

## Gowers Review of Intellectual Property - Call for Evidence

### Response by QinetiQ Limited

#### General comments

QinetiQ had a reported turnover to 31<sup>st</sup> March 2005 of £872.4m and employs around 11,500 staff (9000 in the UK, approaching 7000 of whom are qualified scientists and engineers). Its main business is contract research and consultancy for MoD and other high technology customers, but a major activity is innovation based on new technology. Innovation may be achieved by licensing, formation of start-ups and joint ventures and by manufacture and sale.

Intellectual property (IP) is of vital importance to QinetiQ in encouraging innovation and in securing the necessary funding whether from internal sources or external investors. IP is one of the major factors in securing the sustainable competitive advantage necessary for investment.

#### **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?

QinetiQ has a dedicated in-house IP function and in general experiences no problems with patents, trade marks, and copyright. There is some confusion over design rights in view of recent changes and introduction of European rights and over trade secrets/unfair competition due to lack of standardisation within Europe for such rights. The uncertainty over the scope of database rights following ECJ decisions last year may also affect decisions to invest in businesses based on database (as we have done in the past)

- 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?

Given an in-house specialist function knowledge is not a problem at the corporate level. We are pleased to note that many new graduates have a basic awareness of IP. Spreading awareness within the company is a continuous process, but we note that information supplied by the UK Patent Office (UKPO) is generally of good quality. QinetiQ always thinks in terms of international protection especially in the US.

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

With in-house attorneys, costs of UK national protection are not too onerous, although patent attorneys are certainly not cheap to employ. However most patents are secured through the European Patent Office (EPO) where costs are substantially greater, especially at national validation stage in foreign language countries. These costs are driven by translation costs and fees for compulsory local representation.

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

UK national costs are competitive. Costs of patent protection in Europe compare unfavourably with US for a comparable size of market. Costs in other nations vary but generally range between Europe and US. (Note that for US we refer only to costs of obtaining rights, not enforcement)

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

We strongly support the existing policy of using renewal fees from successful IP to subsidise application and grant costs. This also serves to discourage maintenance of unwanted rights thereby placing the technology in the public domain for others to innovate further. We deplore the current proposal to increase pre-grant costs and decrease renewal fees.

- 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?

Uncertainty over validity of patents can be an issue and patents which appear to be invalid can be a barrier. QinetiQ uses all means of bringing innovation to the marketplace, especially reputation and networks. However as a company dealing with major advances in technology, frequently with long lead-times, IP is often the major factor for securing innovation.

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

QinetiQ is active in the computer software and database businesses. In the computer field the differences in available protection between Europe and the US cause some uncertainty. As noted above uncertainty over the scope of database right is also an issue.

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

QinetiQ is not a small business, but is a shareholder in a number of start-up companies for whom the cost of patent protection is a significant issue.

- 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?

QinetiQ uses the national patent system mainly for securing priority and early search. Unfortunately the search does not always find prior art found at the EPO, but generally provides a good and prompt service. The international (PCT) patent system generally works well. The European Patent System is prone to delays and a tendency to concentrate on form rather than substance. Costs of national validation and renewal are a serious deterrent to Europe-wide protection and we tend to validate only in 3-5 major countries which are sufficient to control the European market.

## **2 How IP is used**

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

We use patents, trade marks, copyright (especially in relation to software) and trade secrets both to protect the market for novel products and as a basis for licensing and spin-outs. To a lesser extent we use design rights and database rights.

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

We will seek to protect innovations by all available forms of IP, but these are normally complementary rather than overlapping. Indeed where overlap exists it tends to be between registered and unregistered rights so that no decision is required on whether to seek the second type of protection.

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

QinetiQ is active in many market sectors and tends to reflect the practice of each sector. However we are not involved in any patent pools or, to any substantial degree, in issues of IP and standards. We do not operate in the drug field. In the computer field we have to consider both the copyright environment in Europe and the wider scope for so called "software patents" in US and elsewhere.

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

Valuation of IP is necessarily an imprecise art. We have found it possible to raise venture capital funding for equity deals against IP, but have not sought to secure loans specifically on IP although we have in the past secured a loan on patents amongst other assets. Valuation of IP depends not only on the IP itself, but on the available market and the attributes of the owner (e.g. market positioning; initiative and drive of individuals etc.) Investments secured on IP will always be speculative and likely to involve equity or high interest rates.

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

The current terms of IP rights do not materially affect investment decisions. However as many of our technologies are pioneering and far from market, any significant shortening could have an effect.

f) How well does the IP system promote innovation?

We consider a strong and clear IP system to be a necessary, but not sufficient tool to promote innovation. We do sometimes encounter restrictions arising from weak patents which nevertheless would be troublesome or expensive to remove. However we do not find this a major inhibition to innovation.

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

Much of our research is funded by MoD and other government departments who then encourage us to pursue innovation to bring it to market. However we make limited use of government sponsorship because the licensing obligations attached may restrict our future freedom to operate.

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

We are unsure what is meant by data on the use of IP. Patents relate to invention rather than innovation and are not a reliable measure of the latter. IP may be used in a number of ways either to protect markets or by licensing. It is not clear what data could be meaningful.

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

If working correctly, IP should be of net value to the economy by encouraging innovation. This includes the innovation applied to work around patents. The costs of securing patent protection and of enforcing IP are clearly costs to the economy and should be reduced to the greatest extent consistent with sound and fair granting and enforcement of these valuable rights.

- j) Have you encountered patents or other types of 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 not encountered this and do not believe it happens to any significant extent if at all. We point to the compulsory licence provisions on patents designed to prevent precisely this type of activity. However we have had experience of an exclusive licensee failing to exploit the technology and believe it is important for all exclusive licences to include adequate provisions to ensure effective exploitation.

We would distinguish this from the practice of securing patents for alternative technologies where the patentee intends to bring the best technology to market. Note that the term “defensive patent” is often used to cover the case where a company protects technology it intends to use from patenting by others even though it does not intend to enforce the patent actively.

### **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?

Since IP represent important assets, one should expect hard commercial negotiations to accompany licensing, but we do not experience significant legal impediments. We also perceive that even SMEs with whom we deal do not experience major problems in securing competent legal advice at reasonable cost.

- b) What mechanisms do you use for finding potential partner?

Largely through existing trade contacts and marketing/sales activities

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

We have not experienced any problems, although lack of international standardisation on research exemptions can be a problem. We have not come across issues of patenting research tools which would give us a problem.

We would distinguish research exemptions relating to patents from research use of know-how and trade secrets where we believe it is appropriate to make an initial disclosure “for evaluation only” with even research use to be subject to agreed terms. In the case of patents the information is available to the public (after the initial 18 months) whereas know-how and trade secrets are confidential between the parties.

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

The main barrier to licensing is the uncertainty in respect of competition law following revision of the EU Technology Transfer Block Exemption. We do not experience any barriers specific to the type of IP

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

QinetiQ has a dedicated in-house licensing team. In general costs are not a problem, but we do experience licensors with an unrealistic view of the value of their IP and also some external lawyers who tend to offer standard precedents without regard for the nature of the specific deal. This leads to extra costs in negotiation.

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

No

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

We seek to collaborate with other companies having complementary IP and such deals may include cross-licensing. However we do not belong to any general patent pools or similar arrangements.

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

Even as a large company, QinetiQ has experienced barriers to licensing into industries where patent pools are believed to exist. However this has proved possible where an invention of sufficient merit and utility is involved.

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

We have encountered problems with the need to get foreign government approval of licences and differences in national law can pose problems. In some cases governments still seek to impose maximum royalties. Whereas there has been considerable international standardisation regarding registered rights and the EU has directives relating to copyright and other unregistered rights, there are still significant differences both within and outside Europe.

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

We are actively considering doing so.

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

These provisions will only ever be of interest to a minority of patentees whose wish is to secure licence income rather than protect their core business. We are not aware of any need to change.

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

We have no experience, but believe the small number of cases (outside the drug field) is evidence that the existence of these provisions prevents abuse of patents.

#### **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?

The principal problem with enforcing patents is the cost. In the international field different countries provide litigation systems of varying cost and characteristics which provide the patentee with a range of options. A Europe-wide enforcement would be useful if the cost were similar to the current cost in a single nation, but unless this can be achieved we would not wish to lose the option of national enforcement, especially since in many cases a single or two national decisions can lead to a world-wide settlement.

Although we have no direct experience we understand copyright enforcement can pose problems over proof of title to this unregistered right where works are produced by a number of employees over several years.

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

Undoubtedly there are cost barriers which arise from the legal processes such as discovery of documents and cross-examination. However in some cases these are required effectively to enforce rights. We would not wish to lose these options.

- 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?

We have experience of mediation as a means or facilitator in settling litigation and would be happy to use it again in a situation where we are prepared to licence the alleged infringer. We have no experience of the new Patent Office opinion service, Copyright Tribunal or other types of ADR. However we note that the essence is an IP right is to prevent use by others. Where the right holder wishes to exploit himself rather than licence and hence seeks an injunction we are not convinced ADR is suitable.

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

We have no experience of IP litigation insurance.

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

As noted above the availability of an injunction is an issue. In many cases the alleged infringer is already in production or has made a major investment and will be reluctant to be put out of the business in question. To this extent early identification of the dispute would aid resolution. We believe these methods may be more suitable for trade mark disputes, especially if caught early.

- f) Are there specific barriers to challenging and enforcing IP rights for small businesses or individuals?

In general challenging registered IP rights in the Patent Office is not unduly expensive. There does not appear to be a similar route to challenge copyright.

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

Whilst it is a factor, the availability of an in-house professional team to assess risk and, where necessary negotiate licences, reduces its impact.

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

Challenge is especially difficult in the US. Elsewhere the major issues are cost and differences in substantive law.

## **SPECIFIC ISSUES**

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

No comment

### **Copyright exceptions – fair use/fair dealing**

The removal of an exception for commercial research did cause us concern, but we now buy most of our technical material on-line under licence terms which meet our needs. Likewise most software licences provide for reasonable archiving, but we would welcome more legal clarity in this area.

### **Copyright – Digital Rights Management**

No comment

### **Copyright – Orphan works**

No comment

### **Copyright – Licensing of public performances**

No comment

### **Patents – utility models**

Given the current UK law on unregistered design right we see no need for introducing a further level of complexity and uncertainty. A new monopoly right not subject to examination would be a retrograde step in terms of encouraging innovation.

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

No comment

### **Trade Marks- International issues**

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

As with patents the initial priority filing is normally made with the UKIPO. Thereafter important marks are filed via the European route and outside the EU.

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

No comment

### **Designs – registered designs and unregistered designs**

- a) To what extent does your organisation rely on registered designs? And on unregistered designs?

Our reliance on registered designs is negligible. We do have some unregistered designs and they are increasingly important.

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

See above

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

Given the disparity in term (3 years v. 10 years) these are not really comparable. UK unregistered design right is better compared to unfair competition law in other countries.

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

No comment

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

No comment

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

See comment under c). In the absence of a general law of unfair competition the UK unregistered design right, limited as it is to restraint of copying, serves a valuable purpose not met by either of the European design rights

### **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?

We are concerned at European Commission proposals to extend criminal sanctions to all types of IP infringement. Indeed we have some concern over the current law relating to criminal sanctions for infringement of copyright. We believe a distinction is required between true “piracy and counterfeiting” and situations where entrepreneurs take action based on reasoned advice that a right is invalid or not infringed even if that advice turns out in the end to be incorrect. Whilst it may be the case that a court would not, in the end, convict in the latter case, the threat of criminal sanctions may inhibit innovation by the competitor.

- b) For example should criminal sanctions on online infringement be the same as those relating to physical infringement?

Subject to the comments above we see no reason to treat online infringement any differently from physical infringement.

### **Coherence between competition policy and IP policy**

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

No

- b) How did you deal with this problem?

Not applicable

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

Not applicable

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

It is important to keep a clear distinction between IP policy which grants limited monopolies to those who bring innovations to the public (either by creation or by publication of patent applications) and competition law which seeks to control unfair use of any monopoly. Competition law should only be concerned with the operation of IP monopolies and never with the grant of IP rights. Moreover it must provide a reasonable return to the IP owner. Hence save in the most extreme cases the remedy for use of IP which is deemed to exceed what is reasonable, should lie in compulsory licensing rather than invalidation.

### **Parallel Imports/International exhaustion**

QinetiQ has no experience of this area, but is concerned that patent exhaustion should continue to apply only where goods have been brought onto an unregulated

market by or with the consent of the patentee. Where initial marketing is in an unpatented territory or on terms subject to government regulation exhaustion should not apply. Moreover the option to grant exclusive manufacturing licences on a territorial basis should remain as, outside the EEA, should the exclusive right of first marketing. Given that the patentee enjoys exclusive right of first marketing there is no reason why we may not licence this right on a territorial basis provided he does not thereby distort trade between EU member states.

QinetiQ Limited  
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