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The Protection of Utility Models in the Single Market

(presented by the Commission)

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Summary and questions

Legal protection of industrial property (patents, trademarks, design rights and utility models) in the single market has an important role to play: it has to promote innovative activity in the European Union, so as to ease the path from the initial idea to the successful translation of that idea into practice. The simpler and clearer such arrangements are for the user, the more they will facilitate innovation, providing effective protection for inventions. At the same time they ensure that competitors are kept informed of new developments by publication of the protected invention. This increases the competitiveness of European companies and helps to achieve the objectives of free movement of goods and undistorted competition.

A "utility model" is a registered right which confers exclusive protection for a technical invention. It resembles a patent in that the invention must be new - it must possess "novelty" - and must display a measure of inventive achievement - it must involve an "inventive step", though frequently the level of inventiveness required is not as great as it is in the case of patents. Unlike patents, utility models are granted without a prior search to establish novelty and inventive step. This means that protection can be obtained more rapidly and cheaply, but that the protection conferred is less secure. Utility model protection is at present entirely a matter of domestic law.

The Commission has been looking into whether the establishment and operation of a single market requires measures to be taken in respect of utility models at Community level, and if so what measures are needed to harmonize the law on utility models in the interests of the single market.

The need for action

Some form of utility model protection exists in France, Belgium, Portugal, Ireland, Italy, Spain, Germany, Denmark, Greece, the Netherlands, Finland and Austria. There are no comparable rights in the United Kingdom, in Sweden or in Luxembourg. A comparison of the national systems shows that there are wide differences between the requirements for utility model protection; the differences are such that as things stand it would not be practicable to apply those systems in a cross-border context.

No steps have so far been taken at Community level. This means that for inventions involving only a small inventive step no Community-wide protection is available; indeed no proper protection at all is available in the countries where utility models have not been legislated for. The Commission has accordingly studied the economic significance of utility model protection in order to establish whether these differences have a negative impact on the objectives of free movement of goods and undistorted competition.

The economic significance of utility model protection now and in future

In order to arrive at an estimate of the economic significance of utility model protection the Commission has considered the rate of utilization of the existing systems (looking at frequency, size of firm, and reasons for applying), and developments in innovative activity.

The first observation to be made is that utility models provide a very popular form of protection. There are roughly as many applicants for utility models as there are for patents. A comparison of the various national systems shows that greater use is made of systems which require only a small inventive step than is made of those where the inventive step required is the same as what would be needed for a full-scale patent. As the single market is consolidated we can expect an increase in demand for utility models and especially in cross-border applications.

An industry-by-industry breakdown of utility model applications in the European Union shows that the industries most often concerned are mechanical engineering, electrical engineering, and precision instruments and optics. Interest is even higher among small businesses and individual inventors than it is in big industry.

In a study of applications for utility models the main reasons cited for seeking this form of protection were as follows:

- quick, simple registration;
- less stringent requirements than for patents;
- low cost;
- temporary protection pending the grant of a patent.

The spectrum of reasons is thus very broad. The utility model is sometimes preferred where the applicant is not at all sure he will be able to market the invention, and therefore wants to keep his costs as low as possible. But it is also used for inventions which are particularly exposed to the danger of imitation and consequently of great importance to the performance and competitiveness of the applicant company. And the utility model is used where a patent would provide only inadequate protection or no protection at all, for example because it would take too long to obtain, or because the inventive step is too small. This means that whatever the size of the firm the perceived effects of a utility model are very positive: in the first place an improved market position and in the second place a direct increase in earnings.

An analysis of the perceived importance of inventions reveals that small businesses are particularly conscious of the need to intensify their innovative activity to stand up to increased competition. They feel that inventions involving small inventive steps or short periods of exploitation will grow in importance in future; this would bring an expansion in demand for protection which can best be met by utility models. Only a small proportion - no more than 10% - of those questioned in firms of all sizes and in all industries expected a fall in the proportion of such "petty" inventions in future.

In view of the results so far it is not surprising that manufacturers, inventors and patent lawyers all see a great economic need for a unified system of utility models in the European Union. A breakdown by size of firm shows that there is particularly strong interest among smaller businesses with 500 employees or less.

Effects on the common market

Member States are basically free to design utility model systems as they will, provided the measures they take are not a means of arbitrary discrimination or a disguised restriction on trade between Member States. At present, therefore, different rules may be enacted in different countries, and Member States may decide to do without utility model protection altogether.

An intellectual property right conferred by the law of a Member State provides protection only on the territory of that State. In the absence of any unification of the law, therefore, the holder of such a right can prevent third parties from importing protected goods which have been produced and marketed without his consent. Thus the intellectual property rights conferred by the Member States can of their nature be used to hinder the free movement of goods.

The differences between the systems of protection are outside the control of the right-holder and force him to avoid markets in which he cannot obtain equivalent protection for his invention. Given the economic significance of utility models, this erects barriers between markets inside the European Union. Thus the differences which exist have a direct adverse effect on trade within the Community, and on firms' capacity to treat the common market as a single setting in which to do business. The free movement of goods is obstructed, with practical disadvantages for those concerned.

If firms are to take advantage of the fundamental freedoms laid down in the EC Treaty, the intellectual property rules must allow fair competition between them. Given the differences which exist at present, companies or individual inventors wanting to exploit an invention in several States have to familiarize themselves with a number of different systems or take expensive advice in each of the Member States concerned.

The situation may be bearable in the case of big companies that can invest large sums of money in the promotion and protection of their inventions. For individual inventors and for small businesses the differences they have to deal with and the consequent need for legal advice are an administrative problem and often an insuperable cost factor. This restricts innovative activity on the part of such businesses and consequently distorts competition.

It is not surprising, then, that companies and individual inventors should complain that they encounter serious difficulties in the cross-border enforcement of utility model protection. The problems are growing with increasing export intensity.

Community objectives and economic need

In view of the great economic need the maintenance of the existing situation would not be desirable; it would run counter to the idea of a Europe which is drawing closer together. It would not allow the achievement of free movement of goods and undistorted competition.

To ensure that the single market becomes a reality and operates smoothly, the Commission must respond to the present and future economic need.¹ The development of innovative activity in the European Union, which has been marked by a trend towards smaller inventive steps, greater cost-sensitivity, shorter production and marketing cycles and a shorter lifetime for inventions, is generating increased demand for a form of protection that offers fast, simple and inexpensive protection for technical inventions in the European Union.

To remedy these shortcomings, measures are needed at Community level, with the following main objectives:

- protection to be provided for short-lived technical inventions,
- protection to be provided for technical inventions which involve only a small inventive step,
- protection to be obtainable rapidly,
- protection to be obtainable simply,
- protection to be inexpensive, and
- publication to be rapid, so that the public is informed quickly.

¹ This approach has already produced measures to protect new technologies, as in the case of biotechnology, and to adapt existing systems of protection to changing needs, as in the case of pharmaceuticals.

Measures required

The European Commission is required to put forward those proposals for the approximation of laws which are needed for the establishment of the internal market. The Commission has accordingly considered both the form which any legislation might take and the substance of any Community-level arrangements in respect of utility model protection.

Form of legislation to harmonize utility model protection

Several options are open here.

Firstly, the national systems of protection could be brought into line by means of a directive. Harmonization of this kind would not be confined to removing the differences between the existing rules, but would also introduce utility model protection in those countries where it does not currently exist. This would establish a package of national rights. Each of these rights would continue to be confined to the territory of one Member State.

The results so far obtained in surveys of patent lawyers acting as advisers and of companies and individual inventors show that a majority would like to see a user-friendly system whereby protection could be secured in three to five Member States by means of a single application. This cannot be achieved simply by aligning national law.

The Commission takes the view, therefore, that harmonization of national systems would go some way towards improving the situation, but would not solve all the problems which arise.

The Commission accordingly feels that consideration should be given to measures which go beyond straightforward harmonization.

One possibility would be to supplement the harmonization of domestic law with mutual recognition of the protection granted by Member States. National rights and national registration offices would continue in being, but cross-border protection in the European Union could now be obtained by means of a single application.

Another possibility would be to adopt a regulation establishing a new Community protection right; as Community law, such a regulation would rank above the national systems, but would not replace them. A right obtained under Community law would be valid directly in all Member States. Protection throughout a territory comprising all the Member States could then be secured by means of one application and one set of proceedings at one Community office.

But it must be borne in mind that the unification of the common market is a process which is still going on, particularly as the European Union has been recently enlarged to take in Austria, Sweden and Finland. A combination of different possibilities might be the best way of ensuring that a future system was even better tailored to the needs of the single market. As with trade marks and designs, then, a directive harmonizing national systems of protection might be combined with a regulation establishing a new single utility model right.

Substance of Community-level protection of utility models

Utility model protection exists in twelve out of fifteen Member States. All these systems provide for a registered right for technical inventions without prior search to establish novelty and inventive step. The Commission is of the opinion that these common features should form the basis of a Community-level scheme.

In other respects the existing systems differ widely, and the Commission takes the view that here all the possibilities will have to be considered. The critical points are the level of inventiveness; the three-dimensional form requirement; excluded inventions; novelty; industrial applicability; procedure; effect of the protection right; transfer; continuance; infringement; and dual protection (where an invention is protected both by a patent and by a utility model).

At this stage in its inquiries the Commission feels it would be reasonable to deal with these points as follows :

- The level of inventiveness required could be lower than in the case of patents; this is the only way of allowing for the changing demands of inventive activity.
- The three-dimensional form requirement could be abolished: the reasons for its introduction are historical, and it does not meet any modern need.
- Compositions of substances could be eligible for utility model protection; as regards substances proper, and process inventions, the Commission proposes to await the reaction of interested parties.
- The novelty of an invention could be determined by reference to the state of the art; this should not be restricted to the territory of a particular Member State, as that would run counter to the objective of a single market.
- There could be a twelve-month grace period for novelty, along the lines of Article 8 in the Community design proposal.
- Industrial applicability could be regulated in accordance with Article 57 of the European Patent Convention.
- The procedure for the grant of the right could be based on Articles 78 to 85 of the European Patent Convention; there would be no prior search to establish that all the requirements are met, but the application would be examined to establish that *prima facie* it may qualify for protection.
- An optional search would be possible, however, in order to increase certainty as to the legal position.
- Rights of use and of prohibition and their exhaustion could be regulated in line with what is done in patent law in the Member States; a limit to the number of claims might be envisaged.
- A registered right could be transferred without restriction.
- The grounds for extinction and nullity could be regulated in line with patent law in the Member States.
- The term of protection should be short: the maximum duration could be 10 years, which could be reached by renewal in steps of several years. This would be an effective way of offsetting the less stringent admissibility requirements.
- Where it is claimed that a utility model has been infringed it should be open to the court to order a search report, in order to establish whether the disputed invention qualified for protection; this would help to fill the gap left by the absence of a prior search.
- In order to avoid placing the right-holder in too strong a position, there could either be a prohibition on dual protection by both a patent and a utility model, or a ban on invoking the two successively.

The scheme being proposed here is intended for inventions where the innovative element is fairly modest. The inventive step may be small; or the period of protection needed may be short; or the possibility of industrial application may be limited.

The Commission takes the view that a system of this kind would be a useful complement to patent protection, and would help to boost innovative activity and hence the competitiveness of European companies doing business on the single market. This would further improve the operation of the single market.

The Commission has not yet reached a definitive view. The results arrived at so far will have to be discussed with interested parties before the Commission takes any further action at Community level.

Questions to interested parties are set out below; full answers to these questions will enable the Commission to make a better assessment of whether any action should be taken at Community level, and if so what form it should take.

The Commission therefore asks interested parties to take the trouble to answer the questions carefully.

QUESTION 1: *On the basis of its inquiries so far the Commission has come to the following assessment of the economic significance of utility model protection.*

(a) System of protection: *Among the existing systems of protection, the one most readily accepted is that which calls for a smaller inventive step than does a patent and which largely dispenses with the requirement that the invention be embodied in three-dimensional form.*

(b) Economic sector: *Utility model protection is most frequently taken advantage of in the mechanical engineering, electrical engineering and precision instruments and optics industries.*

(c) Size of firm: *Interest in utility model protection is somewhat greater among small and medium-sized firms and individual inventors than it is among large companies.*

(d) Reasons for applying: *Studies have identified the following as the main reasons for seeking utility model protection:*

- * quick, simple registration
- * less stringent requirements than for patents
- * low cost
- * temporary protection pending the grant of a patent.

(e) Future developments: *In the industries which file most utility model applications, the protection of inventions involving only a small inventive step and with a short lifetime will grow in importance in future, especially for small and medium-sized businesses, but for large companies too.*

The Commission asks interested parties to comment.

QUESTION 2: *The Commission asks interested parties to say whether in their view the wide discrepancy between the economic significance of utility models in different Member States, and the differing rules governing them, obstruct the free movement of goods and distort competition in ways which cause them practical disadvantage.*

