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# The Gower Review of Intellectual Property

## Submission

**Freeth Cartwright LLP**

Cumberland Court  
80 Mount Street  
Nottingham  
NG1 6HH

Tel : 0115 936 9369

*[www.freethcartwright.co.uk](http://www.freethcartwright.co.uk)*

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## **About Freeth Cartwright LLP and our IP&T Department**

Freeth Cartwright LLP is the largest commercial law firm in the East Midlands. Operating from offices in Nottingham, Leicester and Derby we have a total staff of 470.

Our turnover in the year to 31 March 2006 was in excess of £27.5 million.

Ours is the largest dedicated IP&T team in the East Midlands and has a significant trade mark filing aspect to its work. The team also deals with registered design filings and, with a consultant patent agent, patent work.

Our trade mark practice is well established and substantially distinguishes us from other law firms in our region. We deal daily with trade mark work in the UK and abroad, and are routinely instructed by foreign lawyers and clients to deal with applications about trade marks, registered designs and patents in the UK and Europe. We also advise on brand protection and branding strategy.

Contentious IP work is handled within the team, by two specialist IP litigators.

IP clients range from private companies to “household name” PLCs.

### **Contact Information:**

Head of Department: Andrew Mills

Phone: 0845 058 0751

Email: [andrew.mills@freethcartwright.co.uk](mailto:andrew.mills@freethcartwright.co.uk)

## General Questions

### 1. How IP is awarded

#### **(a) Are there barriers to obtaining IP rights due to system complexity? What could be done to improve this situation?**

There are multiple levels of complexity. For businesses, this complexity sometimes appears impenetrable. However, in our experience, many businesses are happy to accept that they need professional advice when it comes to IP, just as they accept they need professional advice when it comes to accountancy.

Having said that, this is more about the interface to the IP systems rather than the systems themselves. This is also no reason not to try to make things simpler.

However, UK systems are in some cases much simpler than in overseas countries. For example, a professional advisor in the UK does need a power of attorney to act before the UK patent office – in many other countries this is a requirement and often combined with the need for notarisation too.

The field is complex because, although the number of rights is relatively small, the law for each is large and growing and become more European and international in nature.

Greater harmonisation between UK systems and EU systems will be a sensible measure. For example, the differing approaches to trade mark procedures for the UK and the Community Trade Mark are noticeable and sometime we will steer clients towards EU protection rather than just UK protection to avoid procedural issues.

#### **(b) How easy is it to find out about obtaining IP rights? What could be done to improve awareness for businesses and innovators? Is there sufficient awareness of the need to protect IP internationally?**

We believe it is easy to find out about the nature of rights. The Patent Office website is very informative as is [www.intellectual-property.gov.uk](http://www.intellectual-property.gov.uk). There is also wide range of publicly funded and private sources of information. For example, typing “intellectual property” into the Google search engine will bring up a wealth of links.

There is already a lot goes into raising awareness of intellectual property issues and this should not be overlooked. It is a subject promoted by organisations such as Business Link. Other publicly-funded bodies working in particular sectors also work to raise awareness. For example, the East Midlands Regional Screen Agency, EMMedia, has been active in raising awareness of IP and legal issues

amongst its target audience. There have also been better tie-ins between separate parts of “Government” – Companies House now has a link to the Trade Mark register search pages at the Patent Office website and vice-versa.

However, there must be other opportunities to “cross-sell”. For example, it is still an exceedingly commonly-held myth that forming a company “protects” the name of the company. On incorporation, Companies House could send the incorporated company information about intellectual property and reminding the company that incorporation does not, in itself, protect a name.

On a similar level, there is often confusion about domain names and the Government could perhaps encourage domain registrars to remind domain owners that domains in themselves grant no legal rights.

There is a general lack of understanding about the need to protect IP internationally and the obvious way to address this point is as part of general awareness-raising.

**(c) Are there barriers to obtaining UK IP rights on grounds of cost? What drives these costs?**

Yes, sometimes. In some cases, the UK official fees themselves are not necessarily the issue (although the UK Patent Office has reduced fees in some areas and perhaps might do more here). What tends to make things expensive for business is:

Needing professional advice; and  
Expanding protection beyond the UK.

However, this is part of the result of a generally complex area of law; it requires professionals to have relevant qualifications and experience so they can advise.

In our view, the real issue for businesses is not so much finding about what the rights are but understanding, at a higher level, about the importance of having an IP strategy and how IP will be relevant to their business. It is in the practical knowledge of how things hang together and how to put them into practice that the professional can offer real help. As with most fields of business, this is not something that translate easily from the general to the specific without looking at the specific.

Many professionals in the IP field offer fixed-fees for some aspects of seeking IP protection, such as filing trade marks or designs. Often, however, this usually just about covers the costs of the practical aspects of dealing with the filings. For advice about strategy and approach and what types of rights are relevant and so on, we would regard this as premium advice because it draws upon directly our experience and knowledge. We charge generally on an hourly-rate basis or may

give a fixed price. The likely cost may well depend upon the size and nature of the business in question.

Some angles that the UK Patent Office could consider that the OHIM follows are:

The entry-level official fee covers up to 3 classes; and  
Reduced filing fees for on-line filing since the office does not need to carry out the same data capture exercise.

**(d) How do these costs compare internationally in your organisation's experience?**

We do not believe that acquiring UK rights compare unfavourably against other countries when compared on a country-by-country basis. However, where the costs for any individual country are compared to say, an international route to protection, then they will seem high. For example:

Our charges for filing a 1-class UK trade mark are £200 + VAT plus the Patent Office fees of £200. Using our overseas agents, some comparable average costs for filing a similar 1-class application are (including official fees) set out below. We do not believe that our fees are unreasonable in comparison:

- Argentina - £300
- China - £314
- Thailand - £282
- United Arab Emirates - £566
- United States - £500

The official fees for a UK 1-class trade mark are £200 and for 3 classes are £300. That is £300 for a single country for 3 classes. The official fees for filing a European Community Trade Mark are €750 filing fees (if filed online) plus €850 registration fees for 3 classes. This is about £1111 in total for 25 countries. That is equivalent to £44 per country for 4 classes.

The professional fees for filing a European Community Trade Mark are generally only slightly more than filing a national UK trade mark application.

**(e) Do you have any comments on the UK Patent Office fees structure for obtaining and renewing IP protection?**

As we have mentioned already, the UK Patent Office could consider that the OHIM follows are:

- The entry-level official fee covers up to 3 classes; and
- Reduced filing fees for on-line filing since the office does not need to carry out the same data capture exercise.

(f) Is lack of trust in the system a barrier? To what extent do you rely on other tools to bring innovation to the marketplace, such as being first to market, maintaining trade secrets, or using an open innovation model to generate value through reputation or network effects?

We are not aware that lack of trust is an issue. Sometimes, we find that businesses:

- Cannot afford to seek any protection; or
- Seek protection too late (for example, after launching their product thereby ruling out patent protection);
- Have chosen an approach that rules out effective protection (for example, branding using generic and non-distinctive business or product name).

In these cases, staying ahead of the competition is sometimes the only way to generate income and value from the innovation.

**(g) Are there specific barriers to obtaining IP rights in your sector?**

We advise clients across a range of business sectors. One area that sticks out clearly is the difference in approaches to protection software and computer-implemented innovations between the UK and the EPO.

**(h) Are there specific barriers to obtaining IP rights for small businesses or individuals?**

For small businesses and individuals, as with any venture, there are so many things that demand the person's time. Tasks like getting phone lines installed and filing VAT returns are immediate time-grabbers whereas intellectual property is a "nice-to-have" rather than a "must-have" issue, if the business or individual is even aware of the issue. It is not often that a business or person will address IP issues before considering premises or letterhead. In our experience, this back-to-front approach can cause problems later on, such as finding that others own rights in the innovation or business name.

The barrier about IP is very often, therefore, a practical one about time and money.

**(i) How well does the national system for awarding IP, administered by the Patent Office perform? How well do the international and European systems work?**

Our experience is predominately in dealing with trade marks and designs and we believe that the UK Patent Office compares favourably. Many see it as one of the best IP-granting bodies in the world. In our view, it is considerably faster in dealing with matters when compared to OHIM. Speed comparisons are not so easy with the international trade mark system because of the official time-limits for national offices to respond to WIPO.

## How IP is used

### (a) What types of IP does your organisation use and why?

The key IP for our organisation is our branding. After this, it is probably our know-how. This is because we are service organisation and our services are based around giving advice and our experience in doing work of a similar nature for many different organisations.

Across the client base that we advise about IP, the key rights are:

- Trade marks – this is the main marketing issue for many companies
- Copyright/database rights – essential for those in the IT sector
- Patents are particularly relevant in some sectors (such as manufacturing and pharmaceuticals) but much less so in others (such as the creative industries like advertising and media).

### (b) To what extent do you seek multiple overlapping forms of IP protection?

We always advise clients that to fully protect something, they need to be looking at making use of as many forms of IP as possible. However, this is often something that businesses do not realise themselves because they do not, overall, go about building in IP from the outset

### (c) To what extent are these decisions influenced by sector-specific considerations?

Sector-specifics are often highly relevant. For example, in fast-moving consumer industries, like fashion, seeking design registrations may be pointless for designs that last one season. In that case, a company may well focus on branding as the key IP issue.

On the other hand, in the pharma sector, R&D spin-out companies from universities are almost entirely driven by patent protection.

### (d) How does your company value its IP? Are there problems with raising finance against intangible assets based on IP? What improvements could be made in this area?

This is an area even less understood by most businesses. The idea of raising finance against IP assets is generally not well known except in some particular industry sectors. For example, accountants and bankers are often not aware of this option because they themselves do not understand or have a low awareness of IP.

An illustration of this is the number of companies that are dissolved still owning intellectual property rights that a liquidator has not sold off before dissolution.

The system works, as far as we can see. What is lacking is awareness.

**(e) To what extent does the term of IP rights at the margin affect investment decisions?**

We do not understand what “at the margin” means in this question.

**(f) How well does the UK IP system promote innovation?**

We do not believe that any IP system in itself can easily promote innovation. It can provide the tools to look at the innovation of others, to protect and exploit that innovation.

**(g) To what extent does your organisation make use of other methods used by Government to encourage innovation, such as public funding?**

This is not an area that we have particularly explored for our business.

Our experience suggests that clients find the area of public funding and grants incredibly complicated and confusing and this puts many off even considering the issue.

**(h) Are data on the use of patents and other forms of IP useful as a means of measuring innovation?**

Yes, definitely. They can show trends and patterns and are useful in comparing countries and systems.

**(i) Do you have any evidence as to the static or dynamic costs that IP rights (as statutory monopolies) impose on the economy?**

No

**(j) Have you encountered patents or other IP rights being used defensively, i.e. obtained not to develop products, but only to prevent others from doing so? Under what circumstances do you consider this acceptable?**

The question rather assumes that we are talking about patents. Given the provisions for revocation on the grounds of non-use for trade marks, we assume that the question is directed to other registered rights.

We are not aware of any such action in connection with patents. The option of applying for and prosecuting a patent with the aim of non-exploitation is only a luxury available to an organisation with sufficient financial resources. Whilst, of course, it might be arguable that this prejudices, it may, of course, take a long time to find the right opportunity to exploit or finance the development. In any event, a patent is time limited intentionally so that eventually anyone can take advantage of the right.

If evidence suggests that this is a real problem considering a right to challenge for non-use option may be worth further consideration

## Current term of protection on sound recordings and performers' rights

*Background: The Review will fulfil the Government's commitment to examine whether the current 50 year term of protection on sound recordings and performers' rights in sound recordings is appropriate, in the light of its extension to 95 years in a number of other jurisdictions.*

**(a) What are your views on this issue?**

We take a pragmatic and commercial view on this. The UK creative industries need to remain competitive with equivalent industries in other jurisdictions; affording copyright holders lengths of protection that are equivalent to those in other jurisdictions is one way of doing this. If the UK continues to provide copyright protection for sound recordings and performers' rights in sound recordings that is of a shorter duration than that given by other jurisdictions this could cause copyright holders to move their business, and do their licensing, in those jurisdictions that offer lengthier protection.

**(b) Is there evidence to show the impact that a change in term would have on investment, creativity, and consumer interests?**

We do not have any specific evidence.

**(c) Are you aware of the impact that different lengths of term have had on investment, creativity, and consumer interests in other countries?**

We do not have any specific evidence.

**(d) Are there alternative arrangements that could accompany an extension of term (e.g. licence of right for any extended term)?**

We do not have a view on this, and our clients in the creative industries do not appear to have any particular view.

**(e) If term were to be extended, should it be extended retrospectively (for existing works) or solely for new creations?**

It should be extended retrospectively, to put all sound recordings and performers' rights in sound recordings on an even footing.

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## Copyright – fair use/ fair dealing

**(a) What are your views on the current exceptions in copyright law?**

We have had difficulty in the past tracing the owners of copyright in photographs and line drawings. The situation where an owner cannot be traced puts the person wanting to use the material in a very difficult position : do they go ahead and risk infringement or not use something that may be fundamental to a particular piece of work ?

We had a client who tried to find the owner of the copyright in a line drawing of a Samurai sword for a book detailing the history of such articles. When he was unable to find the owner he drafted a credit in the front of his book thanking the unknown artist. A short while after the book was printed the artist tried to sue him for infringement.

**(b) Could more be done to clarify the various exceptions**

The current situation is clearly impossible to navigate; people are simply unsure of where they stand in relation to un-attributed copyright works. It would be preferable if there were a much shorter period for copyright to exist in an unregistered form, say 15 years from publication, and that people should register and renew copyright if they wish to protect a work for longer, or benefit from it commercially. The maximum term for copyright protection could still be life plus 70 years, but only if the owner of the copyright continues to renew its registration of that right. A small fee could be charged to cover the administration of this system.

If we were to alter copyright laws in this way, "orphaned" works would fall into the public domain and everyone would know where they stood so far as making copies of that work. There is an argument to say that this would free up many copyright works to be developed by new authors / artists, and so enrich the creative culture. This is an attractive scenario so long as the rights of the original copyright owner to recognition and accreditation for their work remain in place.

**(c) Are there areas where copyright exceptions should apply?**

See below.

**(d) Are the current exceptions adequate or in need of updating to reflect technological change?**

Copyright law in the United Kingdom is behind the times in not recognising the legitimate rights of the consumer to copy a product that they have acquired for their own personal

use. The purpose of copyright protection is meant to be the prevention of unauthorised exploitation of another person's creative effort. The very use of the word 'exploitation' suggests that there should be some commercial gain from the unauthorised copying, otherwise how has the copying detrimentally affected the rights owner? Legitimate private use should be a permitted exception. The public already perceives private use to be legal: changes to reflect would simply recognise what the public already believes to be the status quo.

Please also see our comments below in response to the digital rights management query.

**(e) How would you see the content owners being compensated for such use?**

We are of the view that there is no legitimate reason for content owners to be compensated for such use. The content owners will already have received their return in the form of the price paid for the product. For them to receive additional remuneration for legitimate private use that does not impact upon their ability to commercially exploit the work is unnecessary.

**(f) To what extent has technological change presented difficulties in use of copyright material in the field of education?**

The use of the Internet by today's students has made the issue of plagiarism an even greater concern. However, universities and other examining boards have developed equally sophisticated technology to combat this new challenge. Provided that the checking technology keeps pace with the technological resources available to students, this issue can be effectively policed without the need for statutory intervention.

**(g) Are there issues concerning the archiving of material covered by copyright?**

This is not something that we have dealt with in practice.

## Copyright – digital rights management

**(a) Do you have a view on how the use of digital rights management technologies should be regulated?**

Yes.

Whatever approach is taken it is important for the approach to be consistent. Currently, the measures that protect digital rights management in the form of technological protection measures (“DRM”) in ss 296 and 296Z Copyright Designs and Patents Act 1988 (“CDPA”) as amended as required by 1991 Software Directive (Council Directive 91/250/EEC) vary depending on what type of copyright protected media these technical devices are used in. Different tests apply to DRM in computer software than to DRM in other media, which creates unnecessary complications.

We should also keep in mind the interface between DRM technology and the ability of IP rights owners to use it to inhibit competition in the EEA. Specifically, circumvention of DRM by an end user should only be an offence where the DRM is used to protect copyright in a product which has not been exhausted. DRM technology should not become a back door to bypass the law of exhaustion of IP rights within the EEA.

Consideration needs to be given also to the duration of any DRM technologies applied to a copyright work. Copyright in a literary, dramatic, musical or artistic work (including a photograph) lasts until 70 years after the death of the author. The duration of copyright in a film is 70 years after the death of the last to survive of the principal director, the authors of the screenplay and dialogue, and the composer of any music specially created for the film. Sound recordings are generally protected for 50 years from the year of publication. Broadcasts are protected for 50 years and the typographical arrangement in published editions are protected for 25 years. Thinking long term, it would be an unfortunate legacy if DRM facilities were created so that they could prevent copying beyond the duration of the copyright in the work. Also, some acts are excluded from copyright protection (for example the educational, private use, fair dealing provisions) in the CDPA – but again, indiscriminate use of DRM technology could in effect prohibit use of a copyright work that is permitted at law.

Query whether in relation to either or both of these issues the onus should be placed on the rights owners / DRM technology manufacturers to make their DRM sufficiently sophisticated to enable legitimate use by the end user, or whether it is left up to an end user to find the technical means of circumventing the DRM technology at their risk to enable legitimate use.

## Copyright – orphan works

**(a) Have you experienced any difficulties in identifying the owners of copyright content when seeking permission to use that content?**

We have had difficulty in the past tracing the owners of copyright in photographs and line drawings. The situation where an owner cannot be traced puts the person wanting to use the material in a very difficult position. Do they go ahead and risk infringement or not use something that may be fundamental to a particular piece of work

We had a client who tried to find the owner of the copyright in a line drawing of a samurai sword for a book detailing the history of such articles. When he was unable to find the owner he drafted a credit in the front of his book thanking the unknown artist. A short while after the book was printed the artist tried to sue him for infringement.

**(b) Do you have any suggestions on how this problem could be overcome?**

The current situation is clearly impossible to navigate, People are simply unsure of where they stand in relation to un-attributed copyright works. It would be preferable if there were a much shorter period for copyright to exist in an unregistered form, say 15 years from publication, and that people should register and renew copyright if they wish to protect a work for longer or benefit from it commercially. The maximum term for copyright protection could still be life plus 70 years but only if the owner of the copyright continues to renew its registration for that right. A small fee could be charged to cover the administration of this system.

If we were to alter copyright laws in this way, "orphaned" works would fall into the public domain and everyone would know where they stood so far as making copies of that work. There is an argument to say that this would free up many copyright works to be developed by new authors/artists and so enrich the creative culture. This is an attractive scenario so long as the rights of the original copyright owner to recognition and accreditation for their work remain in place.

### **Copyright - licensing of public performances**

- (a) **Have you encountered problems with the system of licensing and paying royalties to collecting societies for public performance of music and/or sound recordings?**

No, but we suspect that this may mask a high degree of ignorance in the market place about the existence and role of MCPS and the need for copyright licences, in particular when used 'briefly' on websites and other 'new' media.

- (b) **Could the system be clarified or simplified, and if so how do you see this working?**

We are not in a position to comment on whether the system could be simplified. There is as indicated above a potential issue in terms of communicating the need to obtain licences of copyright for what website owners in particular might consider incidental use of copyright and the role of MCPS (as distinct from PRS).

## Patents – utility models

*Background: Some countries, notably Germany, have a “utility model” system offering protection for simple inventions, usually subject to less examination and shorter terms than standard patents.*

**(a) Do you have a view on some sort of second tier patent system?**

A utility model is available in many countries e.g. Germany & Spain. It is very similar to a patent, but usually has a shorter life (often 6 or 10 years) and subject to less stringent requirements for filing. For utility models there is generally only a "relative" standard in respect of novelty, i.e. only public written disclosure of the invention in Spain is prejudicial against the novelty of the invention claimed in the utility model. This is obviously in sharp contrast with the requirement for filing patents, for which novelty is a pre-requisite.

Given the speed at which many commercial inventions are developed and then surpassed, it is easy to see why the concept of a "lesser patent" would be attractive to UK industry. The cost of filing a full patent is very high, in many cases exceeding £15,000 to £20,000 to get to grant, with renewal fees to consider later.

A utility model is a much cheaper, shorter form of protection which is ideal for inventions that have only a short commercial life. We believe that there is a place in the UK for such a form of protection and that it might be of assistance to the country's flagging manufacturing base by helping it to protect inventions which, whilst not patentable, are likely to be of value to companies in the short term.

**(b) Has your organisation encountered problems in protecting its IP internationally where such systems exist?**

We have had no relevant experience.

## Trade Marks – International Issues

**(a) To what extent does your organisation register its trade marks at the European rather than national level?**

Our organisation has registered its trade marks in the UK only. Our firm operates within the UK, but we do have many overseas clients and a network of foreign ‘agents’ who provide legal services in foreign jurisdictions to our UK clients, so we will keep our European options under review.

The majority of our clients instruct us to file trade mark applications at a *national* rather than European level. Usually this can be attributed to the additional cost and length of time that it takes to secure a CTM registration when compared to a UK trade mark registration.

Although cost-effective, it is more expensive to file a CTM than a UK trade mark application. Provided no problems (such as oppositions or Trade Mark Registry objections) arise during the application process, a UK trade mark can reach registration within approximately 6 months, compared with 18 months for a CTM.

On the other hand, clients will often opt to file a CTM application rather than a UK application if the mark might prove problematic in the UK because under the CTM procedure it will reach the publication stage a lot more easily (because The Office for Harmonization in the Internal Market (OHIM) does not examine applications on relative grounds, as does the UK Trade Marks Registry).

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

Yes.

The UK trade mark system requires the UK Trade Marks Registry to examine trade mark applications on relative grounds, whereas the European system does not have an equivalent to this procedure within its examination process.

The UK Trade Marks Registry’s examination on relative grounds carries a number of problems:

- The UK Registrar of Trade Marks sometimes cites prior marks that are, in practice, irrelevant to a particular application. For example, the goods and services protected by a prior cited mark might be so different to those covered by an application that confusion is unlikely to be of concern. The reasons for this are

obviously a matter for the UK Registrar of Trade Marks but we assume it's down to the fact that this approach requires less work and thought on the part of the Trade Marks Registry's personnel and it pushes the onus back on the applicant to object to the Registry's objections if it wishes to proceed (with obvious knock-on consequences for the client in terms of legal costs);

- Often, the owner of a cited prior mark will have no incentive to provide consent, or if it will grant consent, there is no incentive to do so quickly;
- If an owner of a cited prior mark cannot be located or ignores a request for consent from an applicant, the applicant might find that it cannot proceed with its application. In the alternative to obtaining consent, a Hearing must often be requested;

The European trade mark system places the burden of policing trade mark applications upon the owners of trade marks, whereas the UK Trade Marks Registry conducts the legwork for UK trade mark owners and perhaps as a result is overly cautious in its approach to prior marks. An owner of a registered or unregistered European trade mark must oppose a CTM application or must challenge a registration, whereas the UK system allows the Registry to cite an earlier mark, irrespective of whether the owner of the earlier mark appears to be aware of, or concerned by, a later application.

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## Designs – registered designs and unregistered design rights

**(a) To what extent does your organisation rely on registered designs? And on unregistered rights?**

Our organisation relies on registered designs to protect our logo. Unregistered rights are not relevant to our organisation.

Our clients operate across a range of different business fields. Some of them rely heavily on registered and unregistered designs, while others (for example, in service industries) do not.

**(b) To what extent does your organisation register its designs at the European rather than national level?**

Our organisation has registered its logo at a European level, as the Community registered design system allows a logo to be protected. An added advantage of the Community registered design is that it offers a cost-effective method of protecting a design in the whole of the European Union.

If we were to refer to our clients, we would say that the majority of our clients instruct us to register designs at a European level rather than at a UK national level and that this is on the increase. Community registered designs have cost and geographical advantages.

**(c) To what extent does your organisation rely on the European unregistered design right rather than the national UK unregistered design right?**

While we advise our clients of the benefits of relying upon European unregistered design right, this is relatively uncharted waters. The majority of our clients continue to rely upon the UK national unregistered design right. One reason for this is the shorter right of 3 years that is available from the European unregistered design right as opposed to the longer right of 10 or 15 years available from the UK unregistered design right.

**(d) Could the UK registered design be improved to work better alongside the European system?**

Yes. The Community registered design allows multiple applications to be filed within a single application and this is something that the UK system would benefit from.

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

There is a disparity between the requirements necessary to claim unregistered design right of a UK and a European design. The UK system requires a design to be “original” in order to qualify for unregistered design right, while the European system requires a design to be “new” and have individual character, giving a different “overall impression” from that of the existing prior art in the field in question.

A design is viewed as “original” under UK design right if it is not commonplace in the design field in question at the time of creation of the design. A design is viewed as “new” under European design right if no identical design has been made available to the public prior to the date that the design in question has first been made available to the public.

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

In the UK, unregistered design right can extend for as long as 15 years, therefore there is benefit in relying upon both UK unregistered design right in addition to European design right, which confers only 3 years’ protection.

There is a useful role in claiming both UK and European unregistered design right, as various elements of a design will be protected. For example, three elements of the original, new and individual character of a design can be protected.

## Legal Sanctions on IP Infringement

- (a) **Are you aware of any inconsistencies or inadequacies in the way the law applies legal sanctions to infringement of different forms of IP or to different circumstances?**
- (b) **For example, should criminal sanctions on online infringement be the same as those relating to physical infringement?**

Yes, there are legal inconsistencies in the way that the law applies sanctions to infringement of different forms of IP.

IP rights are essentially private rights with remedies such as injunctions and damages available under the civil law. Where the inconsistencies are most apparent is in relation to the treatment and regard that some IP rights attract giving rise to criminal sanctions that are available depending upon the type of IP right in question.

Of the various IP rights, namely Patents, Trade Marks, Copyright, Registered Designs, Community Registered Designs and Design Right and unregistered Community Design Right, confidential information and passing off, only Copyright and Trade Marks appear to be regarded as sufficiently serious to warrant criminal sanction provided that the infringement is intentional and on a commercial scale. The law does not define what amounts to infringement on a commercial scale and this in itself can create inconsistencies in terms of the criminal sanctions imposed by the criminal courts. Further, the lack of any criminal sanction for design infringement creates the peculiar anomaly that an artist painting a picture has more enforcement capability than the designer of a piece of furniture.

Inadequacies in the way that the law applies sanctions can be seen in the complicated and often inadequate way in which civil remedies are calculated. Awards of damages and account of profits calculations can be too complicated. In the case of a calculation of damages, the Claimant can only claim for the profits that it has lost if it can show that the sale of an infringing article would have been one that would have been made by the original.

In the case of an account of profits calculation the infringer is permitted to deduct expenses and overheads from the profits made from dealing with the infringing goods. The result is that most claims are negotiated away based on the infringer paying royalty payments that the owner of the IP could have obtained had the infringer approached the IP owner at the outset for consent.

So - where is the loss to the infringer when the infringing product (generally substandard in quality) is permitted to infiltrate the market? The loss to the IP owner is more significant because in bringing a civil claim the IP owner rarely, if ever, recovers the full extent of its

loss or the costs of seeking recovery. Enforcement is unattractive to the IP owner because it is perceived as expensive, slow and ineffective in terms of the IP owner's ability to enforce its rights.

As the law currently stands there are glaring inconsistencies with the treatment and regard for online infringement compared to physical infringement. Section 107(2A) Copyrights Designs and Patents Act 1988 ('CDPA' ) creates an offence of 'communicating work to the public' the criminal sanction for which is set out in section 107(4A) CPDA of 3 months imprisonment or £5000 fine or both on summary conviction and 10 years imprisonment or a fine or both on indictment. For other Copyright infringements and Trade Mark infringements the penalties are greater attracting 6 months maximum imprisonment and a £5000 fine or both on summary conviction and 10 years maximum imprisonment or a fine or both on indictment.

There can be little or no justification for treating the electronic dissemination of information as different from the unauthorised distribution of physical copies. If anything, if intention to infringe on a commercial scale is key to considering criminal sanction, there is an argument that dissemination of information on a global scale, which online infringement facilitates, should in fact attract a more severe penalty rather than less.

## Parallel Imports / International Exhaustion

*Background: European law does not allow firms to use trade mark or copyright law to prevent their goods sold in one EEA Member State from being imported and resold in another Member State – i.e. they are not able to segment the EU market. However, European law does allow the use of trade mark and copyright law to restrict the imports to EU Member States of goods sold outside the EEA. It also specifically inhibits EU so called “international exhaustion” of trade marks or copyright. There has been a good deal of debate, both here in the UK and at EU level, about the costs and benefits of removing restrictions on parallel imports. There is a further issue of firms taking advantage of variations in prices on pharmaceutical products across the EU and repackaging drugs bought cheaply elsewhere within the EEA to resell within the UK.*

**(a) Has your company been affected by parallel trade?**

We have represented clients who have been caught trying to bring parallel imports into the UK and have had experience dealing with HM Customs and Excise and Trading Standards in that respect.

There have been numerous parallel import cases and this constant testing of the water makes it a lucrative area of law to be advising on. While the current system remains in place, companies will continue to try to get around the system, retailers like Tescos will continue to test the law in the courts and brand owners will continue to bring actions for infringement of their IP therefore the lawyers advising them will continue to do well.

**(b) What would be the impact on your organisation of a change in the current rules?**

**(c) What evidence is there of the costs and benefits, both for consumers and firms of the current rules?**

Any change in the law is likely to be followed by some years of uncertainty or even confusion, during which many would say that “it will be the lawyers who benefit”.

The impact of any rule change on our clients would be dramatic in that if they were free to import into the EEA goods from any part of the world, they could initially make significantly greater profits given the price differentials that exist for certain products in different parts of the world. We say “initially” because the logical fall out of any such change would be that the brand owners would be forced to reconsider their pricing and quality standards to bring parity across global markets. Exchange rates and economic conditions will always be factors in determining how attractive it will be to source goods from any given territory.

It is possible but less likely that governments within the EEA would see the benefit in adjusting importation taxes to make such parallel imports less attractive. This would have

the benefit of pleasing brand owners whilst at the same time raising extra revenue for governments however it could result in trade restrictions by nonEEA countries.

Under the present system brand owners are able to maintain high prices for their goods within the EEA, which in many cases is the premium market for those goods. This is evidenced by the almost continual publicity this receives in the media. On the face of it, this is very good for the brand owners who are also able to supply cheaper – and sometimes lower quality - goods to other countries. However, the fact that they do this can also be damaging to the brand, particularly where those brand owners are overly-litigious.

Consumers within the EEA are in reality held to ransom by the brand owners who divide up territories across the world and implement strict non-consent policies in respect of any form of parallel trade. The reality is that changing the current rules will make the market place more equitable for both importers and end consumers.

The pharmaceutical question is far more complex. Where there is parity amongst member states on the strength, quality and dosage of drugs there should not be any barriers to the re-labelling of drugs for re-sale in the UK. This is of particular benefit to NHS buyers as the ability to purchase cheaper drugs obviously results in the ability to buy more drugs or divert the money saved to other requirements. When one considers the amount of drugs purchased by the NHS those savings could be very large indeed.

That said, the re-packaging of drugs is both potentially dangerous and undesirable. Drug packaging not only identifies the drugs in the package; it also explains where and when a drug was produced – so if a particular drug proves faulty for what ever reason, the whole batch can be traced and recalled. If drugs are re-packaged the information on the original package may be lost or incorrectly re-applied, with obvious potential risk.

Intellectual Property & Technology

**Freeth Cartwright LLP**

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