a two year delay before anything is decided. The volume of cases (particularly trade mark cases on appeal from the Court of First Instance or upon reference from national courts and soon an influx of design cases from the introduction of the Community registered design and unregistered design right) is leading to unacceptable delays for parties (and we support the recent comments of the Advocate General in the *Boehringer v. Swingward* case). The length of time that the ECJ is taking on cases, even after the Advocate General has given his opinion, needs to be addressed. These results in considerable expense for the litigants involved, often in answering academic or esoteric points of law, unlikely to resolve the dispute in hand. Frequently the judgment of the ECJ only leads to further uncertainty in seeking to understand the interpretation to be applied to particular pieces of Community law and/or, in some cases, the ECJ elects not to decide the particular issue before it, notwithstanding the long-awaited opportunity to do so and the time and expense of the parties in bringing the case. With no formal system of precedent, the ECJ frequently repeats itself, though it is beginning to take steps to cite its own previous rulings as being determinative of particular issues. The UK needs to consider whether the present system for hearings by the ECJ (and the quality of its constituent judges) are worthy of a final supreme court for Europe. An urgent review of the ECJ is required (and in many ways is more important that any question of whether the UK should have a new supreme court in place of the House of Lords). Equally, the UK judiciary should be firmer in resisting calls to refer matters to the ECJ which are properly "*acte clair*" and can be determined properly, as a matter of national law without burdening the ECJ (and, more importantly, the parties).

Failure to modernise European patent litigation

Against this background, the UK needs to contribute to the pressing demand by industry and practitioners to adopt a European Patent Court (to be set up pursuant to the European Patent Litigation Agreement) to provide an effective system to litigate European patents. The proposal to adopt a Community Patent Court (as proposed by the Commission) is unworkable in the short term and the Commission should not be permitted to defeat the workable proposal tabled for the European Patent Court. The proposal for European Patent Court embodies flexibility on the language of the case, the court machinery and location, together with drawing on an experienced and respected judiciary from the existing national patent judges in Europe. It is demanded by industry and would provide a competitive

alternative to the systems in the US and Japan. This is probably the greatest single priority in terms of enforcement of IP rights.

Retain split hearings for IP cases

At present, in the majority of cases, IP cases are split with separate hearings on liability and quantum (loss). We are in favour of retaining this split, as the vast majority of cases are settled once liability is determined, without having a further trial on quantum at a later stage. The reason for this is that proving loss from IP infringement is difficult, often requiring both factual and expert witness evidence. For this reason, it is time-consuming and expensive. If the split hearings were abolished, this would front-load costs, as a significant work would have to be carried out, without knowing if it would later prove redundant. Hearings of IP cases would become longer in the first instance if they dealt with both liability and quantum, leading to a backlog in the Courts. This would lead to the English legal system being out of step with the rest of Europe and it would only increase the costs of bringing proceedings in the UK, especially patent infringement claims, thereby exacerbating the expense issue.

Out of date system for assessing quantum

However, the procedure for determining quantum by way of either a damages inquiry or an account of profits is old-fashioned, too complex and generally far too expensive. This should be reviewed. The costs are likely to be so great as to outstrip any recovery of losses in all but the largest of cases. In some cases, the cost of holding an inquiry as to damages may be significantly more than the first hearing determining liability. At present, this causes many successful litigants to shy away from having the Court determine loss, preferring instead to settle matters in a rough and ready way. This may result in injustice to some parties, even if they had been successful in the liability phase. This is largely due to the current system whereby a judge as a lawyer will hear detailed evidence from expert witnesses (both accountancy and industry experts, such as marketing experts), which addresses often complex questions of whether financial loss has been caused by the acts of infringement and, if so, what is the appropriate measure of loss, whether by the grant of a reasonable royalty typical for the industry, loss of profit on substitute sales made by the infringer or some other measure. One possibility may be to provide an alternative to this cumbersome system by allowing for the parties to opt for an expert determination by a respected accountant or industry figure, so that loss is determined by someone experienced in the sector, rather than a lawyer with no feel for what is the norm in the relevant industry.

Assessment of legal costs

We are in favour of maintaining the principle that the losing party pays the winner's reasonable legal costs. However, the procedure for assessing those costs by specialist cost judges is, despite improvements in the last few years, still old-fashioned and too bureaucratic. It focuses on an archaic notion of what different sizes and types of law firm may charge and at what rate the Courts should allow recovery of those costs. The procedure is time-consuming and expensive in its own right, leading to the charge that the costs of putting a winning party to assessment of its costs will lead to much of the costs to be awarded being swallowed up by further time and cost. We are in favour of the trial judges involved making instant assessment orders (summary assessment) in interlocutory matters at the time that they decide an application. Consideration should be given to whether this should be extended to assessing the costs to trial, on the basis that the trial judges are best placed to understand the nature of the dispute, the conduct of the parties involved and the outcome of the Judgment. Fast justice in assessing costs may be fairer than a more detailed, but laborious process that is costly in its own right.

Proceeds of Crime Act/Money laundering checks

The reporting obligations under the current legislation do not differentiate between minor counterfeiting cases and serious criminal enterprise. This results in unintended consequences for practitioners and clients alike. There is confusion over whether solicitors are required to notify SOCA of involvement in (or settlement of) civil claims against counterfeiters or pirates, even where acting for the rights holder, where there is the potential for a criminal offence to have been committed if monies are received by way of settlement or court order that may amount to proceeds of crime. This results in

unnecessary expense and bureaucracy for solicitors in considering the issues, advising the clients in appropriate cases and awaiting SOCA approval. Whilst the Court of Appeal's guidance in *Bowman v. Fells* [2005] is welcome in providing reassurance about the obligations arising whilst pursuing civil claims, it still does not address the mischief caused in the context of transactional/M&A work where notifications may delay signing deals. The impact of these checks and their unintended consequences require review, particularly given that the authorities themselves are somewhat surprised to learn that notification is required in the IP context.

4(b) Costs

Generally, we feel that the judiciary is completely out of touch with the true costs of litigating in the UK and the costs of litigating in other countries. The judges seem unaware of (or have forgotten) the significant amounts of time that it takes to get a case ready for trial, in terms of taking instructions from the clients, document management, correspondence with the opponent, drafting witness statements and preparing bundles for trial. This is in large part driven by the Civil Procedure Rules which front-load costs in terms of disclosure and preparing factual and expert witness evidence, as a result of imposing shorter timetables to trial. The relatively quick timetable to trial often results in a need for a team to be involved, working on several aspects of the case simultaneously. The continued criticism of solicitors from the bench is largely unwarranted and it is particularly inappropriate when made in front of clients.

The Courts also need to recognise that many IP rights that are litigated are largely the reward for commercial investment by large multinationals in the 21st Century (rather than the result of individual personal creative enterprise) and therefore business is able to afford the costs of protecting and enforcing these rights. It is part of the cost base inherent in exploiting the subject-matter protected by the IP rights.

We recognise that some of the issues set out above go wider than just the enforcement of IP rights, but in our view they do need to be addressed at least in relation to IP, if our clients and the UK is to benefit from a respected judicial system.

4(d) IP Litigation Insurance

Our collective experience of IP litigation insurance is that it is extremely difficult to obtain (for any worthwhile amount of cover, as cover is often capped well below the costs of big ticket High Court litigation) and generally the insurers do not understand IP well enough to give appropriate cover (as frequently, self-insured retentions, exclusions or limitations rid the cover of any real protection) and, in addition, it tends to add considerably to the expense of litigation as insurers like to be involved in the conduct of the litigation, but do not know sufficiently what they are doing.

4(e) Use of Alternative Dispute Resolution (ADR)

All relevant forms of dispute resolution are used, as appropriate for the individual cases. We do have severe reservations about the appropriateness of the Patent Office opinion service for important patents and query what the status is and usefulness of an informal, non-binding determination by the UK Patent Office.

We remain sceptical that it is appropriate for mediation to be forced upon parties by the Court at inappropriate times during the course of legal proceedings. Increasingly, the Courts are ordering a period for parties to consider ADR and for parties to justify why ADR is not appropriate or is likely to fail. In IP cases, the Court may make a Tomlin order upon the consent of the parties, to include any injunctive relief provided for by way of a settlement agreement concluded during a mediation. However, it is rare for parties to submit voluntarily to an injunction (or a sufficiently wide form of injunction), as would be obtained from the High Court upon a finding of infringement. It is also questionable whether parties can agree between themselves, as a matter of private agreement, whether a patent or trade mark is invalid or to be revoked, when the rights are a monopoly granted by the state. There is a wider public interest in the Courts upholding or striking down the monopoly conferred by particular IP rights. For these reasons, whilst ADR has a role to play in IP cases, it is perhaps less appropriate than for other types of private commercial dispute. For

that reason, it should not be made mandatory or imposed without very good reason. ADR should be encouraged, but ultimately left to the wishes of the parties.

4(f) Cost of enforcement to small business/individuals

Cost is clearly a major factor for the enforcement of IP rights by small businesses and individuals and we question how much of this is made clear to them when they initially apply for registered rights. There should be some onus on those applying for registered rights (particularly on behalf of unsophisticated applicants) to warn them that merely having a registration is not necessarily a panacea for all of their problems, particularly in cases where the rights obtained are of dubious validity. Rights are only as good as the enforcement steps taken to protect the subject-matter. A large part of this is the ability to take action, if a third party infringes those rights. The Patent Office should be encouraged to make this clearer with statements on its internet web pages for those seeking to obtain or register IP rights.

4(g) Litigation risk

The risk of litigation is often a factor in a decision whether or not to invest in a certain new product or process, but that is the nature of an IP right (particularly in the patent area). This is why it is important for the extent of those rights to be clarified at the earliest opportunity and not left to lie on file (in the form of unexamined applications) for long periods of time. It is important that applications are examined promptly by the UK Patent Office and published on time. The present system in the EPO needs to be reviewed, where delays in the examination and opposition procedure can lead to unfair outcomes.

4(h) Lack of pan-European consistency

Probably the principal barrier is the lack of pan-European/global consistency in enforcing IP rights, though this may improve with the implementation of the IP Enforcement Directive. In the EU, the very different Court procedures, the lack of skilled specialist Judges in several countries (especially in some Member States where the judges may not be legally-trained) and the lack of harmonisation in some areas (particularly copyright) leads to very inconsistent judgments and this acts as a barrier to trade.

Specific issues: Legal sanctions on IP infringement

(a) Civil remedies

There has been a degree of inconsistency between Member States in the remedies available for infringement of IP rights. The Commission recognised that protection of IP rights is essential to the internal market and promotes innovation, but disparities in enforcement could lead to a loss of confidence in the system and be exploited by the counterfeiters, IP pirates and organised crime. For that reason, Directive 2004/48/EC (the IP Enforcement Directive) was adopted to ensure an equivalent high, homologous level of protection is met across all Member States. The deadline for implementation of the measures into national law is 29 April 2006. The UK has purported to implement them via The Intellectual Property (Enforcement, etc.) Regulations 2006, although we must say some of the implementation (e.g. in relation to section 68 Patents Act) is curious and does not appear to have been the subject of any consultation.

The UK Patent Office has been responsible for reviewing transposition of the IP Enforcement Directive. Initially, the UK took the position that no changes were required to UK law to implement the IP Enforcement Directive. However, after consultation, the UK proposed to implement a number of changes, including most importantly Article 4, to provide representative associations of IP rights holders with the right to bring proceedings in their own names (rather than that of their members) and to obtain remedies (injunctive relief, damages etc.). The [draft] UK Regulations included provisions to grant representative associations of holders of patents, copyrights, designs and trade marks with an independent right to bring an action and obtain a remedy. Regrettably, at the last moment the UK Patent Office withdrew these provisions without explanation. We consider that UK law is now deficient in failing to implement Article 4, by providing a clear statutory basis for representative associations to take action which is not currently provided by Part 19 of the Civil Procedure Rules. This is to the detriment of a number of IP representative industry bodies and IP enforcement bodies.

Criminal penalties for IP infringement

Whilst criminal sanctions clearly have a major part to play in the fight against all forms of counterfeiting and piracy, particularly those businesses engaged in activity on a commercial scale, making infringement generally a criminal offence is inappropriate (particularly given the number of IP rights that now exist, their complexity and difficult determinations to be made on their validity or infringement). Any criminal sanctions should only apply where there is a deliberate attempt to deceive a purchaser of goods as to their provenance or origin. On that basis, criminal sanctions for patent infringement are certainly inappropriate.

Threats provisions

We advocate that the threats provisions for patents, designs and trade marks are abolished. So far as we are aware, the UK is the only country in Europe which has specific statutory controls under IP legislation on the legitimacy of threatening to take proceedings for infringement of IP rights and they invariably lead to uncertainty and additional costs for clients. In particular, it is often individuals or SMEs that fall foul of them as they are not properly advised. They now run entirely counter to the general pre-action protocols set out in the Practice Directions to the Civil Procedure Rules which requires parties to explain the nature of their claim and what they are seeking early on in any cease and desist letter to avoid unnecessary cost being incurred in pursuing or defending claims that may be properly settled or withdrawn at an early stage. The threats provisions can be circumvented in certain ways, such as issuing a claim prior to writing a cease and desist letter, defeating the objective of resolving disputes without proceedings being issued, or by lawyers carefully drafting letters to reflect the somewhat illogical exceptions provided in the legislation. Again, this potentially leads to unfair outcomes for the unwary litigant or those not properly advised.

For this reason, these statutory provisions are an anachronism and run contrary to the overriding objective of the Civil Procedure Rules to ensure that disputes are resolved efficiently, early on and with the minimum of expense. There are controls under competition law that would prevent IP rights holders from making improper threats to another's business in appropriate cases.

It would be better to provide a clear statutory right under all IP legislation for a defendant to apply to the Courts for a declaration of non-infringement to draw a line under any unfounded allegation of infringement of an IP rights holder.

Specific Issues

Copyright Exemptions – Fair use/Fair dealing

In addition to our comments earlier, we would add that the Information Directive did nothing to harmonise fair use/fair dealing exemptions across Europe – if anything it did the opposite by giving too much choice. There are too many exemptions, applied inconsistently.

(g) Archiving copyright material

As we move into a paperless society, more and more information is stored on computers or micro-film, for filing and archive purposes. Under current copyright legislation, such storage requires a licence from the copyright owner. Such licences are rarely given expressly, and frequently have to be implied, from custom and practice, or from a specific set of circumstances. This is a problem amongst commercial enterprises who now deal virtually exclusively by electronic means, since recipients of third party information do not know whether they can safely store such information electronically, whether purely for archiving purposes, or as a source of future know-how.

Copies of third parties' works were previously held in hard copy, and these issues did not arise, since storage of hard copies does not require a copyright licence. We would recommend that electronic storage for archiving purposes should be expressly permitted, as should the ability to refer to such works for future research, reference and use. We would expect any such rights to be subject to fair use/fair dealing obligations.

Designs

(e) Could the UK unregistered design right be improved to work better alongside the European unregistered design right?

1. Background

1.1 The UK has five overlapping and sometimes inconsistent rights protecting industrial designs:

- UK registered design under the Registered Designs Act 1949 as amended by Registered Designs Regulations 2001;
- Community registered design under Council Regulation 6/2002/EC (the "**Design Regulation**");
- UK unregistered design under Part III of the Copyright, Designs and Patents Act 1988 (**CDPA**);
- Community unregistered design under the Design Regulation; and
- Copyright under Part I of the CDPA 1988.

1.2 There has been much harmonisation across these different regimes: UK registered design law is now harmonised with European registered design law; and European registered and unregistered designs have the same tests for their validity, exclusions and concept of prior art. Between UK unregistered design right (**UDR**) and European unregistered design right, however, there still persist inconsistencies across a number of fields including the requirements for protection, exclusions from that protection, the length of protection, the test for infringement and the overlap with copyright. We set out below the major inconsistencies in the current system. A fuller list of inconsistencies between the two regimes is set out in the attached table.

1.3 Against this background we consider that a full review of the legal protections afforded to designs in the UK is necessary. The current situation is very complicated: a designer needs to review 5 different systems to establish how his designs may be protected. We think that the law could be simplified and the anomalies in the current system removed. With respect to UK UDR such a review could produce several possible outcomes:

- (a) UK UDR be brought into line with European design rights in all material respects (other than in respect of term of protection); or
- (b) the UK Government could lobby the European Commission to extend the term of protection afforded to European designs. If the term of European design right were to be extended to the term of protection currently afforded to UK UDR, then the Government would need to consider whether it also wished to retain a separate UDR in the UK.
- (c) a reduction in the period of protection available to UK UDR to a period of 5 years from the date items made to that design were first sold. Designers who want longer protection for their designs should be encouraged to seek registration for them (this being a more suitable method for protecting designs in the long term); or
- (d) an extension of the application of UK copyright law such that it dovetails with the protection afforded by European designs. If these were dovetailed then there might be a case for abolishing UK UDR.

2. Principal inconsistencies between UK UDR and European Designs and Copyright

2.1 Test for protection

The tests for protection for UDR and European design right vary so significantly that designs may qualify for one but not the other. UDR is granted to a design which is "original"

whereas European design right attaches to a design which is new and has individual character.

The term "original" is not defined under CDPA but the courts have given it the copyright sense of being the designer's own work, not copied. In addition a design is not considered "original" if it is commonplace in the design field in question at the time of its creation. This is in contrast to the Community regime which provides that a design is new if no identical design has been made available to the public before the date on which the design to be protected has itself been made available. The Regulation defines "identical" as designs whose features differ only in immaterial details.

Under the European regime, a design has individual character if it produces a different overall impression on an informed user from the impression produced by previous designs¹. When assessing this and the novelty of the design, one takes into account what has reasonably become known in the normal course of business to the circles specialised in the sector concerned².

The difference between this concept of "novelty" under the European regime and the extended concept of "originality" under the UK regime means that there is a real prospect of a design qualifying for one type of protection but not the other.

There are further discrepancies between the UK and European regimes regarding the requirements for protection. The CDPA provides that design right does not subsist unless and until the design is recorded or an article is made to the design. The Regulation is silent on this issue.

2.2 Exclusions from protection

The following are excluded from UDR: methods or principles of construction; designs which must fit or must match some other article and surface decoration. This differs from the European regime which excludes design rights in the following: features solely dictated by technical function or necessity of connection. The key difference between the two systems is that surface decorations are not excluded from protection under the European system.

2.3 Term of protection

A UDR lasts for the lesser of:

- 15 years from when the design was first recorded in a design document; or
- 10 years from the end of the calendar year when articles made to that design were first made available for sale or hire (i.e. first marketing).

Whichever limitation applies, the design right will be subject to the grant of licences of right in the last five years of the term.

On the other hand, a European design right lasts only 3 years from the date on which the relevant design is first made available to the public in the EU. As a result both the term of protection and the date from which it is measured differ between the UK UDR and the European system. There is no provision for the grant of licences of right in the European system.

The significant inconsistency in the period of protection can create confusion not only for design owners who are unsure under which regime their designs may qualify and therefore how long then can exercise their design rights but also in the design market. This confusion may arise if a design qualifies for both UDR and Community design right protection. At the end of three years following first marketing in the EU, the design is no longer entitled to

¹ art. 6(1) Design Regulation

² art. 7(1) Design Regulation

protection in other member states (assuming they have no rights similar to UK UDR) while the protection could potentially subsist for a further 7 years in the UK. Reproduction of the design would therefore be legal in the EU, apart from in the UK and, the free movement of goods within the internal market could very easily lead to these articles being imported into the UK. At this point the design owner may try to enforce his rights in a UDR and the reproduction could infringe such right. This position is difficult to support in the internal market.

2.4 Design owner

There is also inconsistency over who is entitled to assert rights in a design. Under the CDPA and the Design Regulation, the person who creates the design, or his employer, owns the right in the design. The CDPA further provides for designs created in pursuance of a commission, the rights in which belong to the commissioner. The Design Regulation is silent on this point suggesting that the designer is entitled to the design right. This may lead to confusion over who can invoke rights in a commissioned design in the UK.

2.5 Infringement

The definition of what constitutes an infringement of a UK UDR differs from an infringement of a European design right. In Europe an infringement is limited to making or dealings in products "in which the design is incorporated or to which it is applied". The UK definition covers "the use of any aspect of a design or part of a design" which is wider.

2.6 Overlap between copyright and designs

The European design right is without prejudice to any national copyright law. Unfortunately the interaction between UDR and UK copyright is far from clear. Following the Court of Appeal's decision in *Lambretta Clothing Company Ltd v Teddy Smith (UK) Ltd and Next Retail Plc* [2004], it is clear that there is a gap in protection between UDR and copyright. The court did not accept the argument that copyright and UDR are mutually exclusive but seamless, i.e. that if a design is not protected by one, it is by the other.

The problem arises because of the interaction of the following two sections of the CDPA:

Section 51 CDPA states that it is not an infringement of copyright in a design document or model recording or embodying a design (defined to exclude surface decoration in 51(3)) for anything other than an artistic work to make an article to the design or to copy an article made to the design.

Section 236 CDPA provides that where copyright subsists in a work which consists of or includes a design in which design right subsists, it is not an infringement of design right in the design to do anything which is an infringement of the copyright in that work.

The *Lambretta* case revealed the problems in dealing with these sections in which the question of protection of a combination of distinctive colours on clothing [i.e. surface decoration] split the Court, the majority deciding that the exclusion of surface decoration from the protection of UDR meant that the colourway of the garment was not entitled to any protection.

In this scenario, the European design right could now step into the breach in protection as it specifically protects the colours and ornamentation of an article. However this still leaves the national law in an unsatisfactory position whereby certain articles are protected neither by copyright nor UDR. What is clear is that the complex interaction between the various rights is causing great uncertainty and is in need of a full review.

(f) Do you see a useful role for the UK unregistered design right alongside the European design right?

At present UK UDR benefits from a longer term of protection than European design right which benefits rights owners. If the European Commission were to extend the term of

protection for European design right, then the role of UK unregistered design right would significantly reduce in importance.

Specific Issues: Trade Marks (International Issues)

(b) Could the UK trade mark system be improved to work better alongside the European system?

The Trade Marks Act 1994 (the "TMA") implemented council Directive No 89/104/EEC of 21st December 1988 whose purpose was to approximate the laws of the EU member states relating to trade marks. The TMA contains provisions which arguably do not reflect the provisions of the Directive, such as sections 10(6) and 11(1). Given that the aim of the Directive was to harmonise trade mark law across the EU, we do not think UK parliamentary draftsmen should have adapted the wording of the Directive in the course of implementing it in the UK. The result is that the TMA is not fully consistent with the Directive, and UK law trade mark differs from that in force elsewhere in the UK, which is not in the interests of the single market.

On a more general basis, Council Directives should be implemented fully and correctly by the draftsman and no changes or additions made to any Directives. It is now the practice of some UK judges to ignore such differences in any event, and to refer to the original wording. This makes it difficult to advise clients.

City of London Law Society, April 2006.