

Gowers Review of Intellectual Property
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Dear Sirs

Gowers Review of Intellectual Property

We are pleased to have this opportunity to comment upon Gowers Review of Intellectual Property ("the Review").

MacRoberts is a commercial law firm based in Scotland, with offices in Glasgow and Edinburgh. Our technology media and communications unit, which is headed by David Flint. Our TMC unit has a wide range of experience in advising an array of clients on the protection and exploitation of their IP and ancillary competition issues. MacRoberts provides guidance to its clients on all aspects of computer contracts, including hardware purchases and sale, software development, distribution, licensing, maintenance and escrow as well as copyright, trade marks, patents, design and database rights. The firm also regularly assists clients in creating, maintaining, protecting and enforcing their intellectual property and also in defending clients accused of infringing the rights of others.

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?

We do not have experience of our clients being barred from obtaining IP rights due to system complexity. The main factors which are barriers are time and cost, factors which are particularly relevant for SME's.

We would suggest an improvement to the current system would be to provide the Patent Office with more resources to deal with registrations quickly and to provide advice and assistance to applicants.

- (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 have come across a high level of ignorance within small to medium sized companies surrounding obtaining IP rights, or even what IP is. Confusing and conflicting messages from copyright protection companies offering to "copyright" works only increases confusion in the mind of the public generally.

With more and more businesses trading on-line and moving away from traditional business models, we would consider that advice on IP should be provided to businesses on a company's incorporation, or be provided by organisations such as Business Gateway, Scottish

Enterprise or the Chambers of Commerce organisation etc. so awareness is raised before or at the time an organisation sets up business. As many companies trade online, which automatically incorporates an international element into their business, the territorial nature of intellectual property means that most SME's do not consider that the expansion of their business into new territories may encroach another party's IP.

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

We have often found that clients will not proceed to register a brand or trading name as a trade mark because of the cost element. The cost element will often persuade SME's to consider that not registering its IP "is worth the risk" that another organisation will not infringe their brand and the ability to rely on common law protection is available regardless.

The inability to provide a client with a firm basis on costs is also a driver, in that legal costs are (in most cases) based on a time basis and a trade mark registration, for instance, may be simple to provide an idea on costs where it is not challenged, however if a registration is challenged then fees can vary significantly. We would also consider that within Scotland, if business are based outwith the central belt, then there is a lack of available resources to obtain advice on IP.

Additionally, there are costs in maintaining and enforcing IP rights as a failure to enforce an infringement may dilute a company's IP. The lack of available funding to enforce and obtain IP rights is also a factor.

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

We would consider the costs when compared internationally to be reasonable.

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

We would consider that the fee structure is prohibitive to SME's, particularly if they are a start-up business. Whilst a very major cost is the fees of patent and trademark agents, we consider that a useful help to SMEs would be for official fees to be waived for SMEs.

(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 do not consider lack of trust in the IP protection system a barrier to obtaining protection in our experience with clients.

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

N/A

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

We would re-iterate that cost is the biggest factor for small business and individuals. A lack of knowledge and understanding is also a significant barrier. Many SMEs are frightened in this area by the apparently belligerent attitude of large organisations (both commercial and trade organisations) who have sufficient resources to frighten all those who might wish to oppose them into submission.

(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?

We consider that the UK system performs fairly well when compared with other systems in our experience.

2. How IP is used

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

We advise clients on all types of IP which may be relevant to their business.

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

Multiple overlapping forms of IP protection will be obtained where necessary and is dependant on the asset in question. Software for instance in order to obtain international protection may be patent as well as copyright protected.

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

We would consider that geographic considerations are perhaps more of an influence in a decision to obtain overlapping protection than sector specific considerations.

(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?

We would suggest that there are major problems with raising finance against intangible assets based on IP because of the inability to obtain security against an IP asset. This problem is particularly prevalent in Scotland than England where a lender could obtain security by way of debenture. In Scotland a lender would only be able to obtain security against an IP asset by way of floating charge.

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

As many IP rights are of a fixed term then of course, the nearer a right is to its end life the less attractive the asset will be to investors.

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

We think because of the cost barrier in obtaining IP protection and the length of IP protection which is granted to IP owners, that the system doesn't necessarily encourage innovation per se. Rather, the UK IP system can be used to discourage innovation by providing certain IP owners with a monopoly on the use of IP restricting access to others who may wish to enter it. We consider that the balance between monopoly rights and public interest has swung too far in favour of monopoly rights holders, with excessive periods of protection and extensive remedies not available in other areas. The balance of power is very much in favour of major parties given the cost of litigation (and the defence of infringement claims).

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

N/A

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

We do not think the use of a patent or number of patents granted is a useful means of measuring innovation.

(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?

We have come across various circumstances where IP rights are used defensively as a means of protecting the brand of a company. Where the use is to protect a company's brand then we would not consider it to be unacceptable.

3. How IP is licensed and exchanged

- (a) How easy is it to negotiate licences to use others' IP for commercial or non-profit purposes?

We would consider that the negotiation of an IP licence is similar to any other commercial negotiation.

- (b) What mechanisms do you use for finding potential licensing partners?

N/A

- (c) How easy is it to use others' IP for research purposes? Have you experienced difficulty around research exemptions?

N/A

- (d) Are there specific barriers to licensing in the main forms of IP currently used: patents, copyright, trade marks, and designs?

No.

- (e) Are there barriers to licensing IP on grounds of cost? What drives these costs?

No.

- (f) Are there specific barriers to licensing IP in your sector?

N/A

- (g) Does your organisation use methods to facilitate exchange of IP - such as crosslicensing or pooling IP rights with other firms or organisations?

N/A

- (h) Are there specific barriers to licensing IP rights for small businesses or individuals – for example barriers to entry to patent pools?

A barrier for small business or individuals would be costs and also lack of knowledge where the ability to licence an IP right or value an IP asset may not be known. The issue for SMEs in providing IP indemnities to licensees also causes major difficulties for many undertakings as the potential cost of these indemnities, particularly in markets such as the USA where litigation is prevalent and costs are not recovered serves as a major disincentive to licensing into these markets.

- (i) Are there barriers to trade and exchange of IP internationally?

Yes. The differing approaches to IP across the globe, particularly in the US and Japan, mean that businesses require to obtain differing protection in different regions for the same asset. This lack of harmonization can be a significant barrier in obtaining, enforcing and exchanging

IP on an international basis. The cost of enforcement and defending litigation in markets such as the USA where costs are irrecoverable is a significant barrier to UK business.

(j) Does your organisation consider renewing patents using “licence of right” provisions in patent law (which entitle any person to a licence under your patent and reduce your renewal fees by half)?

N/A

(k) What could be done to improve “licence of right” provisions and business awareness of them?

N/A

(l) Do you have any experience of the compulsory licence provisions within current patent law? Are they effective? How could they be improved?

We have had experience in advising a client on a compulsory licence provision and found the process to be ineffective, time consuming, administratively cumbersome and costly.

4. How IP is challenged and enforced

(a) Are there specific problems with enforcing the main different forms of IP: patents, copyright, trade marks, and designs?

Again, cost is the most specific problem with enforcing IP. The provision within IP law that an attempted enforcement of an IP right may be an unjustified threat means that enforcement of IP in some areas i.e. registered trade marks and patents must be done with care and caution, a factor which is not required in the enforcement of other forms of IP.

(b) Are there barriers to challenging infringement and enforcing your IP rights on grounds of cost? What drives these costs?

Yes. The main cost of infringement actions will arise through legal and/or trade mark attorney fees which small to medium sized companies do not budget. Legal insurance may be of assistance; however, we have found that the take up of such insurance is not wide, as many companies do not consider IP infringement a large business risk and meaningful levels of insurance cover are outwith the financial capability of many SMEs.

The cost in defending IP infringement claims (both in the UK and internationally) means that larger companies can effectively force a smaller rival into not pursuing a route to market because of its inability to defend a claim for IP infringement. Conversely, the cost in enforcing an IP right, can also mean that smaller rivals are unable to pursue infringers where necessary.

(c) To what extent does your organisation make use of other methods than litigation to resolve IP infringement cases, for example the Patent Office opinion service, mediation services, Alternative Dispute Resolution, or the Copyright Tribunal?

None.

(d) To what extent do you use IP litigation insurance? How effective is it?

Our client's experience in obtaining IP litigation insurance has been described as costly for the necessary levels of cover and difficult to obtain to the degree necessary, making it unattractive.

(e) Are there barriers to using such methods to settle IP disputes without recourse to litigation? How might they be removed?

N/A

(f) Are there specific barriers to challenging and enforcement of IP rights for small businesses or individuals?

We would refer the Review to our answer to 4 b) as cost is an overwhelming factor for small business and individuals.

(g) To what extent is the risk of litigation a factor in your organisation's investment in innovation?

N/A

(h) What are the principal barriers to efficient and successful challenge and enforcement internationally?

Cost and lack of international harmonization Inability to recover all costs if successful – particularly in the USA makes it almost impossible for SMEs to become engaged in litigation there.

Specific Issues

- **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.

We consider the current length of protection to be adequate and a fair balance on the rights of performers and the right of society to benefit from sound recording. An extension of the right would only seek to benefit recording companies than individuals. If an artist has had the good fortune to have a sound recording still generating royalties after 50 years, he must have enjoyed 50 years benefit already. It is important that the balance between private monopoly and public benefit must not be skewed any further.

- **Copyright exceptions - fair use / fair dealing**

Background: There are a number of exceptions to copyright that allow limited use of copyright works without the permission of the copyright holder.

We consider the current exceptions in UK copyright law to be unclear and a review of the fair use exceptions to be required. The US system of fair dealing would be of benefit in reviewing the use of works. The fair use exception should allow individuals to make copies of work for their personal use, with one copy being utilised at any one time. Recent amendments to fair dealing in UK copyright law have been unhelpful, have stymied research and use of existing material and restricted legitimate comment..

- **Copyright – digital rights management**

Background: Increasingly digital media content is distributed with digital rights management (DRM) technologies that can enable rights-holders to track usage and prevent unlicensed copying by technological means. However concerns have been raised about interoperability and that such technologies may impair the content consumer's legal rights. For example they may be unable to take into account exceptions to copyright, the ultimate expiry of copyright term, or the future evolution of technology. They may therefore undermine legitimate rights to access digital content, now and in the future. (NB: We are aware of all formal submissions that have been made to the All Party Parliamentary Internet Group on this issue.)

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

We would refer the Review to our response to the APIG. We do not consider that DRM in its present form is compatible with the balance between private monopoly and public benefit to which we have referred previously. We consider that a DRM system permits a rights holder to prevent fair dealing by a purchaser of the item; it allows protection to be extended beyond the period of copyright protection and leaves the purchaser unable to use the rights he has if the equipment necessary to decrypt the the DRM'd item ceases to be available. Additionally, notice is not provided to purchasers of the restrictions which will be imposed by DRM on purchased items and the purchaser herefore may not receive all that he believed he was purchasing, so restricting his rights under the sale of goods legislation.

- **Copyright – orphan works**

N/A

- **Copyright - licensing of public performances**

N/A

- **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?

We would consider that a second tier patent system may cause greater confusion for business and may have a detrimental effect on those who wish to obtain patent protection within the first tier system. We consider that a second tier system would increase costs for those wishing primary tier protection as searches and examination would require to be conducted in second tier registers before grant. Because less examination would be conducted the true value or extent of the second tier system is very much open to doubt – see <http://news.bbc.co.uk/1/hi/world/asia-pacific/1418165.stm> for an example of problems this may raise.

- **Pharmaceutical Supplementary Protection Certificates (SPCs)**

Background: SPCs are a “sui generis” IP right available in EU Member States for pharmaceutical products (as well as plant protection products). The standard patent term is 20 years. SPCs aim to compensate rights holders for the time required to obtain regulatory approval for their products. Where regulatory approval is issued more than five years after a patent is granted, SPCs may be granted to extend the term of protection on the active ingredient in the patented product. SPCs last for a term corresponding to the period elapsed between the five-year point and the point at which the product reaches market, up to a maximum term of 5 years.

N/A

Trade Marks – international issues

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

As necessary according to trade mark use.

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

We consider the current UK system to be working effectively.

Designs – registered designs and unregistered design rights

In our experience of advising clients on registered and unregistered design rights, we have found dissatisfaction with the protection that is afforded to products. The system is relatively complex due to the overlap with copyright protection, lack of protection to surface design, the start of the right and the period of protection afforded to owners. Due to these various factors, many clients do not see the immediate benefit in obtaining registered design right protection.

Legal sanctions on IP infringement

We consider the sanctions available to IP owners in some respects “force” alleged infringers to comply with various undertakings rather than defend an action in Court because of monetary pressures and are unfair in many respects. We would consider that in enforcing IP infringement the damage claimed as a result of infringing should be evidenced and perhaps reflect the flagrancy of the breach and use, rather than be determined at the IP owners discretion. As the majority of IP infringement disputes are resolved prior to Court, it is difficult to assess whether negotiations which are reached relating to the amount of damages reflect the loss to the IP owner, or are in reality reached due to financial pressures placed on the alleged infringer. We have had experience of allegations made by major software companies who have demanded substantial sums by way of damages but have refused to provide any evidence of how these figures have been reached. Recent litigation by the music industry in the USA and Europe indicate that threats have recovered over \$100m in “damages” but no quantification of damage has ever been established.

Coherence between competition policy and IP policy

N/A

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 Member States from legislating to remove such import restrictions at the national level – 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.

We consider that there should not be geographical restrictions on goods to prevent them from being resold in other territories. We believe that as a matter of law, exhaustion should be on a global basis. It is inconsistent with other areas of law for market sharing to be prohibited under antitrust law but for the same effect to be achieved by application of trademark rights. If a supplier chooses to supply goods at price £x in one territory, presumably that price was acceptable to him and therefore any higher price in other territories must be in order to provide a higher return. The artificial geographical restraint only seeks to benefit the IP owner rather than protect or benefit the consumer who is prevented from benefiting from the globalisation of trade. The region marking of DVDs highlights the burden to consumers that the restriction places and has recently been commented upon unfavourably by the Australian Competition and Consumer Commission (http://www.phillipsfox.com/whats_on/Australia/DigitalAgenda/submissions/ACCC_submission.pdf).

We are very conscious that many of the issues which we have addressed in this submission result from obligations which the UK has accepted as a result of its accession to international treaties and conventions, often under the auspices of WIPO. We are concerned that the process by which such treaties are agreed do not lend themselves to the normal scrutiny of legislation inherent in a UK Act of Parliament and that there is a great danger that sectoral interests, both in the UK and elsewhere will

succeed in skewing legislation in favour of a particularly powerful interest group. We also note that WIPO itself is effectively an interest group for IP owners and that their interest may not coincide with that of the public or the consumer. For this reason, we would ask that the Review consider whether the UK's accession to these treaties is indeed in the interest of the UK public or merely benefits a small, but vocal, interest group.

We would confirm that the Review highlights that cost is a significant factor in obtaining and enforcing IP rights, whether it be within the UK or globally. In addition, the high lack of awareness of IP is also a major factor for many businesses who may innocently infringe IP rights or do not adequately enforce their IP rights. Larger businesses are able to effectively retain their IP rights, and force smaller entrants from entering their market through alleging IP infringement. The cost element in defending such actions means that larger companies are able to retain their market share. This imbalance requires to be addressed.

Yours faithfully