

Response by
Licensing Executives Society (Britain & Ireland)
to
Gowers Review of Intellectual Property.

These submissions are made on behalf of the Licensing Executives Society (Britain & Ireland) (“LES”), the local chapter of the Licensing Executives Society International (“LESI”). LESI is the world's leading association of licensing and technology transfer professionals, with over 11,000 members worldwide. The local chapter in the United Kingdom is one of the largest, with over 600 members.

The membership of LES is mixed, not only geographically, but also in terms of members' backgrounds. Its members include business people, who use IP rights in their day to day activities, professionals (lawyers, accountants and patent agents), who help business obtain, defend and commercialise the rights, and academics, drawn from a broad range of industry sectors. Consequently LES is familiar with the views of a range of users from large corporations to small inventors.

General Comments.

The current IP system.

Before addressing the specific questions raised it is important to put the existing IP system into context.

The current IP system has been built up by international consensus over many years. In general it is considered to be working well. It could be damaging for business if such a system were to be changed without careful consideration of the consequences of making changes.

In addition, because any change requires international consensus, which can be extremely difficult to get, any change proposed is likely to be difficult to implement. If effort is to be put into making changes it might be desirable to focus on some of the changes which have been thought to be desirable in the past, but which it has still not been possible to implement, such as a practical Community Patent System and the harmonisation of the “First to File” system around the World.

Membership of the Review Committee.

LES also notes that the membership of the Review Committee does not appear to include users of the IP system, in particular neither businessmen nor professionals, such as solicitors and patent agents who operate the IP system, to help the Committee in assessing the merits and strengths of representations made to it. LES believes that input from such people would be invaluable in weighing up the submissions made to the Committee and in assessing their possible effect and the prospects of it being possible to get the necessary international agreement to implement them.

LES would be willing to try to help the Committee with such tasks, if that were to be thought to be of assistance to the Committee.

How IP is awarded

Unless otherwise stated the following comments relate to all forms of IP rights.

- (a) The system complexity is not seen as being out of line with the need to exercise due care in the grant of IP rights.
- (b) There is much information available about obtaining IP rights and international protection, but this is usually sought when (or even after) need arises. The position might be improved by providing basic education, eg at school and university, to make awareness of IP rights part of general knowledge.
- (c) It is not seen that there are significant cost barriers to obtaining UK IP rights.
- (d) UK costs are usually seen as being less than international costs.
- (e) It is reasonable for initial filing fees to be lower, and later fees higher – but this should not be too distorted. Initial patent filing fees are currently too low and can encourage ill-prepared private inventor applications. Initial trade mark filing fees are disproportionately high and would be fairer divided between filing and registration.
- (f) Lack of trust in the system is not generally a barrier. Other tools (trade secrets etc) are often widely relied on alongside IP rights.
- (g) Specific barriers arise in relation to excluded areas of patentability (software, games, business methods, medical etc) which can inconveniently cover the kinds of innovations which are relied upon by modern industry.
- (h) No specific barriers are seen for small enterprises.
- (i) The Patent Office generally performs well, as also do the International and European systems, except for the delays in issuing search and examination reports which have become common in the International and European systems.

2. How is IP used.

- (a) LES has members representing businesses ranging in size from major bodies, such as the Ministry of Defence and GlaxoSmithKline, through commercialisation bodies, such as BTG, to Universities and solicitors. Some of these businesses will use all of the IP rights available; many will use more than one; and some, perhaps, none. The extent to which a business will seek multiple overlapping forms of protection will depend on such things as its size; the market in which it operates; the product it deals in.

(b, c) Inevitably the types of protection chosen and the geographic areas covered will depend on the market which the company serves. A multi-national pharmaceutical company will want patent, trade mark and copyright protections, at least, in all or most of the world. A British based business, with a local market will only want protection in that market and may, perhaps, be satisfied with only the common law rights given by passing off. The extent to which such rights are acquired may also be influenced by a company's perception of where it can practically protect its rights, given the cost of obtaining and enforcing those rights and the value of the market to be protected.

(d) It is always difficult to value IP rights, although accountants have many ways of reaching a figure. In practical terms the only true value of IP is what a third party is prepared to pay for such rights in the open market. A business owning IP rights may consider that its rights are very valuable; and others may not accept that valuation. So a business wishing to sell its IP may be upset by the price offered by a purchaser. A business wishing to raise money secured on its IP rights may be disappointed by the amounts that a lender is prepared to advance on the security of such IP. In particular a lender is always going to be conscious that if it has to enforce its security it may find that there is only a limited market for that IP and that it may have difficulties in realising the security, and will reduce the amounts it is prepared to advance accordingly.

While this disparity may cause difficulties between would be buyers and sellers and borrowers and lenders we do not see any way in which these problems can be addressed save by dialogue between buyer and seller or borrower and lender. We consider that any attempt to impose other criteria than arms length negotiations will in practice inhibit such transactions rather than make them easier.

(e) **No comment.**

(f) We have always believed that the existence of IP rights does, in the main, promote innovation. To take the extreme of the pharmaceutical industry, where small molecule drugs can be manufactured and sold cheaply, but where the costs of identifying and getting regulatory approval for such a drug are very substantial (figures up to \$800M have been quoted for such costs), it seems fanciful to suggest that any commercial organisation could or would spend the sums involved in proving a new drug without the assurance that it would, for a time, have a monopoly on selling that drug in which to try to recoup the costs incurred in developing it.

While the pharmaceutical industry is an extreme example, we have no reason to doubt that similar criteria apply in other industries, although to a lesser extent.

(g, h, i) **No comment**

(j) We do not have any specific evidence of patents or other IP rights being obtained "defensively" as we understand that question as raised, that is with no commercial objective of developing products but simply to prevent others doing so. In practice we believe that it must be unlikely that such rights are often, if ever, developed with such an end in mind. We do not see how, having developed a solution to a problem which could be exploited commercially, it would be practical for a

business to develop and protect IP rights in some abstract way with the sole object of protecting the “second best” solution to a problem to prevent competition.

However we have little doubt that a business that has developed and perhaps commercialised a solution, will wish to continue to do research in order further to improve its competitive position. In such circumstances the business may develop another solution, better or worse than its original solution, which for some commercial or other reason it does not wish to, or cannot, exploit, and may get IP protection for that solution. We can see no reason why such a business should not use its IP rights so obtained to protect the improvement made and to prevent others entering the field using that improvement.

If such behaviour is thought to be sufficiently anti-competitive competition law is available to provide a remedy.

3. How IP is licensed and exchanged.

(a) If two or more parties wish to negotiate a licence or an exchange, and they can see commercial benefit to them in the transaction it is usually possible to reach agreement.

This breaks down when one party is not happy with the terms being suggested, for what ever reason, for example the amount a party is expected to pay being too high or the amount it may hope to get from the deal being too low, or some other restriction or burden being imposed by the proposed arrangement.

(b) **No comment.**

(c) **No comment.**

(d) See the comments on “Threats” under the heading “Legal Sanctions on IP infringement” below.

(e) There are often, if not usually, significant legal costs in negotiating licence agreements. One of the main drivers of those costs is frequently the need to comply with competition law, which can have a significant impact on IP transactions. This is considered further under the heading “Coherence between competition policy and IP policy” below.

(f, g, h) **No comment.**

(j) While we cannot speak specifically for any of our members, we do know that the offer of a “licence of right” to reduce patent renewal fees is very rare.

(k) **No comment.**

(l) **No comment.**

4 How is IP challenged and enforced

(a) The principal problems in enforcing IP rights are delay and costs. As to costs, see (b) below. As to delay, the tribunals in the UK are generally swift in the grant of IP rights (e.g. the U. K. Patent Office) and the Courts are usually swift in enforcing them.

However in the European Patent Office, there frequently are delays.

Likewise, if proceedings go to the European (that is EU) Courts, the Court of First Instance and/ or the ECJ, the decisions can take a very long time to get, be very costly, and often they are unhelpful to the parties, who may find themselves being referred back to their national courts for further rounds of litigation.

In addition to the above, enforcement of copyright against individual infringers, for example by the record industry, is very costly for the return in damages that can be obtained. While an individual infringer alone may cause no material damage, the aggregate of such infringement may be very damaging indeed. However the record industry does appear to be adapting its marketing model to take account of the new technologies and these adaptations do appear to be reducing the problems.

(b) In the UK costs of litigation are relatively high because of the procedures used, particularly the use of live witnesses and of disclosure. Further, because of the need in England to produce witness statements at an early stage of the proceedings, costs there are substantially “front loaded”.

(c) **No comment.**

(d) In the past we have found that litigation insurance is beset with problems. It often does not provide sufficient cover for a major case at a premium which is economic. Insurers always allow themselves the opportunity to withdraw cover if they do not consider that the prospects of success are sufficiently high. As any fought litigation always involves a significant element of risk as to who will win (it would not be fought if that element of risk was not there, the party with the weak case would give up) it can be difficult in practice to secure adequate cover and to keep it in force.

(e) **No comment.**

(f) The biggest barrier to enforcing IP rights for all businesses is costs. Naturally costs impact most heavily on small businesses.

(g) **No comment.**

(h) The principal barriers to efficient and successful challenge and enforcement of IP rights internationally, apart from costs and delays, which are discussed at (a) and (b) above, are the multiplicity of national Patent Offices and Courts in Europe and the need to challenge a patent in each individual country once the nine month period for opposition in the EPO has expired, and the need to sue in each country where infringement is taking place.

It would be a great step forward if a Community-wide Patent, granted quickly by a Patent Office whose decisions were accepted as good, such as the EPO, and which could be enforced quickly before a respected tribunal of judges experienced in IP matters, using a satisfactory procedure to give good decisions, and all at a reasonable cost, could be made available.

In practice we see very little likelihood of a Community Patent being made available in the foreseeable future which will fulfil these criteria; and if it does not fulfil these criteria industry will not wish to use it.

As an interim solution the European Patent Litigation Agreement offers the possibility of a successful solution to problems of validity and infringement for those states that sign up to it. We would urge the Government to use all possible efforts to get this Agreement in place as soon as possible and not to allow the European Commission to bog down a proposal which was conceived as a series of treaties between sovereign states.

Bringing the EPLA into effect would do much to resolve the problems of Courts in different jurisdictions coming to different conclusions on questions of validity and infringement of the corresponding patents in the jurisdictions covered by the EPLA.

If and when a Community Patent and a Community Patent Court and/ or the EPLA are brought into force it is important that national courts remain available to deal with disputes involving national rights and particularly disputes between small entities (eg SMEs) which have commercial interests only in one or a small number of countries. To insist that such entities take their disputes to an international forum would inevitably increase costs and would tip the balance of having and maintaining IP rights more heavily against such smaller entities.

Specific Issues covered.

Patents – utility patents/ utility models

a) There is a need for protection for new products which can be said to be based on low level inventions. Traditionally this has been satisfactorily met by the UK patent system which has allowed grant of patents without overly rigorous patentability examination. There has already been a change in UK patent office practice in this respect, and rejection of applications on inventive step grounds has become much more common. If this practice is endorsed or reinforced following the current patent office review, UK applicants will be at a disadvantage compared with applicants in other European countries which have utility model systems. In that case an argument can be seen to introduce a UK utility model system.

However to introduce the utility model system will further increase the complexity of the IP system to the disadvantage of users.

For this reason LES would urge that the level of inventive step in the UK Patent Office remain as at present (or perhaps even be reduced slightly to the level that it

used to be) and that the practice of rejecting patent applications on inventive step grounds should not be made yet more common.

b) It is not usual for problems to be encountered in protecting IP internationally in utility model regimes.

Pharmaceutical Supplementary Protection Certificates

LES supports the existence of the Supplementary Protection Certificate regime. Regulatory approval for a pharmaceutical product is more often than not issued more than five years after a patent is granted, and given the importance of the pharmaceutical industry to the UK it is in our view vital that sufficient incentive is offered to pharmaceutical companies to invest in new and innovative therapies for the benefit of human health.

At the moment the period of an SPC is based on the time elapsed between the date on which the application for an underlying patent is lodged and the date of the first marketing authorisation in the EEA, subject to a maximum overall period of five years. It is submitted that such a formula is overly complex, and could, with advantage, be simplified, perhaps to a fixed period of five years commencing on the expiry of the relevant patent to be applicable in all cases.

Legal Sanctions on IP infringement.

Introduction

LES believes that it would be helpful in discussing the suggestions that criminal sanctions are applied to IP infringement to consider the effect of the criminalisation of copyright infringement under the Copyright Designs and Patents Act 1988 (“CDPA”).

LES submits that the drafting of those provisions which criminalise copyright infringement within the CDPA is poor. In particular LES believes that too many activities are criminalised. LES believes that the legislation did not intend to criminalise as much activity as it has. LES would submit that it is wrong to criminalise as much activity as has been criminalised and the opportunity should be taken to reduce the ambit of the criminalisation.

Section 107 (1) (c) CPDA makes it an offence for a person if he “..... possesses in the course of a business with a view to committing any act infringing the copyright an article which is, and which he knows or has reason to believe is, an infringing copy of a copyright work”.

The law of copyright defines what is the subject-matter of copyright protection and states what that protection is. The copyright legislation does not control how the owner of the intellectual property right decides to license the copyright material. The use of and possession of copyright material will normally be the subject of a licence. The licence may require payment of a one-off fee, an annual fee or a fee depending upon how much and when the copyright material is used. The use will be

“infringing” as referred to in section 107 if payment of the (correct) fee is not made, or if the scope of that licence is breached.

This reference to “infringing” fails to distinguish between the variety of circumstances in which the (correct) fee is not paid, or the licence breached. Further, the examples used by the legislature when enacting this legislation were of situations where no licence has been granted, rather than where there is an argument regarding the scope of or the payments under an existing licence.

For example, a licence may be poorly drafted or ambiguous. The non-payment may be due to a genuine dispute as to the interpretation of the licence. In this context, it is worth noting that, in practice, most licences are invariably drafted by the copyright owner.

Commercial disputes regarding the scope of a licence often arise between the owner of the intellectual property right (i.e. the copyright holder) and the user of the copyright material. Whenever the user is a commercial organisation, section 107 (1) (c) will potentially apply. However, this would appear to be unreasonable. LES submits that it is not proper for the owner of the intellectual property right to be able to threaten a commercial user of the copyright material that, should the user of the copyright material continue using the material in a situation which *arguably* is in breach of the licence, the commercial user will be committing a criminal offence.

This wording transforms what would otherwise be a perfectly normal commercial dispute, to be determined in the civil courts, into one which is a potential criminal offence. The business user can then be coerced into agreeing to the owner’s interpretation of the licence, simply because the business (or its directors) do not wish to run even a small risk of committing what is a serious criminal offence. This also has an anti-competitive effect, since it enables the owner artificially to extend its monopoly by including terms of arguable validity in the licence, knowing that a commercial user will be unlikely to risk arguing their validity.

Thames & Hudson Limited v Design and Artists Copyright Society Limited & Ors (1994)

This situation is not fanciful. In this regard, the attention of the Review team is brought to the leading case of Thames & Hudson Limited v Design and Artists Copyright Society Limited & Ors, ((1995) FSR 153). This case transformed what would otherwise have been a perfectly ordinary civil case into one with criminal ramifications.

The parties were in dispute over the ownership of copyright in a small part of a Thames & Hudson publication. In order to put commercial pressure on Thames & Hudson to settle the dispute, the Design and Artists Copyright Society Limited initiated proceedings in Bow Street Magistrates court against Thames & Hudson Limited and its directors. This case was an attempt by Thames & Hudson Limited to stifle those proceedings as an abuse of process. The court rejected Thames & Hudson’s argument that the criminal provisions of CPDA were intended only for “pirate” organisations. The court held that the statute did not limit the nature of the

offender and therefore the criminal proceedings against Thames & Hudson Limited and the individual directors could proceed.

This case showed that any commercial infringer can be prosecuted for a breach of the criminal sanctions of CPDA.

Proposal

LES submits that this is not the intent of the legislation but is a result of the drafting. It should be noted that this situation is not covered by the “innocent infringer” provisions contained in section 107 CPDA, since these circumstances are not ones where the commercial user is unaware of the existence of the rights of, or the mere claim of rights by, the owner.

A more sensible result could be achieved by taking this opportunity to remove section 107 (1) (c) CPDA in its entirety. Little would be lost in doing this, given the broad nature of the remaining three offences in section 107. Alternatively, an exemption from prosecution could be included, where there is a bone fide dispute regarding the provisions or duration of any licence granted by the owner of the intellectual property right or with the consent of the owner of the intellectual property right.

This issue has been compounded given that the penalty provided for infringement of section 107 (1) (c) CPDA was increased a few years ago from a maximum of two years imprisonment to a maximum of ten years imprisonment.

Software

The primary intellectual property protection afforded to computer software is under the law of copyright. As has been seen, a problem with copyright law as it presently stands is that what ought to be a civil dispute is transformed into a potential criminal offence. This gives the intellectual copyright owner (particularly of copyright) a opportunity to put unreasonable pressure on a commercial licensee. This issue has been of particular concern in the context of computer software licences. Indeed, one of the industries leading magazines “Computer Weekly” has led a campaign against what they have termed “stiffing” – coercing a commercial user to pay large sums for a revised software licence where the licensee has changed (or arguably changed) his use of the computer software.

To conclude, while it is undoubtedly the case that piracy of computer programs harms British and foreign industry, the present poorly drafted legislation also criminalises a number of activities which, it is submitted, should not be criminal offences.

Other Intellectual Property Rights

By analogy the same principle applies to other intellectual property rights. In particular, the criminalisation of patent infringement is under consideration. LES would oppose this, unless the circumstances of the infringement that was criminalised was severely curtailed. The issue of whether a patent is infringed is complex. Criminal law should not be applied to govern issues that are open to substantial debate.

Threats

LES also believes that the “Threats” provisions in U. K. IP law should be reviewed. We believe that the U. K. is the only country in Europe where threats provisions exist. Further there is a body of opinion that the existence of the provision is in practice a handicap to commercial discussion of IP infringements. Also it is believed that it is usually only small businesses, that do not have the benefit of legal advice, which fall foul of its provisions, so that perversely it may be that the threats provision actually handicaps those it is designed to help.

Parallel Imports / International Exhaustion

The present European legal regime governing the enforceability of IP rights against parallel imports and the re-packaging of goods has been and continues to be developed on a piecemeal basis by the European Court of Justice by way of cases referred from the national courts. This has left the law in this area uncertain, which inevitably leads to increased costs both for firms seeking to prevent parallel imports and for consumers.

The issue of whether there should be international exhaustion of IP rights is controversial. At present, European IP rights-holders (many of whom are members of LES) would be significantly prejudiced if the principle of international exhaustion was introduced unilaterally only for the European Economic Area, since national trade marks would remain enforceable against parallel imports in other major jurisdictions, such as the USA.

Coherence between competition policy and IP policy

(a) Has your organisation experienced any activity linked to IP rights that you regarded as unfair competition?

IP licensing is the area of activity that is most likely to engage competition law and that is of most significance for the membership of LES. The European Commission’s policy on the impact of the European competition rules (in particular Article 81 of the EC Treaty) on certain restrictive IP and technology licensing practices was set out in a Block Exemption Regulation and accompanying guidelines issued in 2004. LES believes that these documents are legalistic and difficult to apply in practice and that the competition rules relating to IP licensing would benefit from further simplification. IP is given to provide a monopoly or other protection and the rights given and the exercise of them should not be interfered with save for good reason.

In addition, the exercise of IP rights can in certain specific circumstances give rise to competition law concerns (specifically in the context of Article 82 of the EC Treaty, which regulates the conduct of firms with a dominant market position). The stated policy of the European Commission is to be wary about intervening in cases where the exercise of IP rights constitutes an ordinary, legitimate exercise of those rights. The LES supports the European Commission’s cautionary approach. Nevertheless, the European Commission continues to reserve to itself the power to intervene in

exceptional circumstances. LES believes that it would be helpful to have clearer guidance on when “exceptional circumstances” exist so that IP rights-holders may understand when their activities may be constrained by the competition rules.

(b) How did you deal with this problem?

The membership of LES is generally familiar with the avenues of complaint for breaches of competition law, namely, the European Commission (where there is a transgression that affects trade in a number of Member States) or the national competition authorities (such as the Office of Fair Trading) where the infringement is more localised.

(c) Was competition law effective at controlling this behaviour?

When the European Commission takes up a complaint, it is generally recognised as being an effective enforcer of the competition rules.

(d) Should competition law have a greater role to play in regulating IP?

No. As stated above, the exercise of IP rights should not be interfered with save for good reason, and LES supports the European Commission’s cautionary approach.

(e) How would you see the system working?

The present system of cautionary intervention works tolerably well, although (as stated above), IP rights-holders would benefit from clearer guidance from the European Commission on the impact of the competition rules on IP licensing and on certain aspects of unilateral behaviour¹.

Licensing Executives Society (Britain & Ireland).
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¹ The European Commission is in fact already consulting on this issue.