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**POLICY RESEARCH INTO
INNOVATION AND MEASUREMENT
PRACTICE IN THE INTANGIBLE ECONOMY**



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Notes of IPR Workshop hosted by McDermott Will & Emery:

How can the EU's IPR framework be improved?

December 3rd, 2002

Introduction

McDermott Will and Emery, a member of PRISM's Advisory Council, arranged and hosted a workshop held in London on December 3rd, 2002. The purpose of the day was to assemble a diverse group of people, representing a range of professional and national interests and perspectives, in order to identify common areas of concern with the current set-up of the Intellectual Property Rights (IPR) framework in the EU.

This document seeks to provide a summary of the key comments and observations, rather than to slavishly record all the contributions. It should certainly not be assumed that all the points and ideas recorded represent the unanimous opinions of all the participants.

Participants

Name	Country	Company
Keith Beresford	UK	Beresford & Co
Mark Bezzant	UK	Deloitte & Touche
Professor Margaret Blair	USA	Georgetown University Law School
Roger Broadie	UK	Trade Marks Patents and Designs Federation
Larry Cohen	UK	McDermott, Will & Emery
Simon Elsom	UK	OpenWave Systems (Europe) Limited
Clark Eustace	UK	PRISM
Dawn Franklin	UK	Brandright
Elizabeth Gutteridge	UK	Deloitte & Touche
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Daniel Hazan (by phone)	Italy	Tornato Avvocati
Javier Huarte	Spain	Mullerat Bufete Mullerat, Echarrai & Brindle Abogados
Kelvin King	UK	Valuation Consulting
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What is PRISM?

PRISM is a multi-disciplinary European initiative aimed at gaining a deeper understanding of the issues surrounding the management and measurement of intangibles in the modern economy. The PRISM group believes that intangible investments – in areas such as R&D, know-how, software, brands, licenses, copyrights, and organizational design - are *the* drivers of both competitive advantage and economic value creation, but that they are inadequately evaluated by current measurement and management tools which were devised for an economic context that no longer exists.

The PRISM research consortium started up in October 2001, backed by 2-year funding from the European Commission's IST programme. It is made up of eight business schools from seven EU states, and is led by the Cass Business School, City of London. Its findings are being published throughout 2003, leading up to a public conference on July 4th 2003. For more information and to keep in touch with the PRISM community, visit www.euintangibles.net.

Context of the workshop: The IPR framework will become ever more important in the 21st century – yet it remains poorly understood and appreciated

Major economic trends are accelerating the development of an economy which is characterised by over-supply, rapid commoditisation and the need for continual innovation. It is an economy whose value production is increasingly reliant on ideas and knowledge-intensive intangible assets.

Companies are desperately seeking points of competitive advantage they can hold onto. One key area where protection, temporary or otherwise, is available lies in the IPR regime. The IPR set provides a positive incentive for companies to invest in developing the knowledge that would underpin such competitive advantage, thereby contributing to the building of a truly knowledge-based economy.

Interestingly, and worryingly, however, it was noted that IPR (and intangibles in general) remains a low priority on the boardroom agenda. A PwC/Landwell survey of senior managers in FT 500 companies conducted in March 2002 found “a pervasive lack of awareness of the inherent value of IP within organizations”:

- 75% are unable to estimate the value of their IP, 85% in the professional services and financial sectors
- 43% do not formally track the amount spent on litigation to protect their IP. The amounts spent estimated by interviewees seem very low relative to the value of underlying IP. ,
 - It was noted that this does not necessarily indicate that the underlying IP is not valued per se, but rather that the system could be doing its job effectively in as much as litigation represents a failure of the IP system.
- 47% give overall responsibility for IP to their legal dept, 24% to the company secretariat, and 12% to Finance – despite its wide strategic importance.

Italian entrepreneurs, it was reported, were somewhat anti-patent in as much as they have had bad experiences with the speed and efficiency of their local court system in dealing with IP issues.

Patents sometimes seem to be obtained without any clear purpose other than perhaps with a defensive, “catch out the competition” motive. On the other hand, it should be recognized that it is often necessary to patent before there is any visibility of the eventual commercial success, or even practicability, of a new development; this often means that many patents do not become of much importance until late in their life.

The active management of patent portfolio’s was seen by some as the exception rather than the rule. A similar story is evident in the financial community: little interest would be taken in the value and importance of IP, it was argued, until there were accounting standards that required companies to directly address IP issues in numerical terms (at the very least, in the notes to the accounts).

It was noted in passing that Europe may be lacking in objective, strategic advice in this area. Does any European body/forum exist which serves to advise on the full range of protection available, not just legal protection? Does anyone want it? Should the Commission have a group within the Competition Directorate dealing specifically with IP issues?

In contrast, it was repeatedly stressed that the IPR set must be seen as but one facilitator of economic development, and one which will never probably be sufficient on its own. Ultimately, the IPR regime was there to lend support to the development of innovative products and services; it is no substitute for other policies to engender a more entrepreneurial spirit in Europe. These would include the development of organisation-building skills and a balance between the IPR regime and competition law which needs to remain alert to the possibilities of IP being used as a barter tool in anti-competitive, monopolistic practices.

So whilst there are elements of the IPR framework to be improved, it is largely regarded as acceptable in as much as it has contributed to wealth creation, albeit it is imperfect in its workings. It must be recognised that some of the dissatisfaction evident with the system and some of the problems being discussed are nothing new. Same problems, different specifics – albeit on a different scale when one is looking at pan-European issues as opposed to intra member states.

Compromise and trade-off's will - by necessity - always be a part of the system, none more so than in harmonising the various European legislative heritages. The key drivers of creating wealth, stimulating competition and providing society and the consumer with choice must be kept in focus.

Enabling efficient and cost-effective enforcement is the top priority for the patent regime

Speed and efficacy of process seems to be *the* recurring problem with the current European patent process.

- Delays can be enormous, allowing too much scope for litigation “game-playing”, thereby adding to businesses’ costs (cash costs, management time/stress costs and cost of capital costs caused by the prevailing uncertainty). 8 years of uncertainty is simply untenable.
- The need for patents to be enforced by separate actions in all the designated states means multiplied costs, as well as running the risk of game-playing by forum-shopping and of getting inconsistent decisions.
 - The answer, it was argued, was for the EC to ensure that the European Patent Litigation Agreement (allowing for a single action for participating states) be completed.
- The costs of translation alone can exceed the cost of producing the original patent document by many multiples.
 - The solution to the costs of translation is already in existence. It is the London Agreement on Translations. What is needed is for this agreement to be ratified and put into effect without further delay.
- As a result of the high costs of obtaining and enforcing (or defending enforcement of) patents, the system favours the larger incumbents over the SME’s Europe so desperately needs to encourage in order to be able to deliver on its 2000 Lisbon objective of becoming the most competitive knowledge-based economy by 2010.
- Injecting speed into the system would alone help to disincentivise game-playing and infringement.

However, it was also recognised that improvements could be made within the status quo:

- It was argued that legal means existed for processes to be sped up where urgency could be justified – for example, EPO opposition procedures could be fast tracked where a major infringement case exists. This could be institutionalised.
- It was stated that, in spite of all the complaints, no national judge has ever actually petitioned, or required the parties to petition, the European Patent Office (EPO) to speed up.

- The EPO was originally set up to deal with 30,000 cases per year, not the 200,000 it now faces. A major recruitment and training drive has been initiated.
 - The EPO could out-source some of the examination on the basis of a tightly-agreed set of standards. Greater accountability could be introduced with a set of agreed standards (a service level agreement, in effect) covering issues such as quality and turnover rate of examinations.
 - The EPO could also loosen its standards in the interests of speeding up the process, the key concern for the players. It was suggested that the EPO's examinations are very good (as evident in the low number of successful suits against patents which had survived the EPO Opposition procedures, as researched by the Max Planck Institute) – perhaps too good. Witness the latest community report on biotech where it reports that the EPO does 50% of all validity searches worldwide.
 - It should be stressed that this was a suggestion that by no means met the approval of all present. Some felt that the lack of certainty - which would be the effect of looser standards - is the enemy of an effective IP system
 - This viewpoint would like to see standards elsewhere increased, and that the EPO concentrates on increasing its operational efficiency and reducing its costs, whilst still maintaining its high standards of output.
 - What happens to its excess funds generated from patent fees? Is there potential for re-investing such funds to improve the system?
 - A governance/human rights issue. Who is the EPO responsible to? Is it acceptable for the EU to have such an important body outside of its statutory control? Would the opposite, however, be acceptable to the non-EU members?

The Community Patent is often touted as *the* way forward for Europe to create a more level playing field with the US.

The group is generally supportive of making this a reality with a number of observations:

- The CP must be made cost-effective to be an attractive proposition for industry – albeit, it was suggested that, for Italians for example, efficient and rapid enforcement of a harmonised regime is something they would willingly pay for.
- The translation and cost regime which is currently on the table is very “industry-unfriendly” in its requirement for translation of all the claims into every EU language.
- The litigation system will need to be harmonised and damages made more meaningful to disincentivise infringement. This does not mean exemplary or punitive damages as such; it means damages and attorneys' fees on a sufficient scale that the Claimant is not out of pocket. Also there should be only 1 pan-EU damages claim. (Defendants have a right to a fair trial; a fact often seemingly overlooked by SME IP Claimants).
- Concern was expressed at the idea of one centralised Community court.
 - The consensus supported the notion of regional branches of the Community Court (to help the transition, to speed up processes, and to assist with credibility and dealing with the expected volume) **so long as** the panel of EU judges was mobile and local courts were not packed with local judges so that the law could be seen to be consistently applied across all branches of the court, regardless of nationality/location.
 - Such a court's jurisdiction should probably be extended in due course to cover trademarks. However, for the shorter-term, it was felt that it would be important to get it to work for patents only first.
- The German fears that quick and cheap (if imperfect) justice in IP cases, a source of competitive advantage for its current system, will no longer be available will need to be allayed to move forward.

- The CP should not be instituted at the expense of choice – there will still be a role for some of the elements of the current European system, in particular national patents including national patents obtained via the European route. Multi-national firms, for example, are said to occasionally opt for the expensive choice of pursuing national and European patents simultaneously, as a means of a safeguard. (This strategy has been successfully practiced, for example, by UK companies, especially in the pharmaceutical and biotech industries).

The software industry is adequately covered by copyright (and to a lesser degree by patents)

Despite the furore over the patentability of software, copyright remains the key mode of protection for the software industry.

- Patents should only be available where technical innovation can be demonstrated to be part of the inventive step (i.e. the present arrangements are satisfactory).
- It is the more extensive eligibility of software for patent protection and the perceived lower standard of examination in the US which has contributed to the furore and so inflamed the open source movement.
- It is too easily forgotten that patents necessitate disclosure – i.e. something is ceded in return for a temporary monopoly.

As regards copyright lives, as software only protects the form, and not the idea, there was no good or pressing reason for limiting the term, although this might be dealt with as part of any general review of copyright terms.

The question arose as to the appropriateness of copyright terms

No consensus on this issue, albeit most were skeptical of why the terms are still being extended, a move which seems to benefit only lawyers and organisations such as Disney and Time Warner, and creates more uncertainty/difficulty since the search for owners becomes ever more onerous and time-consuming – and, therefore, expensive.

- On the one hand it can be seen that the trend of extending copyright lives runs in direct opposition to economic realities. Production and distribution methods have improved so much that the payback periods are relatively short in today's economy and thus, it is not necessary to provide such long payback periods.
- On the other hand, there was a feeling of “if it ain't broke, don't fix it”. What would actually be gained by shortening the life? It only matters whether it is 50 or 70 years if someone is actually going to do something with it at expiration. How do you actually make determinations between different works or different modes of exploitation as to whether they should be granted a 10, 20, 50 or 70 year or as at present a potential 140 year term?

Limited enthusiasm was evident for extending the scope of the rights protection regime.

Again, no real consensus on the patentability of business methods.

- On the one hand, there is a fear of opening a “can of worms”, supported by the argument that business has survived successfully without being able to patent processes up to now, so why take a leap into the unknown? Businesses need no extra incentive to invest in innovative business processes, as this is a pre-requisite for creating a viable business model. It is feared that a large (and growing) body of opinion will be further inflamed if the system is seen to be abused – as it might be by extending patentability to business methods.

- On the other hand, there was some support for a market-based view that the market and courts would “wash out” the issues as they had proven able to do in other cases (such as when biotechnology first applied for patents on genes). So long as patent laws were being applied correctly, the applicant would still have to prove its case of novelty, non-obviousness, and utility, and, in addition, would have to make disclosures.

Mirroring the experience gained with brands, it might be beneficial to look at business methods as composite assets which need to be decomposed into their constituent parts before considering protection methods. This goes to the heart of the issue as to how to handle idea-based concepts as opposed to technology-based concepts.

A similar discussion revolved around the possibility of making protection available to innovative financial instruments. No real drivers for doing so emerged:

- The Financial Service industry itself is seemingly indifferent to it
- It is hard to see exactly what would merit protection in that all financial instruments/products are, once decomposed, simply packages of commodity products such as options, forward contracts, loans and investments.

Indeed, if such concepts were to be allowed to be patented, it would arguably be even more important that they were supported by speed and consistent application of the need for a truly inventive step.

In summary, it is not clear that business methods patents are entirely disallowed. If there is a process with a technical effect, patentability could be permitted on ordinary patent principles. Clarification of the law, in the interest of certainty, rather than wholesale reform may be required.

Complexity looms in the Community Trade Mark field

In considering the IPR framework, the EC needs to be proactive rather than reactive, anticipating problems rather than reacting to crises. To this end, this Working Group focused on one particular aspect of the Community Trade Mark system.

A growing problem can be foreseen as the EU countries transition to the new community-wide trademark system.

- The Community Trade Mark (CTM) will be granted to applicants without substantive examination. And even if the CTM will only actually be used in one EU country, it will be applicable to all.
- As time goes by, it is foreseen that the Community Register will get “stuffed up” with CTM’s which are only actually used in limited geographic areas.
- This means that new applicants will be able to find whether a CTM is registered or not, but face the possibility of having to do 15 separate searches (25 from 2004) to be able to establish it is not being used.
- This flies against the principles of an optimal IPR framework which would ideally provide businesses with clarity and efficiency in a reasonable timeframe.
- A suggested solution is to require that, on renewal (every 10 years), the owner must declare what countries the CTM has actually been used in, but without requiring evidence of use unless challenged.

A pressing problem - transitioning from a national to a federal System

Indeed, this CTM issue highlights a bigger problem for the EC – how to effect transition as the EU migrates from a national-based framework to a more federal one. The most disadvantaged during such a transition are likely to be the SME's: the EC needs to consider how to proactively help them through such transition.

A one-size fits all system is less than ideal.

However, there are enough difficulties, without having, say, a different system for SME's and one for large companies. The definitional issues at the cross-over between small and large companies would probably add more complexity than it would add benefits. A similar issue of complexity arises on copyright term, with the idea that the same work could be subject to different terms on different media?

Concluding Thoughts: Improving Existing Structures

A more fruitful approach may be to think in terms of improving the efficacy of what we already have on the one hand, and introducing different products and pricing structures on the other.

Key issues for improving the efficacy of the status quo:

- Harmonisation of EU legislation
 - The tendency, some argued, is for harmonisation to end up somewhere in the middle between the strongest and the weakest system. A better approach would be to conduct harmonisation on the basis of “cherry-picking” best practice from across the various systems.
 - Others, however, were of the opinion that the norm in the IP field is for harmonisation to be upwards.
- Redressing the speed/cost trade-off – is the perfect patent examination so essential?
 - However, some strongly objected to the proposition that standards should be relaxed.
- Instituting EU-wide instruments, such as the Community Patent, as another option available to the would-be patentee, provided it is cost-effective and has a uniform litigation system.
- Ensuring that all opposed patents in the EPO where there are infringement issues are given speedy processing.
- Deterrents – meaningful pan EU damages, coupled with speedy enforcement at reasonable cost.

Introduction of new elements:

- Different products – thought should be given, it was suggested, to offering a wider menu of choice to IPR applicants. For example:
 - Higher fees could be charged to those who opt to have a full examination. They will be paying for more certainty.
 - Lower fees could be charged to those who opt not to have full examination. They would be opting for speed over certainty.
- This idea, however, did not meet with unanimous approval. It was argued that this proposal ignored the importance of certainty to third parties who would wish to know if it is “safe” to invest in competing, substitute products.

- Pricing mechanisms – to stimulate use of the IPR system for what it was originally intended
 - A suggestion was made to consider some sort of pricing ratchet – whereby one’s first patent(s) would cost very little, but the price would ratchet up as the portfolio got bigger.
 - On the one hand, this would help young companies starting out but on the other, penalise those in the business of assembling huge patent portfolio’s on a “if in doubt, patent” defensive strategy.
- There are practical objections surrounding implementability, as well as outright objection to the principle, but there remains scope for considering further a proposal in this regard.

Looking forward

It was felt that the workshop had been sufficiently rewarding as to merit a follow-up in the spring. The second workshop, it was envisaged, would seek to include stronger representation from industry and from the financial community, and to consider what high level political issues arise from the structure of IPR. It would also seek to identify recommendations that carried the strongest and broadest inter-disciplinary backing.

Richard Youngman, January 2003