

ANNEX III

COMMENTS ON THE REPORT ON THE INTERNATIONAL PATENT SYSTEM
RECEIVED FROM MEMBERS AND OBSERVERS OF THE SCP

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COMMENTS

GENERAL

1. Congo

The patent system, which is considered a general policy instrument, was created, in principle, to confer exclusive rights that would offer sufficient encouragement to private interests to create public goods. It goes without saying that improvements in the international patent system in favour of WIPO Member States, which have taken place through the gradual harmonization of national patent legislation, should preserve, as standard, public interest clauses. In terms of the importance that this session had for the economic development of our country, the Republic of the Congo, it would be desirable for a number of experts or technicians from areas such as public health, agriculture and the environment to be truly involved so that national objectives are in line with the deliberations of the next session. Furthermore, it is suggested that the ministry responsible for industrial property creates a forum for discussion between private entrepreneurs and the above-mentioned public administrations in order to facilitate relevant dialogue.

Document SCP/12/3 is still valid and unchanged, although gradual work must be done to take into account the four balanced themes which act as a focal point for substantive discussions and allow us to have such discussions.

For clarity, we have used Article 29 of the TRIPS Agreement as a basis, which sets out the conditions imposed on patent applicants.

2. Computer and Communications Industry Association (CCIA)

The Computer and Communications Industry Association wishes to commend WIPO for undertaking this report for the Standing Committee on Patents. This synthesis of current conditions and issues is a landmark first step in reorienting WIPO towards further understanding of how intellectual property functions in the global economy and how patent law regimes can be improved or reformed to better meet agreed-on goals. We believe that WIPO should take a leadership role in integrating economic and legal analysis in collaboration with other organizations that show a genuine commitment to disinterested research and analysis. We hope that WIPO will build capacity both in-house and in engaging the broader community of researchers and stakeholders.

We offer the following on this initial report in the spirit of assembling a more coherent common understanding of the strengths and weaknesses of the patent system. We mean “system” in a broader sense, not just as a collection laws and bureaucracies, but as an economic tool employed by economic actors that should lead to economically beneficial outcomes.

With this in mind, we focus on a set of issues that would benefit from closer attention. The central theme here is the fact that there are substantial differences among different technologies – and thereby different industries - in how patents are used and experienced. CCIA’s experience centers on information technology and its applications, so we have a special concern for some issues that may not be seen as troublesome in other areas. We believe that the report needs shed light on these problems and the tensions increasingly apparent within a one-size-fits-all patent system (especially since these tensions are thwarting

a major effort at patent reform in the United States). We also note that the European Patent Office's (EPO) Scenarios Project recognizes many of these challenges in the "Blue Skies" Scenario.

In many respects, these differences revolve around the structural differences between complex-product technologies such as information technology and discrete-product technologies, such as pharmaceuticals and chemicals. Under present standards, complex products may include thousands of patentable functions or components, while a discrete product may be protected by a single primary patent. Accordingly, information technology is characterized by large numbers of relatively low-value patents while pharmaceuticals are characterized by a smaller number of high-value patents.

Thus demand for patents appears to be very high in information technology, but in fact patents play a far lesser role than they do in pharmaceuticals. IT companies want "freedom to operate" in order to build complex products and services without being blocked by the many patents that belong to others. They assemble large portfolios to be used defensively if and when they are threatened with infringement actions by competitors. This deterrent effect is reminiscent of a nuclear arms race, and is often referred to as "mutually assured destruction." Large companies commonly cross-license with each other, often with balancing payments to adjust for the size of their respective portfolios. Cross-licensing is problematic for a field like software, however, where there are a large number of different-sized, differently-situated companies.

From a policy perspective, the evolution of the patent "portfolio" as the relevant frame of reference (as opposed to the individual patent) is likely to discourage new entrants. Conventional wisdom says that patents protect startup companies – and within a narrow ambit, this may still be true. But a startup that wants to develop fully functional products (rather than just technology to license to others) will need access to the patents of others, possibly large numbers of patents. In that respect, portfolios serve as barriers to entry for newcomers while reinforcing the market positions of incumbents.

The high volume of patents in complex-product technologies such as IT creates fertile ground for a major problem: non-practicing entities, commonly referred to as "trolls." The troll problem has several dimensions that need further explanation

First, portfolio-driven demand, especially when combined with low inventive-step standards and inadequate patent office review, results in large numbers of trivial or questionable patents. This diminishes the value of patent information in IT and ultimately make product clearances prohibitively expensive. As a consequence, patents are ignored unless the patent owner asserts them. Thus, independent invention is commonplace, and inadvertent infringement is the inevitable result. (Recent empirical research shows that copying is rare in patent litigation, and especially rare in IT.) This is especially problematic for software, where the high search, information, and transactions associated with clearance simply overwhelm the relatively low cost of authoring software.

The discussion of patent information in the report is especially deficient in this respect. This section is lacking in documentation and expresses unsubstantiated faith in the usefulness of patent information without differentiating among fields.

In fact, the virtual opacity of the information environment in IT creates opportunities for arbitrage. Trolls can assert what were once low-value patents against companies that produce complex products that may inadvertently incorporate the trivial technology covered by the

patents. The longer the troll waits, the more fully the technology is adopted and embedded, the more leverage the troll has. The leverage reaches an extreme in the case of standards embedded in products all across an industry. This extreme vulnerability also needs to be brought out in the discussion of standards and patents.

The development of markets for technology hailed in the report has a major downside in that patents are often most valuable in hands of trolls. When companies fail – as most startups do – patents are sold off as the remaining assets. These patents enter patent markets where they can be acquired knowing or speculating that they are being infringed by someone somewhere.

Finally, the discussion of subject matter gives short shrift to the patentability of computer programs, which continues to provoke legal, economic, and political controversy. Much of the controversy can be explained as extreme version of the problem set faced by IT generally, but in some ways software is unique: Copyright is available for software, which may further diminish the value of patents, and copyright appears to fit better with the high degree of simultaneous innovation that takes place in software. Only software is suited to open source models of development and distribution. For this reason, standards organizations focused on information and software standards (W3C, OASIS) prefer royalty-free licensing since it does not discriminate against open source models.

Much of the global economy is dependent on IT. It is important that WIPO members understand the economic dynamics around patents in information technology – including the possible solutions to the problems they present. To recapitulate, these include:

- differences among technologies, especially between complex and discrete products
- conflict between standards and patents
- direct costs, distorted incentives, and unintended effects created by portfolio practices
- the limited value of patent information in an overheated patent environment
- the destructive potential of patent arbitrage against producers and service providers
- the extent to which software should be patentable subject matter.

Considerably more could be said about patents and standards, but since that has been designated one of four priority areas for future work, we will furnish detailed comments once plans are made public.

We would be happy to furnish references and further explanations for these comments. Thank you for the opportunity to contribute to this much-needed agenda.

3. Third World Network (TWN)

From the WIPO Patent report, it seems that the push for an international patent system is premised, broadly on the following (1) that the patent system is the only credible incentive model that fosters innovation; (2) that the patent system facilitates technology development and diffusion and investment flows and an international patent system would further facilitate technology transfer and investment; (3) that patent offices are unable to deal with the demands of search and examination, resulting in a severe backlog and affecting the quality of patents granted and an international patent system would help with this problem.

However, the WIPO report in what appears to be its attempt to justify the abovementioned premise, neglects (on many occasions) to provide a more comprehensive view of the issues. It is also the case that in several instances the Report addresses the issue

from the perspective of developed countries and fails to take into account the perspectives and interests of developing countries and adequately appreciate the different levels of development and technological capacity that exists among developing countries. The Report also often presents simplified arguments to support its premise, and these arguments are made on the basis of assumptions without much evidence to support its contention.

In any case a read of the comments below will show quite clearly that the premise presented in the WIPO report is either flawed, or too simplified as it fails to consider all aspects in particular the interests of developing countries.

This is not to say, that the WIPO report does not address public interests or development related concerns. It does so, but in a very limited manner, despite concrete examples of the often adverse impact of the TRIPS Agreement, which should raise many questions about the desirability of an international patent system.

Comments are only made on some parts of the WIPO Report however this should not be taken to mean that there is agreement on parts which have not been commented on.

CHAPTER II. ECONOMIC RATIONALE FOR PATENTS AND DIFFERENT INTERESTS AND NEEDS IN THE INTERNATIONAL PATENT SYSTEM

4. Third World Network (TWN)

Chapter II provides 3 economic rationales for the patent system: (i) incentive to innovate; (ii) disclosure of knowledge in the public domain; (iii) technology transfer, commercialization and diffusion of knowledge.

Incentive to innovate

The WIPO patent report addresses (i) in paragraphs 28 to 33. It states that the “challenge for the policy makers is to design an optimal protection that will provide enough incentives to investment in innovative activities and at the same time minimizes the deadweight loss caused by the monopoly situation” and that the patent system seems to be the only solution that “corrects the market failure by restoring the incentives to innovate” (para 33).

In reality achieving optimal protection through the patent system is easier said than done, since “the optimal degree of patent protection cannot be accurately defined”.¹ It depends on many factors and the optimal degree of protection (where the social benefits exceed the social costs) would also “vary widely by product and sector and will be linked to variations in demand, market structures, R&D costs and the nature of the innovative process”.²

In addition, the assumption is that in developing countries, there is innovative capacity that is waiting to be exploited. Although the reality is that even if patents are an incentive, in

¹ Report of the Commission on Intellectual Property Rights (2002), “Integrating Intellectual Property Rights and Development Policy” (CIPR), p. 16

² CIPR p. 16

most developing countries the innovation systems (of the type seen in developed countries) are extremely weak and even if such capacity exists, they usually exist in the public sector.³

Furthermore, developing country entities are also unable to bear the cost of acquiring and maintaining the patent right and defending its right using the legal system and in the event of litigation. Then there are “transaction costs” i.e. for establishing and maintaining the infrastructure of an IP regime, i.e. mechanisms for the grant and enforcement of the IP regime, which can be difficult for developing countries (which usually face scarce human and financial resources) to bear.

In developing countries whether or not the patent system galvanizes innovation depends on many factors. It is obvious for developing countries there is significant costs associated with opting for the patent system as an incentive mechanism.

Finger, the former chief of trade policy research in the World Bank, estimates that the obligations on developing countries to implement TRIPS will result in the increased payments by them of US\$60 billion a year.⁴ It further estimates that the net annual increase in patent rents resulting from TRIPS for the top 6 developed countries will be US\$41 billion (with the top beneficiaries being the US with \$19 billion, Germany \$6.8 billion, Japan \$5.7 billion, France \$3.3 billion, UK \$3 billion and Switzerland \$2 billion). Developing countries that will incur major annual net losses include South Korea (\$15.3 billion), China (\$5.1 billion), Mexico (\$2.6 billion), India (\$903 million) and Brazil (\$530 million).⁵

Many academics, economists have been critical about IPRs generally and patents specifically since these rights are about creating restrictions on competition and raised concern about its impact on developing countries.⁶

The role of the patent system in fostering innovation should be treated cautiously; something which para 28-33 of the WIPO report fails to do.

The impact of the patent system as an incentive for innovation depends on many conditions such as significant market, sufficient capital, qualified personnel at the firm level and innovation-oriented entrepreneurs, as well as a solid scientific base open to collaboration with industry.⁷ There is also evidence that even when such conditions are met, IP may not promote innovation. For instance, a review of 23 empirical studies found weak or no

³ CIPR, p.16

⁴ Finger, J.M. (2002), “The Doha Agenda and Development: A View from the Uruguay Round”, Asian Development Bank, Manila. See also Khor, M., “Intellectual Property, Competition and Development” Intellectual Property Rights Series #7, Third World Network, 2005.

⁵ Finger, J.M. (2002), “The Doha Agenda and Development: A View from the Uruguay Round”, Asian Development Bank, Manila.

⁶ CIPR, p. 17-18; See also Panagriya, A. (1999), “TRIPS and the WTO: An Uneasy Marriage”; Bhagwati, J. (2001) Letter to Financial Times on TRIPS Agreement; Ha-Joon Chang “Intellectual Property Rights and Economic Development – Historical Lessons and Emerging Issues”, Intellectual Property Rights Series #3 Third World Network, 2001

⁷ For empirical studies on the factors that induce technological innovation and the role of IP, see generally “Technological Innovation and Economic Performance”, edited by Benn Steil, David G. Victor, & Richard R. Nelson (2002).

evidence that strengthening patent protection increased innovation, but rather the number of patents applied for.⁸

IP protection may be neutral to innovation even in high-tech sectors. In the Nordic countries the general opinion among managers of high-tech firms was that IPRs is not a crucial issue because in the high tech field the product cycle is so short that if you just imitate others “ideas your products will always be outdated and obsolete”.⁹

There is also evidence that patent protection has not delivered innovation for developing countries. For example the introduction or strengthening of patent protection for pharmaceutical products has not increased national or foreign direct investment, production or R&D in this field in developing countries.¹⁰ On the other hand the Indian pharmaceutical industry became a global producer of active ingredients and medicines in the absence of patents on such products, which was only introduced in January 2005, at the expiry of the transitional period allowed by the TRIPS Agreement.¹¹

There are also many examples of how the industrialised countries (when in the process of development) did not depend on the patent system but rather the lack of patents to promote innovation.¹² Only when the industrialized countries had a sufficiently mature technological base have they benefitted somewhat from the patent system.

Para 33 of the WIPO Report concludes that the “patent system” is the best incentive mechanism available and that other incentive mechanisms that may provide incentives for R&D without the monopoly costs are unattainable. It does so without discussing other incentive mechanisms and the pros and cons of such mechanisms and why they are unattainable.

It is worth noting and discussing the various other types of incentive mechanisms such as the open source models, prizes, which do provide incentives for innovation and yet do not suffer from the inefficiencies of the monopoly market power often associated with the patent system. Also as mentioned above, in some sectors the patent system plays a negligible role as an incentive.

The WIPO report must present a more accurate and comprehensive picture in relation to the patent system working as an incentive for innovation, for example at what stage of development and/or technological capacity and under which conditions does the patent system spur innovation. For example, in some countries such as the LDCs the patent system

⁸ Boldrin & Levine ‘Against Intellectual Monopoly’, 2007,
<http://www.dklevine.com/general/intellectual/againstnew.htm>

⁹ Virén, Matti and Malkamäki, Markku, (2002), “The Nordic countries”, in Steil, Benn; Victor, David and Nelson, Richard, (Eds), op. cit., p.222.

¹⁰ See, e.g., Ida Madieha Azmi and Rokiah Alavi (2001), ‘TRIPS, Patents, Technology Transfer, Foreign Direct Investment and the Pharmaceutical Industry in Malaysia’, *Journal of World Intellectual Property*, Vol 4 No. 6, November.

¹¹ See, eg., S Chaudhuri (2005), *The WTO and India’s pharmaceuticals industry. Patent protection, TRIPS and Developing countries*, Oxford University Press, New Delhi.

¹² See, e.g. Ha-Joon Chang “Intellectual Property Rights and Economic Development – Historical Lessons and Emerging Issues”, *Third World Network*, 2001; See e.g. Richard Gerster, “Patents and Development: Lessons Learnt from the Economic History of Switzerland”, *Third World Network* 2001; Boldrin & Levine ‘Against Intellectual Monopoly’, 2007.
<http://www.dklevine.com/general/intellectual/againstnew.htm>

would hardly be an effective incentive, thus the reason for Article 66 of TRIPS, which provides transition periods for LDCs. The WIPO report must delve deeper, and provide a more critical analysis of the patent system as an incentive for innovation.

Disclosure of knowledge in the public domain

The second rationale of the patent system is discussed in para 37-40. It is indeed true that one of the bargains within the patent system is that patent holders are required to disclose information relating to the invention.

However in discussing the benefits of such disclosure, the Report does not make a distinction between developed and developing countries. For developing countries, the benefits of disclosure are limited particularly since most developing countries would not have sufficiently mature technological bases, to be able to exploit the patent information. In addition what is needed to facilitate innovation in developing countries is the transfer of skills and sharing of know-how, which is not enabled by the patent system.

Furthermore if a patent that is granted is overly broad or the information is not adequately disclosed the patent information will not stimulate innovation. A German professor of patent law, Friedrich-Karl-Beier determined that only a small percentage of inventions being patented were being publicly disclosed in a sufficiently clear manner.¹³

WIPO Report should discuss these issues.

Technology transfer, commercialization and diffusion of knowledge

The third rationale of the patent system is discussed in para 41-46 of the WIPO Report. Paragraphs 41-44 do not provide adequate critical thinking on the role of the patent system in facilitating technology transfer to developing countries. What it presents is a rosy picture of how technology transfer is facilitated through licensing of patents, mentioning the huge amounts of money generated from technology licensing in developed countries. But this is hardly surprising since the patent holders are largely from the developed countries. What it fails to critically analyse is technology transfer from the perspective of developing countries i.e. whether the patent system enables or hinders access to technologies noting that developing countries are largely importers of technology.

In para 45 the Report presents empirical data of technology transfer via trade and to support this argument the studies of Maskus and Penubarti (1997) have been quoted. These studies argue that imports are a form of technology transfer and that patent protection in the developing countries enables these imports.

On this issue and on the study, the comment in the Report of the UK Commission on Intellectual Property Rights titled “Integrating Intellectual Property Rights and Development Policy” (CIPR report) should be noted: “But strengthening IPRs is also particularly effective in increasing imports of low technology consumer items and is associated with the decline of indigenous industries based on imitation. This effect is clearly a mixed blessing for a developing country. It may be that there is access to more high technology imports previously withheld for lack of IP protection but the costs may be very substantial in terms of

¹³ Richard Gerster, “Patents and Development: Lessons Learnt from the Economic History of Switzerland”, Third World Network 2001

lost output and employment, or even retarded growth. This issue is now a very real one in countries such as China.”¹⁴

The CIPR report comment brings into question the whole idea of treating imports as a form of technology transfer as such imports come at the cost of developing capacity locally and producing the products through reverse engineering, which in turn creates employment and growth for the country.

In para 46, the Report speaks of the positive relationship between IP and FDI flows on the assumption that with FDI, technology transfer will follow. It quotes several studies in support of its argument. These studies are focused on how strengthened IPR protection in developing countries, will generate FDI from developed countries and encourage technology transfer by US multinationals to developing countries. Of course the assumption made is that an increase of FDI (in all its forms) is always very beneficial to developing countries, but this assumption is itself disputed.¹⁵

Evidence on a clear cause-effect relationship between strengthened IP protection and FDI is inconclusive. According to Gerster, “Economic history does not support this view” and that “Other factors are far more decisive”.¹⁶ He also adds that “Foreign investors are particularly attracted by market size – in countries such as India, China or Brazil, for example – even when conditions do not correspond to textbook descriptions of a market economy. Small countries, on the other hand are frequently regarded as marginal and unattractive, even when they have created admirable market conditions”.¹⁷

A UN study on IPRs and FDI has also found that there is an insufficient linkage between patents and FDI.¹⁸ It also found that cost, market size, levels of human capital and infrastructure development and broad macro-economic conditions were more important considerations. For example China¹⁹ and India²⁰ have had very large FDI inflows when they had low levels of IP protection. In contrast African countries have relatively high levels of IP protection but receive low levels of FDI.

¹⁴ CIPR, p. 26

¹⁵ Woodward, D., “Financial effects of Foreign Direct Investment in the Context of a Possible WTO Agreement on Investment” (2003), TWN Trade and Development Series #21; see also “Foreign Investment and Sustainable Development: Lessons from the Americas”(2008) available at http://ase.tufts.edu/gdae/WorkingGroup_FDI.htm

¹⁶ See e.g. Richard Gerster, “Patents and Development: Lessons Learnt from the Economic History of Switzerland”, Third World Network 2001. See also CIPR report, p. 26 which states “As regards the analyses of the impact on foreign investment, we have similar reservations. There is a considerable literature which discusses the extent to which stronger IPRs influence foreign investment, licensing behaviour and the transfer of technology. Much of this literature reaches only tentative conclusions, because of weaknesses in data or methodology.”¹⁶

¹⁷ Richard Gerster, “Patents and Development: Lessons Learnt from the Economic History of Switzerland”, Third World Network 2001

¹⁸ “Intellectual Property Rights and Foreign Direct Investment”, United Nations, New York, 1993

¹⁹ Professor Jagdish Bhagwati, Testimony before U.S. House of Representatives Committee on Financial Services, April 1, 2003, <http://www.columbia.edu/~jb38/testimony.pdf>

²⁰ <http://www.oup.com/isbn/0-19-567482-0?view=in>

Likewise despite Canada's and Italy's lack of patent protection at various times they had no trouble attracting FDI according to the United Nations Development Programme (UNDP).²¹

A study by Malaysian academics found that "although Malaysia has relatively strong patent laws which are of world standard, foreign investment into the pharmaceutical industry has been negligible".²² Even when Malaysia increased its intellectual property protection to comply with WTO requirements in 2000 there was no increase in the number of foreign pharmaceutical companies setting up factories in Malaysia.²³

The same study asked multinationals why they did not invest in Malaysia and the reasons given were because the Malaysian market is relatively small so it is not profitable nor economically viable to have large scale foreign direct investment in Malaysia.²⁴ Furthermore according to the MNCs there was a lack of other forms of fiscal incentives such as tax incentives.²⁵

The study concluded that "patent laws are relatively unimportant to foreigners in determining whether to invest in Malaysia or not" and that patent law "should not be seen as the sole attraction for foreign direct investment" and that "Other factors must also be taken into account".²⁶

Thus the link between strong IP protection and FDI flows and consequently to technology transfer is tenuous and inconclusive. In fact, high levels of IPRs protection may lead IP holders preferring exportation of the final product rather than investing in or transferring technology to a foreign country.²⁷ This in turn may deter industrial development and technology catch up.

The WIPO patent report is focused on showing how strengthened IP regimes in developing countries leads to technology transfer by entities in developed countries. However a discussion on technology transfer as the economic rationale for IP is incomplete, if the report does not discuss to what extent IPRs helps or hampers developing countries gain access to technologies and foster technological catch up.

²¹ Human Development Report 1999, UNDP, pg. 73. See also Richard Gerster, "Patents and Development: Lessons Learnt from the Economic History of Switzerland", Third World Network 2001

²² Ida Madieha Azmi and Rokiah Alvavi, "TRIPS, Patents, Technology Transfer, Foreign Direct Investment and the Pharmaceutical Industry in Malaysia", Journal of World Intellectual Property, Vol. 4 No. 6 November 2001

²³ Ida Madieha Azmi and Rokiah Alvavi, "TRIPS, Patents, Technology Transfer, Foreign Direct Investment and the Pharmaceutical Industry in Malaysia", Journal of World Intellectual Property, Vol. 4 No. 6 November 2001

²⁴ Ida Madieha Azmi and Rokiah Alvavi, "TRIPS, Patents, Technology Transfer, Foreign Direct Investment and the Pharmaceutical Industry in Malaysia", Journal of World Intellectual Property, Vol. 4 No. 6 November 2001

²⁵ Ida Madieha Azmi and Rokiah Alvavi, "TRIPS, Patents, Technology Transfer, Foreign Direct Investment and the Pharmaceutical Industry in Malaysia", Journal of World Intellectual Property, Vol. 4 No. 6 November 2001

²⁶ Ida Madieha Azmi and Rokiah Alvavi, "TRIPS, Patents, Technology Transfer, Foreign Direct Investment and the Pharmaceutical Industry in Malaysia", Journal of World Intellectual Property, Vol. 4 No. 6 November 2001

²⁷ See CIPR, pg. 27-28

There is evidence that patent protection has hindered access to technologies.²⁸ For example, a study conducted by Watal of the effect of IPRs on technology transfer, in the case of India, in the context of the Montreal Protocol²⁹ concluded that “Efforts at acquiring substitute technology have not been successful as the technologies are covered by IPRs and are inaccessible either on account of the high price quoted by the technology suppliers and/or due to the conditions laid down by the suppliers. This would require domestically owned firms to give up their majority equity holding through joint ventures or to agree to export restrictions in order to gain access to the alternative technology.”³⁰ The financial assistance to acquire the technology was also not effective. In India, Korea and China, production is dominated by local-owned firms, for which the access to ozone-friendly technology on affordable terms was a central issue of concern.

The study refers to the case of Indian producers wanting to switch to refrigerators that use HFC134a (in order to replace CFCs, which are ozone depleting) for domestic and export sale. However, their efforts to access the technology were unsuccessful. One Indian company that sought access to the technology was quoted a high price of US\$25 million by a transnational company that produces HFC 134a and that holds a patent on the technology. The supplier also proposed two alternatives to the sale, namely, that the Indian firms allow the supplier to take majority ownership in a joint venture to be set up, or that the Indian firms agree to export restrictions on HFC 134a produced in India. Both options were unacceptable to the Indian company as the quoted price was unrealistically high.

There are also numerous situations where weak IP regimes have actually facilitated access to foreign technologies, allowed reverse engineering to take place, resulting in strengthened indigenous technological capacity.

For example prior to 1970 when India allowed patent protection for pharmaceuticals, MNCs dominated the supply of medicines and the Indian manufacturers only supplied 32% of the Indian market.³¹ In 1970, the Indian law was amended and patents on pharmaceutical products were not allowed. Over the years the share of the Indian pharmaceutical market supplied by domestic companies increased to 77%. India also moved from being a net importer of medicines to a net exporter with exports worth US\$3177 million in 2003-4. It exports to 65 countries including developed countries such as the USA and Europe and developing countries. India has the most US Food and Drug Administration approved manufacturing facilities outside the US, which indicates the high technology and quality standards achieved by Indian manufacturers when IP protection was lowered. It should also be noted that between 1970 and 1995 India received significant amounts of FDI.³²

Likewise, in Switzerland in the 1880s two of Switzerland’s most important industries, chemicals and textiles were strongly opposed to the introduction of patents as it would restrict their use of processes developed abroad. Steiger (a textile manufacturer) commented that

²⁸ Khor, M., “Intellectual Property, Competition and Development (2005), Intellectual Property rights series #7

²⁹ The Montreal Protocol on Substances That Deplete the Ozone Layer is an international treaty designed to protect the ozone layer by phasing out the production of a number of substances believed to be responsible for ozone depletion.

³⁰ Jayashree Watal (1998), “The issue of technology transfer in the context of the Montreal Protocol: Case Study of India”.

³¹ See, eg., S Chaudhuri (2005), *The WTO and India’s pharmaceuticals industry. Patent protection, TRIPS and Developing countries*, Oxford University Press, New Delhi.

³² <http://www.oup.com/isbn/0-19-567482-0?view=in>

“Swiss industrial development was fostered by the absence of patent protection. If patent protection had been in effect neither the textile industry nor the machine building industry could have laid the foundations for subsequent development nor would they have flourished as they did”.³³ Benziger (a manufacturer) noted that “Our industries owe their current state of development to what we have borrowed from foreign countries. If this constitutes theft, then all our manufacturer are thieves.” In 1907 Switzerland had to allow patents on chemical processes or Germany would have imposed trade sanctions. In the debate Federal Councillor Brenner told the Parliament “In our deliberations on this law, we would do well to bear in mind that it should be framed in such a way that it is adapted to the needs of our own industries and conditions in our own countries. These considerations, rather than the demands and claims for foreign industries, must be our primary concern in shaping the law.”³⁴

Similarly because the Netherlands abolished its 1817 patent law in 1869, Philips was able to start its production of light bulbs in 1891 in the Netherlands without having to worry about infringing Edison’s patents.³⁵

Of course the TRIPS Agreement now restricts (to a certain extent) the ability of developing countries to follow this path. However such examples provide a more comprehensive view of the patent system and to what extent it enables or hinders transfer of technology, technological catch up and development of industries. What is obvious from the abovementioned examples is that the lack of patent protection in the now-industrialised countries and in developing countries played a major role in strengthening local capacity.

WIPO report in part (v) on “Need for Further Investigation” (para 60-61) states that a majority of the studies on the economic rationale for a patent system are focused on developed countries and that the effect of a stronger patent system on stimulating innovation, especially in developing countries is open to debate. However as shown above, discussion on IP and technology transfer in the WIPO report does not even present the existing examples of how the now-industrialised countries developed their industries when they were in the process of development. As discussed above many of the now-industrialised countries had weak IP regimes (i.e. no patent protection) to facilitate access to technologies. Only when these developed countries had a sufficiently mature industry and became generators of technology, did they benefit from the patent system.

While further investigation may be needed as mentioned in para 61, Chapter II of the WIPO report fails to capture data and studies that are already available, in relation to what extent the patent system helps or hinders developing countries in their process of development. Also to show concretely the link between IP and innovation and technology transfer, the WIPO report must disclose the patent policies that the now-industrialised countries followed (when they were in the process of development), that led to major technology development. They should also explore and disclose the pathways (in relation to IP protection) that certain developing countries followed such as the case of the Indian pharmaceutical industry, the cases of the east asian economies such as Japan, Korea and

³³ Gerster Richard “Patents and Development: Lessons Learnt from the Economic History of Switzerland”, Intellectual Property Rights Series #4, Third World Network, 2001

³⁴ Gerster Richard “Patents and Development: Lessons Learnt from the Economic History of Switzerland”, Intellectual Property Rights Series #4, Third World Network, 2001

³⁵ “Bad Samaritans: Rich Nations, Poor Policies and the Threat to the Developing World”, Ha-Joon Chang, Random House Business Books, 2007, pg. 132

Taiwan,³⁶ that enabled the development of sufficiently mature technology base. All of these instances are relevant and have been documented concretely. It is only when such empirical evidence is presented factually, can there be a better understanding of the link between IP and innovation and IP and transfer of technology.

CHAPTER III. TECHNOLOGY DISCLOSURE THROUGH THE PATENT SYSTEM

5. Knowledge Ecology International (KEI)

Part III of the WIPO Report on the International Patent System discusses “Technology Disclosure through the Patent System” particularly with respect to “Patent Date and Status information.”

The Report notes the paucity of patent data available among the 184 member states of WIPO stating that “patent data is only available in electronic format for around 80 patent authorities” and stressing the sheer difficulty to “obtain reliable information about the geographical coverage and legal status of patents in different parts of the world, particularly in developing countries.” An additional area to consider is the area of patent quality.

When low quality patents (patents that do not meet appropriate standards of novelty or utility) are issued, government monopolies are created by mistake, business uncertainty is increased, and consumers and the public are harmed. The number of patent filings has grown considerably over the years, and the cost and complexity of examining those patents has increased sharply. In some quarters, the scope of patenting has broadened, including areas where patent examination may be particularly problematic. For these and other reasons enormous numbers of poor quality patents are issued.

In a series of bilateral trade agreements, the Government of the United States is seeking to link the registration of medicines to patent status. That is, the regulator routinely blocks new drug registrations, and the generic entrant must litigate to establish she is not infringing a valid patent. This has the practical effect of decreasing the cost of enforcing poor quality patents and creating additional incentives for firms to obtain low quality or even fraudulent patents.

It is expensive to litigate patent quality as noted in Part VII of the Report. In countries with large markets, such as the United States, there may be sufficient economic incentives for competitors to bear the cost of overcoming some poor quality patents. But in smaller market economies, like those of many developing countries, the costs of litigation are often higher than the benefits of entry, and patents that should never have been issued will convey monopoly power.

Recommendations and suggestions:

- The SCP could explore the creation of a multilateral mechanism administered by WIPO to share information on disputes over patent quality. This could include the creation of a database, possibly associated with the Patent Cooperation Treaty or

³⁶ See e.g. Nagesh Kumar, “Intellectual Property Rights, Technology and Economic Development: Experiences of Asian Countries”, Study paper prepared for the UK Commission on IPRs, available at http://www.iprcommission.org/graphic/documents/study_papers.htm

through a separate instrument. The database could include information about administrative actions, such as patent reexaminations, as well as private litigation between parties, including both cases decided by the courts and those privately settled.

- The SCP could consider minimum standards for transparency of such disputes.
- The burden of disclosing information on patent challenges could be placed on patent owners. The sanction for non-disclosure could be the non-enforcement of patent rights – an approach used in the United States when patent owners fail to disclose U.S. Government rights in patents that are based upon government funded research.

Background paper

James Love, “Measures to Enhance Access to Medical Technologies, and New Methods of Stimulating Medical R & D, UC Davis Law Review, Volume 40, Issue No. 3 Symposium: Intellectual Property and Social Justice, 679. An earlier version of this paper is found in James Love, “Four Practical Measures to Enhance Access to Medical Technologies,” in *Negotiating Health* (Pedro Roffe et al. Eds., 2006).

6. Third World Network (TWN)

Chapter III discusses the importance of technical information contained in patent applications in business, as well as difficulties in accessing information particularly with regard to the full text of patent documents (which is only available for a minority of patent authorities) and the legal patent status; and difficulties for offices in conducting prior art searches and for users to access the information due to linguistic diversity in prior art.

Chapter III is also premised on the presumption that effective use of patent information in developing countries will unleash the innovative capacity in developing countries.

As it elaborates on the importance of the technical information, it becomes obvious that a country must have a reasonably sophisticated technological base wherein once the information is known, “it stimulates further innovation by helping to develop technology which surpasses the known technology encourages alternative solutions for the same problem, or it may indicate how to solve comparable problems in other technical fields” (para 71).

The reality in most developing countries, which the Report fails to consider, is that they do not necessarily have a sufficiently mature technological base and R&D capacity to be able to benefit from this information. Most developing countries are at the stage of “initiation” and “internalization” of technology, wherein they would have to innovate using existing inventions through reverse engineering, while making minor adaptations, rather than “leapfrogging” over known technology as mentioned by the Report (para 71).

In addition, what most developing countries need to be able to exploit the patent information is capacity building, i.e. the transfer of skills and sharing of know-how, which is not enabled by disclosure in the patent system.

It appears that the analysis in Chapter III overstates the benefits of patent information for developing countries. It does not adequately distinguish between: how patent information may work for developed countries and perhaps some developing countries (in some specific sectors) with a sufficiently sophisticated technology base and the ability to “leapfrog” and other developing countries with nascent, inadequate or non-existent innovative capacity.

CHAPTER IV. TECHNOLOGY DIFFUSION AND THE PATENT SYSTEM

7. Institute for Trade, Standards and Sustainable Development (ITSSD)

Paragraph 99. The ITSSD wishes to share with the SCP its peer-reviewed published research on this subject matter which reflects a stronger linkage than has been indicated.³⁷ ITSSD research also reflects that, within the US, the creation of a ‘rule of law’ enabling environment which emphasizes strong recognition and protection of private property rights, including IP, the importance of technology transfer from the public to those private hands most capable of disseminating know-how throughout society, the need for commercialization of basic research and development to achieve such end, and the need to enact laws that encourage and reward the creation of entrepreneurial risk-taking businesses, has resulted in the US becoming the world’s innovation and technology leader. Therefore, the ITSSD concludes that emerging and developing country governments should carefully study and evaluate the US system to see which of those elements, individually, or collectively, can work best for their societies.³⁸

Paragraph 101. The ITSSD wishes to share with the SCP its peer-reviewed published research on this subject matter. It reflects that national government inclinations against, and criticisms of, establishing national legislative/regulatory platforms to facilitate greater technology transfer of patented research between publicly-funded research institutions and privately capitalized entities is largely ideological and without empirical foundation. For this reason, some agencies within national governments and officials within national universities tend to focus on the negative aspects of such arrangements to justify their reticence in promoting them.³⁹

Paragraphs 102 and 103. The ITSSD wishes to share with the SCP its peer-reviewed published research on national technology transfer frameworks that promote the establishment of university licensing programs referred to in both paragraphs 102 and 103. Such research surveys the national innovation and technology transfer systems established by different developed and developing country governments and concludes that innovation and technology transfer has been most successful within those countries that provide for (*in law*) and enforce (*in practice*) strong protection of exclusive private property rights, including patents and licensing contracts. Such research discusses in detail the provisions of the Bayh-Dole Act and the overwhelmingly positive impact that it has had in the marketplace for

³⁷ See Lawrence A. Kogan, *Rediscovering the Value of Intellectual Property Rights: How Brazil’s Recognition and Protection of Foreign IPRs Will Stimulate Domestic Innovation and Generate Economic Growth*, International Journal of Economic Development (IJED) Vol. 8, Nos. 1-2 (2006), particularly, Section III. The Tools of Innovation, A. Patent-Based Intellectual Property is Valuable: Intellectual Property is the Key to Innovation, at pp. 137-144 and accompanying endnotes; Section IV, Acquiring the Tools of Innovation, A. Brazil Should Adopt IPR Protections to Attract Foreign Direct Investment: IPR Protections are Important to Foreign Investors, at pp. 157-174 and accompanying endnotes; V. Benefiting From Foreign Direct Investment and IPR, at pp. 224-248, and accompanying endnotes, at: <http://www.itssd.org/White%20Papers/ijed-8-1-2-kogan.pdf>.

³⁸ See Lawrence A. Kogan and Yelena Bakulina, *How Market-Based Policies Could Spur Biotechnology Growth in Russia*, Washington Legal Foundation Backgrounder (Vol. 23 No. 14, March 21, 2008) at: <http://www.itssd.org/Publications/03-21-08balukina.pdf>.

³⁹ See, e.g.: *Rediscovering the Value of Intellectual Property Rights* supra, Section IV. Acquiring the Tools of Innovation, B. Brazil Should Develop and Efficient National Innovation System, at pp. 174-187 and accompanying endnotes.

innovation. It also compares and contrasts it to mechanisms developed in other countries.⁴⁰ At least two emerging/ developed economies have companies that are slowly gaining experience in cross-border licensing of technologies.⁴¹

The ITSSD wishes to share with the SCP its peer-reviewed published research on developing country R&D and technology transfer efforts as reflected in paragraphs 102 and 103. Such research reflects how a number of developing country governments, despite political and internal government agency policy disagreements, are working overall to strengthen their national patent systems to secure greater innovative rather than adaptive FDI, to secure the spillover benefits that accompany greater innovative FDI, and to show how they are working to comply with their WTO TRIPS obligations. In addition, it reflects that where emerging and/or developing economies are working against such compliance, and are endeavoring to replace it with a new ‘universal access to knowledge’ (A2K) paradigm, they risk undermining their future by not creating the necessary ‘legal, political, and developmental environment in which’ their citizens and ‘foreigners are inspired and rewarded for innovating.’⁴²

Furthermore, ITSSD research reflects that a national innovation system lacking adequate market-based incentives, particularly strong recognized and enforced private property rights, is likely not to provide the best results for least developed countries.⁴³ ITSSD research has most recently been seriously considered by the legal, business and intellectual communities within the country of India.⁴⁴

⁴⁰ See, e.g.: *Rediscovering the Value of Intellectual Property Rights* supra, Section IV. Acquiring the Tools of Innovation, B. Brazil Should Develop and Efficient National Innovation System, at pp. 187-224 and accompanying endnotes. See also, O. Lee Reed, *Exclusive Private Property is Indispensable to Brazil’s Economic Development*, Introduction to *Rediscovering the Value of Intellectual Property Rights* supra, at pp. 5-10, at: <http://www.itssd.org/White%20Papers/ijed-8-1-2-reed.pdf>.

⁴¹ See Lawrence A. Kogan, *Rediscovering the Value of Intellectual Property Rights/IP in the 21st Century*, Presentation at the XXth Annual Forum da Liberdade, Convened by the Instituto de Estudos Empresariais (IEE) in Porto Alegre, Brasil (April 17, 2007) at: <http://www.itssd.org/ppt/IPinthe21stCentury.ppt>; Lawrence A. Kogan, *Harnessing Korea Biotech For the Markets: The Importance of IP Protection and Technology Transfer*, Presentation at the BIO Korea 2008 Osong Conference and Exhibition, Osong-Bio Technopolis, Chungbuk, South Korea (October 9, 2008), at: <http://www.itssd.org/Harnessing%20Korean%20Biotech%20for%20the%20Markets%20-%20LKogan%20presentation%20-%20Track%208%20-%20Oct%209,%202008.ppt>.

⁴² See, e.g.: *Rediscovering the Value of Intellectual Property Rights* supra, Section VI. Conclusion - Brazil’s Conduct Compromises its Ability to Acquire the Tools of Innovation, A. What Other Countries Are Doing to Strengthen IPRs and Their Ability to Innovate, at pp. 283-298 and accompanying endnotes. See also Pat Choate, *Brazil’s ‘Open and Universal Access’ Agenda Undermines its Own Technological Future*, Foreword to *Rediscovering the Value of Intellectual Property Rights* supra, at pp. 1-4, at: <http://www.itssd.org/White%20Papers/ijed-8-1-2-choate.pdf>.

⁴³ See J. Kilama, *Incentive-less Innovation is Not a Viable Economic Development Model for LDCs*, Preface to, *Rediscovering the Value of Intellectual Property Rights* supra, at pp. 11-14, at: <http://www.itssd.org/White%20Papers/ijed-8-1-2-kilama.pdf>.

⁴⁴ See Lawrence A. Kogan, *Rediscovering the Value of Intellectual Property Rights: How Brazil’s Recognition and Protection of Foreign IPRs Will Stimulate Domestic Innovation and Generate Economic Growth*, Executive Summary (<http://www.itssd.org/pdf/ITSSD-BrazilPaper-ExecSummaryI.pdf>) published in **Ideas, Innovation and Patents** ICFAI Law Books Division, ICFAI University Press, Andhra Pradesh, India, (C. Sri Krishna, Editor 2008), at pp. 103-133,

Paragraph 104. The ITSSD wishes to share with the SCP its peer-reviewed published research and public presentation materials on this subject matter. ITSSD research reflects that depending on how national constitutions define the role of government vis-à-vis individuals and society at large, as well as, the character ('negative' versus 'positive') and scope (exclusive versus nonexclusive) of private property rights, will determine the level of legal recognition and protection afforded rights in private tangible and intangible (IP) property. ITSSD research has focused, in part, on the constitutions of the United States,⁴⁵ Brazil,⁴⁶ Russia⁴⁷ and South Korea.⁴⁸

The ITSSD wishes to expand upon the brief discussion in Paragraph 104 of the WIPO Report on the International Patent System (document SCP/12/3) ('the WIPO Report'), in particular, concerning the important role that national constitutions play in defining the nature, scope and treatment of private property, including patents and other forms of intellectual property (IP), vis-à-vis societal interests. International legal experts have concluded that the recognition and protection of private property rights, including IP, largely depends on whether a nation is a common law or civil law jurisdiction, and also, on whether it has adopted a Continental or an Anglo-American form of capitalism as its national economic system.

A review of the analyses set forth below can be quite helpful in understanding why U.S. patent holders, in particular, continue to rely on the United States Constitution and its accompanying Bill of Rights as providing the legal bulwark that requires U.S. political leaders to ensure against the actual or implied 'taking' by foreign governments of U.S. patent and other IP rights on public interest grounds without payment of full, adequate and 'just' compensation. It also elucidates why all national patent rights are *not* created equal.

As a matter of fact, there are relatively few nations and/or regions in the world that are common law jurisdictions which have also adopted the Anglo-American form of capitalism. And, it is also true that there are a growing number of foreign political leaders, national governments, industry competitors and nongovernmental organizations based in and/or operating within civil law jurisdictions that have adopted, embrace or otherwise champion the Continental form of capitalism, or even socialism, and which seek to establish a new

[Footnote continued from previous page]

Preview accessible at: <http://www.itssd.org/Ideas,%20Innovations%20and%20Patents%20-%20ICFAI%20Law%20Books%20India%20-%20Red.pdf> .

⁴⁵ See Lawrence A. Kogan, *Brazil's IP Opportunism Threatens US Private Property Rights*, Section III, C. Brazil Aims to 'Take' U.S. Private Property for Brazilian 'Public Use' Without 'Just Compensation', at pp. 102-118 (especially pp.114-118) and accompanying footnotes, at: [http://www.itssd.org/Publications/IAL105-II\(frompublisher\)\[2\].pdf](http://www.itssd.org/Publications/IAL105-II(frompublisher)[2].pdf) .

⁴⁶ See Lawrence A. Kogan, *Forced Licensing of Drug Patents Reflects 'IP Counterfeiting Efforts On World Stage*, Washington Legal Foundation Legal Backgrounder (Vol. 22 No. 22, June 27, 2007) at:

<http://www.itssd.org/Publications/ForcedLicensingofDrugPatentsReflectsIPCounterfeitingEffortsonWorldStage-WLF06-22-07kogan.pdf> .

⁴⁷ See Lawrence A. Kogan, *Taking Advantage of IP Protection to Advance Russian Biotech*, Presentation at the First EurasiaBIO International Congress for Biotechnology, of the Yu.A. Ovchinnikov Russian Society of Biotechnologists, (April 25, 2008) at:

<http://www.itssd.org/Programs/KoganPresentationEurasiaBIOMoscowConferenceApril2008.ppt>

⁴⁸ See Lawrence A. Kogan, *Harnessing Korea Biotech For the Markets: The Importance of IP Protection and Technology Transfer*, Presentation at the BIO Korea 2008 Osong Conference and Exhibition, Osong-Bio Technopolis, Chungbuk, South Korea, *supra*.

international paradigm of universal access to knowledge (A2K). This proposed paradigm calls for a more liberal interpretation of the international agreements the primary purpose of which is to facilitate the greater recognition, protection and enforcement of private IP rights (e.g., the WTO TRIPS Agreement and the WIPO conventions). The ITSSD believes that such paradigm threatens to seriously weaken hard-earned private property rights in inventions and innovations, and along with it, the opportunity for economic and technological advancement in many nations.

The ITSSD wishes to share with the SCP the research that it has assembled below. The ITSSD strongly believes that any updating of the international patent system must recognize and respect the institutional differences that exist between nations. It should also seek to harness from them the most successful forms of economic incentive, consistent with the strong protection of exclusive private property rights, that can generate the greatest opportunities for economic, social and technological advancement. The ITSSD requests that this research be seriously considered by the SCP and incorporated within the WIPO Report.

The important role played by national constitutions as setting forth national ‘social organizing systems’ that determine the nature, scope and treatment of private property rights, including IP, should not be underestimated. In the words of one international legal expert,

“In a rule of law country the constitution serves three major objectives, all of them having specific and predictable economic consequences. The constitution has to be the benchmark for all formal laws and regulations; that is, ordinary laws and other rules must be in tune with the basic constitutional principles. The constitution has to protect the rights of individuals from a majority rule. Finally, the constitution has to eliminate or at least substantially contain the discretionary use of power by legislators, bureaucrats and all other public decision-makers. To accomplish these objectives, the constitution has to be both credible and stable.

“While the concept of the rule of law is rather firmly embedded in the history of Western civilization, different legal systems as well as cultural differences among Western countries have produced different constitutions. And different constitutions have created different behavioral incentives, different transaction costs, and hence the varying attainments of three major objectives. Ed Meese (2005, pp. 2-3), former United States attorney general, explained a major dissimilarity between Anglo-American and Continental legal traditions as follows: ‘The consent of the governed stands in contrast to the will of the majority, a view more current in European democracies. The consent of the governed describes a situation where the people are self-governing in their communities, religions, and social institutions, and into which the government may intrude only with the people’s consent... Thus, the limited government is the essential bedrock of the American polity’ (emphasis added).”⁴⁹

⁴⁹ See Svetozar Pejovich and Enrico Colombatto, *The Rule of Law and the Economic Functions of the Constitution*, Chap. 6, at p. 100, in *Law, Informal Rules and Economic Performance: The Case for Common Law*, Edward Elgar Pub (August 30, 2008) (permission for citation obtained), Editorial Review on Amazon.com website, at: http://www.amazon.com/Law-Informal-Rules-Economic-Performance/dp/1845428730/ref=sr_1_1?ie=UTF8&s=books&qid=1226081580&sr=1-1.

In addition, this same expert discusses how these different conceptions of *rule of law* have manifested themselves within the formal political institutions of different civil law and common law jurisdictions generally, and in the treatment of private property rights specifically.

“Common law judges make formal rules. Some are made to adjust the rules to changes in the game; those are spontaneous rules, for which the transaction costs of integrating into the system are low. Common law judges also have the power to contribute to the making of new precedents. Those rules could be in conflict with prevailing informal institutions; that is, they could attenuate the rule of law. However, credible constraints, competitive market for litigation and the independence of judges from other branches of government exert pressures on common law judges to refrain from making rules that are not in tune with prevailing precedents and /or informal institutions. In consequence, the power of common law judges to engage in discretionary law-making, while not eliminated, is constrained. The result is a significant predictability for common law.

“Laws made by parliaments in civil law (and common law) countries have fewer efficiency-friendly constraints. The median voter is an important constraint who often provides legislators with incentives to make inefficient rules. Moreover, the preferences of the median voter translate into majority rule that give more power to the ruling party to impose its concept of social justice on the society as a whole. And those discretionary powers have consequences.

“*While common law emphasizes individualism and private property rights, which translates into an emphasis on the equality of opportunity, civil law stresses social justice and the public interest, which emphasizes desired outcomes.* Thus, the advantage of common law over civil law comes from the predictability (i.e., consistency) of formal rules arising from the linkage with the hand of the past. And that predictability should translate into better economic performance. Let us look into some empirical evidence (emphasis in original).”⁵⁰

Thus, it would seem that, within Europe, private property rights are largely viewed as being consistent with national and regional societal interests. Consequently, private property rights would arguably be more susceptible to override by social interest-prone national and regional parliaments and to reinterpretation by progressive European national and regional courts legislating from the bench.

And, Western economic history, as well, seems to bear this out. Indeed, distinctions in the national treatment of private property rights have been linked to differences between the two forms of classical liberalism that evolved within civil and common law jurisdictions in Europe during and following the Enlightenment era.

“Classical liberalism in England and classical liberalism in Western Europe gave birth to two different legal systems, common law and civil law. And the incentive effects of those two systems are arguably responsible that

⁵⁰ Pejovich, *On Liberalism, Capitalism, The Rule of Law, and the Rule of Men*, supra, at p. 17.

the institutionalization of classical liberalism into capitalism has taken different paths in England and continental Europe... Anglo-American capitalism is the institutionalized version of the classical liberalism of England.

“...Classical liberalism in England harbors a strong dose of skepticism about the rulers’ foresight and their goodwill. It considers that the primary function of laws and regulations is to support the objectives of interacting individuals rather than to seek specific outcomes.

“ Classical Liberalism in Western Europe rests on two assumptions: (1) there exists a just society, and (2) human reason is capable of discovering the formal rules required to bring about such society. These two assumptions of the Continental tradition provided both the philosophical *raison d’être* for the academic community to support social engineering, and the political justification for governments to pursue it. Contrary to the English and American experiences, the role of a powerful state has never been seriously questioned on the European continent. The French Revolution was carried out in the name of a new concept of legitimate centralism enforced by “enlightened” ruling elite. Even two most prominent classical liberals in Europe accepted the state as the watchdog of all individual actions, including those in the economic domain: ‘The economic system cannot be left to organize itself’ (Eucken 1951, p.93), for ‘undiluted capitalism is intolerable’ (Roepke 1958, p.119).”⁵¹

In other words, the ‘negative’- ‘positive’ private property right differential can be expressed in terms of *competing visions* of capitalism: Continental capitalism and Anglo-American capitalism.

“The political-scientific elite in the West accept capitalism but not classical capitalism. They argue that a just society could exist [sic] in which people lived in peace and harmony, and that human reason is capable of discovering the institutions and policies required to bring such a society about. The contrast between their version of capitalism (hereafter: continental capitalism) and Anglo-American capitalism is striking. Reflecting its skepticism about rulers’ foresight and goodwill, classical capitalism considers any outcome to be fair and just as long as it emerges from the process of voluntary interactions under the umbrella of negative rights. In contrast, continental capitalism believes in rulers’ foresight and goodwill. It means that continental capitalism does not view the government as a predator requiring the rule of law to tame it. On the contrary, it wants the government to be an active factor in running the economy.

“Continental capitalism is then more concerned with the desired outcome of economic activities than with the process of voluntary interactions leading to unanticipated results. Terms such as public interest, social justice and other

⁵¹ See Svetozar (Steve) Pejovich, *On Liberalism, Capitalism, The Rule of Law, and the Rule of Men*, Discussion Paper Prepared for CRCE Conference on the Rule of Law in the Market Economy Slovenia (October 2-4, 2008), at pp. 2-4; Svetozar (Steve) Pejovich, *Capitalism and the Rule of Law: The Case for Common Law 5* (2007) <http://economics.gmu.edu/pboettke/Boettke/workshop/fall07/Pejovich.pdf> (permission for citation obtained).

grand-sounding names are used to justify the desired outcome of economic activities. Whatever term is used to explicate the desired outcome, it is a façade hiding subjective preferences of the political-scientific elite. For example, German law protects property rights only to the extent that they serve “human dignity” (as if free markets were not doing precisely that) and the German welfare state. Property rights in Italy are also attenuated; the Italian Constitution allows protection of private property insofar as it serves a social function. Thus, property rights in Germany and Italy neither protect the subjective preferences of their owners nor block legislative and regulatory redistributive measures.

“The attenuation of private property rights is a mechanism that enables the government to interfere with the right of individuals to seek the best use for the goods they own. And government’s interference with the freedom of choice in competitive markets creates (or recreates) differences between private and social costs. Clearly, the pursuit of subjective preferences of the political scientific elite is costly. And they know it. However, the political scientific elite consider the pursuit of “their concept” of social justice worth the costs.”⁵²

At least one international law expert has shown how these historical and philosophical differences have manifested themselves in law. He has concluded that the constitutional rights of German citizens in private property are, for historical and political reasons, ‘positive rights’ granted by the state, rather than *a priori* natural ‘negative rights’ of the people recognized and protected by the state.

“A brief review of German legal and political history is quite revealing. According to Humboldt University law professor Dieter Grimm, the constitutions and bills of rights previously enacted by successive German monarchs were intended to preserve the legitimacy and survival of their dynasties, and little more. As a result, they created “positive” rather than “negative” rights that subsequently failed to endure the political whims of national parliaments and to secure consent from short-term-minded monarchs and unelected bureaucracies.”⁵³

Germany’s legal and political experience with private property rights can be contrasted with America’s.

“...One purpose of the American Revolution, therefore, was to strengthen and protect the people’s fundamental rights. Consequently, fundamental rights

⁵² Svetozar (Steve) Pejovich, *Private Property—A Prerequisite for Classical Capitalism* 12 (2005), <http://www.easibulgaria.org/docs/Pejovic.doc> (emphasis added).

⁵³ See Lawrence A. Kogan, ITSSD, *Europe’s Warnings on Climate Change Belie More Nuanced Concerns* (2007) at: http://www.itssd.org/White%20Papers/Europe_sWarningsonClimateChangeBelieMoreNuancedConcerns.pdf, referenced in Lawrence A. Kogan, *The Extra-WTO Precautionary Principle: One European ‘Fashion’ Export the United States Can Do Without*, 17 *Temple Political & Civil Rights Law Review* 2, 491, 598-604 (Spring 2008), at: <http://www.itssd.org/Kogan%2017%5B1%5D.2.pdf> (discussing how different national and regional conceptions of private property and government authority can lead to extraterritorial promulgations that strain transnational legal, economic and political relations).

“could from the very beginning be negative rights” that served primarily to protect individuals from the government...*In contrast...the inclusion of positive rights in German law can be traced to the fact that European constitutions, unlike the U.S. Constitution, did not establish an entirely new political entity because the nation-state existed before the constitutions emerged. This meant “they never changed the tradition of the state,” and part of this saved tradition, especially in Germany, was that “the state always retained the role of being the representative of the higher aspirations of society”* (emphasis added).⁵⁴

Italy’s various constitutions also reflect a similar preference for treating private property rights as ‘positive’ conditional rights subject to state override.

“Until 1947 the Italian Basic Law was the Statuto...In theory the Statuto was aimed at transferring legislative power from the monarch to Parliament (and safeguard the interests of the bourgeoisie). To compensate for the drive to curb royal discretionary rule-making, *it was acknowledged that the throne would encompass the executive and judicial powers, and act as the guarantor of both law-and-order and individual freedoms.*

“...*Accountability to the people was not part of the game. Similarly, the Statuto did not aim at uniting the country but rather at shaping a new role for the monarchy, and providing an attractive institutional framework to lure the elites of the new regions that the Sardinian king was eager to annex* (emphasis added).⁵⁵

“... As early as October 1943 the leaders of most anti-fascist parties formally declared the need for a new constitution... [T]he Republican Constitution was conceived as an instrument through which a partially new ruling elite could obtain, hold and share power...Despite acute tensions among the various factions, the elites of those political parties – including the communists – agreed to remove the king and to share power *more or less following democratic rules...*

“... *True enough, these new rules were not going to be submitted to the people for approval, possibly to save ‘the Assembly from the possible embarrassment of having the voters reject the Constitution it had approved, as had occurred in France shortly before.’* (Adams and Barile 1953, p.63). Still, leaders across the political spectrum went a long way to persuade the population that such rules were ‘just and anti-fascist’ and therefore to be shared with no need for further debates or consultation.

“...[This] *explains why this constitution devoted little attention to the protection of the individual against abuse by politicians and bureaucrats, but made a deliberate effort to fragment power across different layers and*

⁵⁴ See Press Release, Elizabeth Katz, University of Virginia School of Law, *German High Court Has More Power Over Legislature, Grimm Says* (Mar. 9, 2006), http://www.law.virginia.edu/html/news/2006_spr/grimm.htm .

⁵⁵ See Svetozar Pejovich and Enrico Colombatto, *The Rule of Law and the Economic Functions of the Constitution*, Chap. 6, supra at pp. 113-114 (citations omitted).

jurisdictions, so as to enhance more rent-seeking opportunities for the party members and disperse individual responsibilities.

“...[F]rom a classical-liberal standpoint the Republican Constitution was a partial success as regards the packaging, but a failure in terms of substance. It was a success since it turned out to be a fairly stable super-law... In addition, its rather complex system of checks and balances made sure that nobody could concentrate much power. *On the other hand, success was partial, for it offered only weak protection to individual liberty (freedom from coercion and encroachment by the state)* (emphasis added).”⁵⁶

France has similarly treated private property rights as positive conditional rights. Such treatment is currently reflected in recent changes made to the French Constitution that are intended to promote consistency with Europe’s regional Aarhus Convention.

“A review of France’s constitution is also instructive since it reveals the *current* status of private property rights in Europe. The French Constitution was recently amended in 2005 (for the 19th time since 2000) to include a new environment charter that provides French citizens with the ‘positive’ “right to live in a balanced healthy environment”. The charter contains a series of environmental rights and responsibilities that are consistent with those already found in European regional law. For example, the charter’s right of access to environmental information is similar to that provided under the UN’s regional Aarhus Convention. The Environment Charter is therefore likely to suspend the requirement of legal ‘standing’ to enable any member of the public “affected or likely affected by, or having an interest in environmental decision-making” to demand an assessment, and then challenge the potential environmental impacts, of proposed economic activities to be undertaken on privately owned property.”⁵⁷

On a broader European regional level, the distinction between ‘positive’ and ‘negative’ rights is currently reflected in the European Convention on Human Rights, which apparently provides only an implied right to compensation for the expropriation of property:

“[T]he First Protocol (P1-1) to the European Convention on Human Rights...declares that everyone is “entitled to the peaceful enjoyment of his possessions,” and that the state can only take property in the public interest and according to the law, but it fails to tell us what we really want to know: if the state authorizes the taking of our property, how much money will we get? The Protocol itself appears to say nothing on this crucial point... European Court

⁵⁶ *Id.*, at pp. 116-117.

⁵⁷ Kogan, *supra*, at p.4. See also French Constitution, Environment Charter, Art. 1; *The Need to Act*, Ministère Des Affaires Etrangères, République Française Government Portal at: http://www.diplomatie.gouv.fr/en/article-imprim.php3?id_article=4596 ; David Case, *Liberte, Egalite, Environment? French Constitution Gets a Dash of Green*, Grist Environmental News and Commentary (July 14, 2005) at: <http://www.grist.org/news/maindish/2005/07/14/case-france> ; French Constitution, Environment Charter, Art. 7; United Nations Economic Commission for Europe (UN/ECE) “Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters”, done at Aarhus Denmark (‘Aarhus Convention’) (6/25/98) at: <http://www.unece.org/env/pp/documents/cep43e.pdf>; Aarhus Convention, Articles 2.4-2.5, 5.3-5.5, and 6.

of Human Rights['] decisions...on compensation [however,] provide a particularly valuable insight into its views on the right to property... [W]e can now say that *the Protocol contains an implied right to compensation.*"⁵⁸

In addition, as this scholar has noted, the lack of an express guarantee of compensation was intentional:

"One of the [European] Council's first tasks was the preparation of a treaty on human rights. It took more time than anticipated, partly due to disagreements over the content of a right to property. In principle, the delegates agreed that the treaty should include a right to property, but they rejected every proposal that contained a reference to compensation, no matter how weakly drawn. They even rejected a prohibition on the "*arbitrary confiscation*" of property at one point, as some governments feared that it would be interpreted as a guarantee of compensation. Eventually, the delegates agreed to sign the Convention without a right to property but committed themselves to continue negotiations with a view to including such a right in a later treaty. The delegates who opposed a compensation guarantee were concerned that it might compromise plans for ambitious economic and social policies."⁵⁹

Also, the text of Article I of the First Protocol to the European Convention for the Protection of Human Rights establishes that the 'positive' conditional nature of private property rights in Europe is, for political as well as historical reasons, highly subject to and consistent with 'collective power' and the 'public interest' – i.e., the 'general will'.

"Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions *except in the public interest and subject to the conditions provided for by law and by the general principles of international law. The preceding provisions shall not, however, in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest* or to secure the payment of taxes or other contributions or penalties."⁶⁰

Furthermore, Article 17 of the EU Charter of Fundamental Rights reflects that the scope and extent of individuals' rights to private property are expressly subject to societal interests.

"No one may be deprived of his or her possessions, except in the public interest and in the cases and under the conditions provided for by law, subject to fair compensation being paid in good time for their loss. The use of property may be regulated by law in so far as is necessary for the general interest."⁶¹

Moreover, such different histories, political institutions and legal instruments also define how "fair compensation" is to be calculated in the event governmental action results in

⁵⁸ See Tom Allen, *Compensation for Property Under the European Convention on Human Rights*, 28 MICH. J. INT'L. L. 287, 288 (2007) (emphasis added) (citation omitted).

⁵⁹ *Id.* at 291 (emphasis added).

⁶⁰ See Convention for the Protection of Human Rights and Fundamental Freedoms, art.1 protocol 1 (March 20, 1952), Europe T.S. No. 9 (emphasis added).

⁶¹ See Charter of Fundamental Rights of the European Union, art.17, 2000 I.J. (C364) 12.

a “taking” of private property. According to at least one scholar, the American and European conceptions of private property rights may be distinguished in judicial terms as follows:

“The case law reveals that the Court applies three different conceptions of the P1-1 interest...the legal, economic, and social models...the legal model conceives of the *human rights interest in property in terms of the existing law of the relevant member state*...[T]he legal model does not fit with the integrated theory [of] [t]he economic and the social models [which] concentrate on the *social function of property*...The economic model focuses on the *objective value of the property*; in most cases, the Court assumes that this is the *market value*...the social model reflects the integrated view, as it seeks to identify the values of individual autonomy, dignity, and equality that underpin other Convention rights, but specifically as they relate to *access and control over resources*.”⁶²

According to one European legal scholar, the collective interest model may be contrasted with the legalist conception model of property rights adopted in the U.S., which may be determined *without* reference to social context:

“[A] liberal/legalist conception of property puts private interests in opposition to collective power and the public interest: “Collective forces, under this conception, are clearly external to the protection that property, as an entity, affords.” Moreover, *the liberal idea of rights assumes equal stringency for all rights of property, in the sense that all are equally worthy of protection against collective power*. This is what distinguishes it from the conceptual framework of the integrated view, as it holds that *one can determine the content of property without reference to the social context*. The possibility that collective interests exert pressure for a redrawing of the boundaries of individual autonomy does not mean that collective interests define those boundaries.”⁶³

Paragraph 105. The ITSSD wishes to share with the SCP its peer-reviewed published research showing that, although during both the past and present eras, various countries created and pursued industrial and innovation policies in a less than transparent, open and inclusive manner, in the hope of securing for themselves and their citizens a more economically prosperous and socially productive future, the political ends did not and still do not justify the illicit means. Such research leaves policymakers, national and regional government executives and legislators, industry participants and the WIPO secretariat to query whether, considering human nature, the many bold proposals proffered by the various stakeholders involved in the production of WIPO Report and those yet to be released, anything much can be expected to change, especially in the near future.⁶⁴

Paragraph 111. The ITSSD agrees that interoperability is a critically important feature of all technologies that can be promoted through carefully drafted technical standards. However, we do not agree that the aim of *all* technical standards is to ensure replacement of particular parts or assemblies of parts. Rather than promote cloning or substitutability, the

⁶² Allen, *supra*, at 305-306 (emphasis added).

⁶³ *Id.* at 307 (emphasis added) (internal citations omitted).

⁶⁴ See, e.g.: *Rediscovering the Value of Intellectual Property Rights* *supra*, Section II. Brazil Challenges the Established Global IPR Framework, D. Brazil Should Not Rely Upon the History of Industrial Opportunism to Justify its Current Behavior, at pp. 120-136 and accompanying endnotes.

primary objective of technical standards related to information and communications technologies (ICT) is to promote data exchange. In other words, through the exchange and mutual use of data, ICT standards enable different products to work together while still allowing differentiation that facilitates competition and innovation.

Paragraph 111 states that, “Standards create predictability, interoperability and competition between implementations, without imposing homogeneity.”

Paragraph 112 states that, “Beyond ensuring interoperability, standards can also contain information...”

Paragraphs 111 and 112. The ITSSD is concerned that these two paragraph excerpts when read together convey the impression that technical standards can guarantee interoperability. No standard is perfect. In fact, a standard may be ambiguous in places, or have gaps, leading implementers to consider different technical options to best implement a particular element of the standard. Experience shows that the use of different technological approaches to implementing particular elements can and often does lead to subtle (or not so subtle) conflicts (‘bugs’) between different and within even individual implementations. And, aside from making choices based purely on technical/technological considerations, an implementer may choose to implement different parts of a standard based on his or her views regarding what is likely to be most appropriate in the marketplace. Needless to say, such choices can lead to interoperability gaps between implementing products. After all, there is often asynchronous evolution of standards and the products that implement them. The point here is not that standards are not useful in achieving interoperability – they are. But they should not be seen as a panacea. The ITSSD wishes to emphasize that there exist other means of achieving interoperability. They include, for example, ‘plugfests’ and vendors working together, which should not be discounted.

Paragraph 113. The ITSSD observes that the definition of ‘de facto’ standards may be overly narrow and should take into account the broader context in which industry standards arise. At least one commentator has noted that, “A *de facto* standard describes something that the market has overwhelmingly decided that it wants to use in order to achieve the same result as an official standard. Such a *de facto* standard can deliver a degree of interoperability that is far superior to that achieved by ‘de jure’ standards, but at a cost: with a *de facto* standard, everything is controlled by a single vendor (or group of vendors).”⁶⁵ The ITSSD questions whether the narrowness of the definition within paragraph 113 was intentional or merely an oversight. The ITSSD is aware of certain WIPO member countries’ longstanding preference for creating standards in a “‘de jure’ sphere” in which “the strength of...national votes are able to exert considerable leverage” in the development and harmonization of publicly funded regional standards.⁶⁶ In fact, government officials in at least one region of the world have publicly expressed how: 1) “To have one applied standard and one accepted test for each product, process or service is a trade-facilitating objective”; 2) “[T]he success of [their regional] standardisation system is]related to and] depend[ent] on the commitment of the public authorities to use voluntary standards in support of their [governmental]

⁶⁵ See *Microsoft, Adobe and the Murky of World of ‘RAND’*, Standards Blog in Consortium Standards Bulletin, Vol V, No. 6 (June 2006) at: <http://www.consortiuminfo.org/bulletins/jun06.php#considerthis> .

⁶⁶ See Greg FitzPatrick, *The failure of European ITC standards policy And a possible future?* (Report 65/2003), The Swedish ICT Commission (2003) at: http://www.itkommissionen.se/dynamaster/file_archive/030523/ded7728140c38980efb4e5a0f645fcb3/The%20failure%20of%20European%20ITC%20standards%20policy.pdf .

policies...embodying a high level of consumer, health and environmental protection”; 3) “Co-operative arrangements with international standards bodies offer a systematic framework to take over international standards and/or to contribute to the international standards making process”; and 4) “Public authorities can make use of public procurement as a powerful tool to promote the usage of accessibility standards.”⁶⁷

The ITSSD is also aware that for such countries, ‘de jure’ standards, were, at first, unable to keep up and compete with consortium-based ‘de facto’ standards in the realm of internet-related ICT. However, this situation eventually changed as a result of the dotcom bubble of 2000, the creation of pan-regional standards organizations that “have become powerful en bloc actors within their international counterparts”, the growing use by such organizations of the OSI (open systems interconnection protocol), and the extensive infighting that had taken place among competing de facto standards organizations mostly based in other countries that were “not prepared to give up potential market lock-in and product leverage by abiding by the dictums of ‘impartial’ consortiums”. The ITSSD observes that, in the eyes of certain experts, “There are signs that the informal standards consortia who saw the light of day with the emergence of the Internet and the World Wide Web, will eventually be absorbed into the de jure process they once rebelled against.”⁶⁸

In addition, the ITSSD has observed how governments within one region of the world have become steadily involved in promoting the greater use of ‘de jure’ ICT standards to meet the region’s stated public policy goals of providing consumers with greater accessibility to the internet while strengthening the competitiveness of regional and/or national ICT industries.⁶⁹

The ITSSD has also observed how the standards models of large developing economies appear to be similarly favoring the use of ‘de jure’ over ‘de facto’ standards with the ultimate purpose of “play[ing] an increasingly important role in setting global standards.”⁷⁰ It is with

⁶⁷ See *European Policy Principles For International Standardisation*, EU Commission, Enterprise and Industry, at: http://ec.europa.eu/enterprise/standards_policy/international/eur_policy_principles/index.htm ; *European policy principles for international standardisation - informal summary*, (referring to the full text SEC (2001) 1296, EU Commission, Enterprise Directorate General, at : http://ec.europa.eu/enterprise/standards_policy/international/eur_policy_principles/doc/index.pdf ; Commission Staff Working Paper – European Policy Principles on International Standardization”, SEC (2001) 1296, (7/26/01), par. 26, at p. 10, at : http://ec.europa.eu/enterprise/standards_policy/international/eur_policy_principles/doc/sec2001_1296_en.pdf .

⁶⁸ See Greg FitzPatrick, *The failure of European ITC standards policy And a possible future?*, supra.

⁶⁹ See Erkki Liikanen, *Accessibility for All in EU perspective*, Speech Delivered at the Accessibility for All Conference, Nice, France (Speech 03/161, March 28, 2003), Europa Rapid Press Release at : <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/03/161&format=HTML&aged=0&language=EN&guiLanguage=en> ; *World Standards Day, 14 October: Global standards for the Global Information Society*, Europa Rapid Press Release (IP/03/1374 , Oct. 13, 2003), at: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/03/1374&format=HTML&aged=0&language=EN&guiLanguage=en> . See also Sherry Bolin, *The Standards Edge*, The Bolin Group (© 2002), Table of Contents, Introduction and Chapter Summaries at: http://www.thebolingroup.com/book_contents/TOC_and_summaries-standards_edge.pdf .

⁷⁰ See Richard P. Suttmeier, Xiangkui Yao, and Alex Zixiang Tan, *Standards of Power? Technology, Institutions, and Politics in the Development of China’s National Standards Strategy*, The National Bureau of Asian Research (2006) at:

this research in mind that the ITSSD questions the extent of the role that governments should play in defining national, regional and international ICT standards.⁷¹ Is it possible that a greater role carved out by governments in this area of standardization will result in the greater use of ‘de jure’ rather than ‘de facto’ ICT standards such that the former will eventually overtake and subsume the latter? Therefore, is it not possible that governments will increasingly rely on (and ‘from behind the scenes’ direct) ostensibly private SSOs and industry members to implement ‘de jure’ ICT standards consistent with national and/or regional legislation for the purpose of erecting new disguised technical barriers to trade⁷² that appear at first glance *not* to have the imprimatur of government involvement?⁷³

Paragraph 119 states that, “*From a policy standpoint, the most essential objective appears to be, while keeping in mind the encouragement of innovation, to strike a **balance** between the interest of patent holders in exploiting their patents, the producers who want to license and produce the goods covered by the standard at a reasonable price, and the public which seeks the widest possible choice among interoperable products. Some of the main concerns that*

[Footnote continued from previous page]

<http://www.nbr.org/publications/specialreport/pdf/SR10.pdf> (“China is attempting to develop a national standards strategy that will modernize the Chinese domestic standards regime and bring it into conformity with China’s WTO obligations. At the same time China is seeking to utilize its growing technological capabilities and market power to develop technical standards that will enhance the competitiveness of Chinese firms.”) *Id.*, at p. 1. Arguably, China has learned a great deal about product standardization from the European Union and likely shares with Europe a preference for ‘top-down’, state-directed economic activity and formal international institutions. See Richard P. Suttmeier, and Yao Xiangkui, *China’s Post-WTO Technology Policy: Standards, Software and the Changing Nature of Techno-Nationalism*, The National Bureau of Asian Research (2004) at p. 25, at:

<http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN026775.pdf>. It is also likely for this reason that China submitted comments to the WTO Technical Barriers to Trade Committee seeking clarification of the relationship between standards and intellectual property. See *Background paper for Chinese Submission to WTO on Intellectual Property Right Issues in Standardization*, Communication from the People’s Republic of China, Addendum (G/TBT/W/251/Add.1) (Nov. 9, 2006) at:

<http://chinawto.mofcom.gov.cn/accessory/200702/1171346578955.doc>; *Intellectual Property Right (IPR) Issues in Standardization*, Communication from the People’s Republic of China (G/TBT/W/251) (May 25, 2005) at: http://sms.mofcom.gov.cn/table/0527_wto_en.doc.

⁷¹ See, e.g., Sherry Bolin, *The Nature and Future of ICT Standardization*, Presented at the Nature and Future Conference (Dec. 12-13, 2002) at:

http://www.thebolingroup.com/nature_and_future_Conference.pdf.

⁷² At least one international standards expert has concluded that the Chinese government may have this in mind. “[In] the fast growing ICT market in China, led by the indigenous innovation strategy, there is a growing risk in the ICT market that Chinese leadership will adopt mandatory Chinese IPR based-standards and over-stringent conformity assessment procedures, which may erect barriers to international trade and raise costs for foreign ICT companies.” See Xiaomeng Lu, *Standards-Related Barriers to Trade in Chinese ICT Market*, (Sept. 30, 2008), available at: <http://ssrn.com/abstract=1271343>. See also Prepared Statement of Richard P. Suttmeier, *China’s Technology Trap and the Reconstruction of the Chinese National Innovation System*, Presented at the Hearing of China’s High Technology US-China Economic and Security Review Commission (April 21-25, 2005) at p. 6, at:

http://www.uscc.gov/hearings/2005hearings/hr05_04_21_22.php.

⁷³ See Lawrence A. Kogan, *Discerning the Forest From the Trees: How Governments Use Ostensibly Private and Voluntary Standards to Avoid WTO Culpability*, 2 *Global Trade and Customs Journal* 9 (2007) at pp. 319-337, at: http://www.itssd.org/GTCJ_03-offprints%20KOGAN%20-%20Discerning%20the%20Forest%20from%20the%20Trees.pdf.

have been put forward as possibly **threatening this balance** are... Secondly, some competition issues are at the heart of the debate, such as the situation where the patent holder requires a level of royalties that makes it very difficult to produce the standard or leads to a significant impact on the price of the standardized technology... ”

Paragraph 106 states that, “**Licensing** is important for economic development and consumer welfare, as it helps disseminate innovation. But equally important is competition as one of the main driving forces of innovation, and it is thus important to find **the right balance** between protecting competition and protecting intellectual property rights.”

Paragraph 37 states that, “Patent holders are given exclusive rights to prevent others from exploiting the patented inventions and, in return for the exclusive rights, patent holders are required to disclose information relating to the invention. The disclosure of information is an essential element of the patent system. It is the basis of **the balance** between inventor’s interests and those of society.”

Paragraph 2 states that, “**The fundamental role** of the patent system from an economist’s perspective is to address market failure and restore the incentives to invest in production of knowledge. The patent system is intended to correct market failure and under-provision of innovative activities by providing innovators with exclusive rights to prevent others from exploiting their inventions without the patentee’s consent. To correct the potential inefficiencies of the market power which may be created through exclusive rights, the patent system provides for, among other mechanisms embedded in the system, **public disclosure** of the patented matter. The disclosure of the technical details of the invention through the patent system expands the public stocks of technical knowledge and creates competition among innovators. A third function of the patent system is to **encourage technology transfer** by creating tradable property rights to improve the efficiency of knowledge flows.”

Paragraphs 2, 37, 106 and 119. The ITSSD would like to share with the SCP its concerns that the reading together of these excerpts from paragraphs 2, 37, 106 and 119 leave the impression that the overall objective of patents and standards is to offset competing interests rather than to ensure the provision of a ‘public good’. First, the ITSSD is concerned that this WIPO Report’s use of the word ‘balance’ creates a universal presumption that each of the ‘interests’ identified above (those of patent holders, producers who want to license, and consumers who seek product choices) are somehow equal in significance and that the satisfaction of such interests equally is somehow necessary to achieve the ultimate *public good*: knowledge that generates economic and social progress, self-sufficiency and wellbeing for ‘the many’. Clearly these paragraphs reflect a ‘hierarchy of interests’ in descending importance: 1) knowledge production; 2) knowledge disclosure/dissemination; and 3) knowledge-embedded technology transfer via licensing and commercialization. They also recognize that knowledge production, knowledge dissemination and technology transfer are dependent upon the establishment of adequate economic incentives for those engaging in costly and risky undertakings. Individuals (both natural and legal) must be encouraged to engage in the costly and risky production and public dissemination of knowledge. The same and/or different individuals must also be rewarded for engaging in costly and risky activities that result in the transfer of technologies incorporating such knowledge (inventions and innovations) to those ‘hands’ most capable of reducing them to useful manufactured products, processes and/or services that satisfy consumers needs and demands. Consequently, it is quite clear that the economic rights of the patent holder(s) are broader and more extensive than those of the licensee(s) concerned with maximizing its individual contract rights to sell as many of the products/services that it produces as is possible. And, both of these interests are

more extensive than those of an individual consumer, who holds the ultimate right to purchase or not to purchase the final product or service made available to him/her.

Second, the ITSSD is concerned about how this WIPO Report is effectively positing that the maintenance of such a universally recognizable ‘balance’ is a justifiable end-in-itself. Arguably, these paragraphs create a second presumption: that any phenomenon or competing ‘interest’ that disturbs or possibly threatens the initial presumption of a ‘balance’ must be eliminated or reduced. These and later paragraphs seem to imply that this can occur through various legal or administrative means, including imposition of government-directed pecuniary as well as equitable remedies, and perhaps even penalties, that could lead to the potential loss of otherwise exclusive private property ownership rights, including patents and contract/licensing rights. However, the terms ‘balance’ and ‘right balance’, as used above, are subjective terms that are defined differently by different societies. The ultimate question that all national governments should therefore ask themselves is not, how to ensure against a ‘threat’ to the ‘balance’ as set forth below, but rather, how to ensure that their societies can acquire the ultimate public good described above.

Third, the ITSSD is concerned about how paragraph 119 concludes that such a ‘balance’ could be threatened by a situation where the patent holder requires a level of royalties that makes it very difficult to produce the standard or leads to a significant impact on the price of the standardized technology is one that possibly threatening such a ‘balance’. This determination is not conditioned, nor the potential remedies triggered, on a finding of illegality and/or otherwise improper (unfair, deceitful or immoral) conduct, such as breach of an SSO policy and agreement to disclose IP before industry lock-in, followed by exploitation of the IP against SSO members.⁷⁴ Rather, the ‘balance’ is deemed threatened merely because an arbitrarily determined threshold level of difficulty has been reached in private contract negotiations undertaken by two or more private parties. Is this a realistic presumption? How does one ascertain the precise ‘level of royalties that makes it very difficult to produce the standard’ or that ‘significantly impacts the price of the standardized technology’? And, which party should be held responsible for making these determinations? SSOs?

It is no wonder why SSO’s strive to retain their objectivity and independence. As a result, SSO policies usually instruct members to negotiate among themselves the terms of prospective licenses outside the walls of the SSOs. In addition, SSOs (including consortia) and their members typically agree to employ a flexible RAND/FRAND licensing model that permits each licensor and licensee to negotiate specific terms that are mutually and uniquely suited for their specific situation. For example, some parties will enter into broad cross-licenses while others might enter much more limited cross-licenses. And, other parties will negotiate portfolio licenses, while still others may negotiate patent licenses as part of a larger business transaction. In the standards context, a license is rarely limited to the essential patents associated with a single standard. Rather, such licenses generally encompass a larger portfolio of rights, some of which are not needed to implement the standard, but are viewed as important to the licensee’s commercialization plans. Since RAND/FRAND is not rigidly defined it supports all of these different types of negotiations among different parties with different business models. After all, as the jurisprudence reflects, it would be quite difficult to reduce RAND/FRAND to a single universal definition that satisfies all parties.

⁷⁴ See, e.g.: *In the Matter of Negotiated Data Solutions LLC* referenced in WIPO Report footnote #40.

And, would it even be desirable for SSOs to work towards reducing RAND/FRAND to a uniform definition? According to one standards expert, the answer is no. In his opinion, it is “the diversity of IPR approaches within standard setting bodies [that] allows these bodies to ‘compete’ for the business of developing standards based on (among many factors) the power of the applicable IPR policy to attract and hold the interest of key stakeholder participants.”⁷⁵

Most importantly, the maintenance by most SSOs of a flexible RAND/FRAND model, in effect, reflects recognition and protection of *the fundamental right of every SSO member to freedom of contract*. Freedom of contract rights are especially important to small and medium-sized businesses that file fewer patents on core technologies, for it is they which are most dependent on the exercise of strong IP rights in the marketplace in order to secure a competitive advantage. If they are unable to freely enter into royalty-based licenses with other SSO members on a RAND basis, it is more than possible that they would choose not to participate in the standardization process at all.

In the end, SSOs and consortia should clearly define whatever IPR policies they adopt, and they should be “no less rigorous than those of the ISO, since most consortia operate in the international arena.”⁷⁶

Paragraph 120. The ITSSD agrees that self-regulatory SSO mechanisms such as voluntary patent searches can help to reduce conflicts around IPRs and standards. However, they can be quite expensive, and if mandated by SSOs as a matter of policy, they might even drive down participation in standards bodies. And, if an SSO were to adopt such a policy, how would it, practically speaking, determine, and could it be held legally responsible if it

⁷⁵ See George T. Willingmyre, Cover Letter to Donald S. Clark, Office of the Secretary, Federal Trade Commission, accompanying Public Comments Prepared by GTW Associates, Inc. in Response to FTC Study entitled *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy*, (June 14, 2002) accessible at: <http://www.ftc.gov/os/comments/intelpropertycomments/index.shtm> . See also *Considerations in Assessing a Standards Developing Organization’s Intellectual Property Rights Policies in Advance of Participation*, Public Comments Prepared by GTW Associates, Inc., in Response to FTC Study entitled *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy*, supra, at: <http://www.ftc.gov/os/comments/intelpropertycomments/gtwiprarticle1.htm> ; *Intellectual Property Rights Policies of Selected Standards Developers* (May 2002), Submission Prepared by GTW Associates, Inc. in Response to FTC Study entitled *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy*, supra, at: <http://www.ftc.gov/os/comments/intelpropertycomments/gtwiprarticle3.htm> ; *Intellectual Property Rights Policies of Selected Standards Developers* (Updated Oct. 2004), GTW Associates website, at: <http://www.gtwassociates.com/answers/IPRpolicies.html> ; *Criteria for the Evaluation of a patent policy for a Standards Setting Organization*, GTW Associates website, at: <http://www.gtwassociates.com/answers/draftIPRcriteria.htm> .

⁷⁶ “ISO [P]atent [P]olicy 22 mandates, as a minimum, commitment to reasonable and non-discriminatory (RAND) licensing by participants. How RAND is implemented is a matter left to the organization, as are any other rules governing IPR. However, the rules must be complete, spelling out the requirements of members, the penalties for non-compliance, and remedies available to members for such non-compliance. Basically, there must be clear assurance that the holder of IPR will not attempt to treat other consortia participants and users of the standard unfairly.” See George T. Willingmyre, *Approaches to Influence the IPR Policies and Practices in US and Global Standards Setting* (June 14, 2002), Submission Prepared by GTW Associates, Inc. in Response to FTC Study entitled *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy*, supra, at: <http://www.ftc.gov/os/comments/intelpropertycomments/gtwiprarticle2.htm>.

determined wrongly, exactly when a patent search should be run, given that the technical scope of a specification often changes over the course of its development?

Furthermore, the ITSSD is concerned that the application of competition law would be available as an option to address alleged member violations of private standards bodies' IPR policies and/or RAND/FRAND commitments. Although legal regimes vary worldwide, in general, a failure to comply with a RAND/FRAND commitment, or a standards body's IPR policy, is actionable under *contract* law. The ITSSD would appreciate greater clarification of the need to employ competition law in such cases where contract remedies are plainly sufficient and the threat of treble damages (common in antitrust statutes) is clearly unnecessary to deter less than egregious conduct. What particular scenarios / instances are the Report's authors troubled by? Conflicts between parties over IPRs and standards most often entail disputes surrounding competing commercial /economic interests in the standard, and nothing more. While competition law may be used by national governments in rare instances to prevent the 'carving up of markets by predatory standards body members (i.e., egregious market conduct), the Report's implied suggestion that competition law could be utilized more generally to resolve purely contractual disputes raises serious concerns. In particular, it would appear that there are WIPO stakeholders who believe that the right to freedom of contract must be constrained at all costs, as could be gleaned from the discussion in Paragraphs 107-108.

Paragraph 121. The ITSSD is concerned about how these new definitions promoted by certain organizations have already confused standards developers and implementers as well as the licensing public about a well known concept that has historically been defined and practiced instead in terms of *process*. There are at least two reasons why it is misleading to define an 'open standard' "as a specification whose sole quality is that it is unconditionally and freely available to those who wish to implement it. First, such a definition ignores the right of essential patent holders to decide how they will license their intellectual property. Second, fees may be charged to obtain a copy of an open standard in order to defray standards development costs."⁷⁷ In other words, "open does not imply free."⁷⁸

"Historically, ANSI and many U.S.-based developers of voluntary consensus standards have used the terms "open" or "openness" to characterize a process that has certain important features. These include: 1) consensus by a group or "consensus body" that includes representatives from materially affected and interested parties; 2) broad-based public review and comment on draft standards; 3) consideration of and response to comments submitted by voting members of the relevant consensus body as well as by the public; 4) incorporation of approved changes into a draft standard; and 5) availability of an appeal by any participant alleging that due process principles were not respected during the standards-development process."⁷⁹ While these same features [at least, traditionally, have been] central to the

⁷⁷ See Patricia Griffin, *Current Attempts to Change Established Definition of "Open" Standards*, ANSI Standardization Activities Critical Issues Paper (May 2005) at: <http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues%20Papers/Griffin%20-%20Open%20Standards%20-%202005-05.doc> ; <http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues%20Papers/Open-Stds.pdf> .

⁷⁸ See George W. Arnold, *Views on Open Standards and Interoperability* ETSI Conference (May 26, 2005) at: <http://www.etsi.org/website/document/Workshop/SOSInterop/SOSinteropIpresentation04.pdf> .

⁷⁹ See Patricia Griffin, *Current Attempts to Change Established Definition of "Open" Standards*, *supra*. Indeed, even Philippe Baechtold, the Head of the WIPO Patent Law Section has noted

policies of well-recognized regional and international standards bodies” such as the International Telecommunication Union (ITU), International Organization for Standardization (ISO), International Electrotechnical Commission (IEC) and the European Telecommunications Standards Institute (ETSI), the ITSSD observes that the definition of ‘open standards’ has continued to evolve, at least among the international ‘de jure’ organizations,⁸⁰ and even within ANSI.⁸¹ Industry consortia such as the World Wide Web (WC3) Consortium,⁸² the Organization for the Advancement of Structured Information Standards (OASIS)⁸³ and the Internet Engineering Task Force (IETF),⁸⁴ on the other hand, have seemed to prefer that their members employ royalty-free patent licensing terms or that they contribute non-patented technologies (or agree to non-assertion of patent claims) to promote such organizations’ development of ‘open standards’.^{85 86 87}

[Footnote continued from previous page]

- the historic definition of ‘open standards’: “Open standards are technical specifications that meet criteria of openness in their creation, implementation and use, as defined by SSOs (e.g., under Resolution GSC-10/04).” See Richard Owens and Philippe Baechtold, *IPRs and Standards: Some Issues*, SOS InteropII, Sophia Antipolis (Sept. 20-21, 2005), at: <http://www.etsi.org/website/document/workshop/sosinterop/sosinteropiipresentation11.pdf>
- ⁸⁰ For example, during July 2008, the Global Standards Collaboration (GSC) revised its definition of ‘open standards’ to include the following fundamental elements: “...a standard is subject to RAND/FRAND Intellectual Property Right (IPR) policies which do not mandate, but may permit, at the option of the IPR holder, licensing essential intellectual property without compensation, and the standard is published and made available to the general public under reasonable terms (including for reasonable fee or for free).” See *GSC Resolution 13/24 – ‘Open Standards’* (document GSC13-CL-31), 13th Global Standards Collaboration (July 17, 2008) at: http://www.itu.int/dms_pub/itu-t/oth/21/04/T21040000040038MSWE.doc . The GSC is a “venue for the leaders of the Participating Standards Organizations and the ITU to: Freely exchange information on the progress of standards development in the different regions and the state of the global standards development environment; and Collaborate in planning future standards development to gain synergy and to reduce duplication”. See *2.0 Scope and Mandate of GSC - Global Standards Collaboration (GSC) Governing Principles Version 1.4*, (Approved Oct. 15, 2007) at: http://www.itu.int/dms_pub/itu-t/oth/21/02/T21020000010001MSWE.doc . See also Dan Bart, *GSC: Standardization Advancing Global Communications*, Summary of Issues and Results From GSC-11 IPR WG (GSC11(06) (Closing _08_IPR WG Rpt), at pp. 12-13.
- ⁸¹ ANSI’s definition seems to have expanded to include a RAND royalty component - “Promotes access to essential IPR by implementers without undue financial burden while permitting reasonable license fees and/or other reasonable and non-discriminatory terms”. See George W. Arnold, *Views on Open Standards and Interoperability*, supra, at slide 12.
- ⁸² See *About the World Wide Web Consortium (W3C)*, W3C website at: <http://www.w3.org/Consortium> .
- ⁸³ See *About OASIS*, OASIS website at: <http://www.oasis-open.org/who> .
- ⁸⁴ See *Overview of the IETF*, IETF website at: <http://www.ietf.org/overview.html> .
- ⁸⁵ “The W3C Patent Policy governs the handling of patents in the process of producing Web standards. The goal of this policy is to assure that Recommendations produced under this policy can be implemented on a Royalty-Free (RF) basis. W3C Patent Policy (Feb. 5, 2004) at: <http://www.w3.org/Consortium/Patent-Policy-20040205/#sec-Requirements> . “As a condition of participating in a Working Group, each participant (W3C Members, W3C Team members, invited experts, and members of the public) shall agree to make available under W3C RF licensing requirements any Essential Claims related to the work of that particular Working Group.” *Id.*, at 3.1. *W3C RF Licensing Requirements for All Working Group Participants*. “With respect to a Recommendation developed under this policy, a W3C Royalty-Free license shall mean a non-assignable, non-sublicensable license to make, have made, use, sell, have sold, offer to sell, import, and distribute and dispose of implementations of the Recommendation that: 1. shall be available to all, worldwide, whether or not they are W3C Members; 2. shall extend

[Footnote continued on next page]

The ITSSD questions the rationales set forth in paragraph 121 to justify defining open standards as those with royalty-free access to patent-rich standards. In particular the ITSSD is skeptical that “*society as a whole would benefit from the open and royalty-free access to standards...this model would best ensure interoperability, greater innovation and consumer welfare...where a royalty-free policy is adopted, the benefit of standardization may outweigh the loss of royalty income in certain technologies, simply through greater quantities of a certain product being sold.*” The ITSSD is admittedly biased in favor of preserving the rights of IP holders in an open standards environment. As previously discussed, no standards, open or otherwise, can ensure interoperability, given the opportunity for engineering and other conflicts. And it is quite difficult to ensure that higher volume sales of standards-embedded ICT products will always compensate for the loss of royalty income forsaken as the result of a royalty-free RAND contract term or an agreement not to assert patent claims, especially in lean economic times.

Paragraph 122. The ITSSD is concerned that the open source software and royalty-free open standards movements, in part, funded by multinational corporations the business models

[Footnote continued from previous page]

to all Essential Claims owned or controlled by the licensor...4. may be conditioned on a grant of a reciprocal RF license (as defined in this policy) to all Essential Claims owned or controlled by the licensee. A reciprocal license may be required to be available to all, and a reciprocal license may itself be conditioned on a further reciprocal license from all. 5. may not be conditioned on payment of royalties, fees or other consideration...” *Id.*, at 5. *W3C Royalty-Free (RF) Licensing Requirements.*

⁸⁶ “The OASIS Intellectual Property Rights (IPR) Policy governs the treatment of intellectual property in the production of deliverables by OASIS Open (hereafter referred to as OASIS). This Policy applies to all members of OASIS and their Affiliates (as defined below)...To the extent that a Contributor holds a copyright interest in its Contribution, such Contributor grants to OASIS a perpetual, irrevocable, non-exclusive, royalty-free, worldwide copyright license, with the right to directly and indirectly sublicense, to copy, publish, and distribute the Contribution in any way...” See Section 1 Introduction; 5.2 Contributions - Copyright Licenses, OASIS Intellectual Property Rights (IPR) Policy at: <http://www.oasis-open.org/who/intellectualproperty.php>; <http://www.oasis-open.org/who/intellectualproperty-2008-05-02.php>. “To permit TC Members and their TC Parties to develop implementations of OASIS Draft Deliverables being developed by a TC, each TC Party represented by a TC Member in a TC, at such time that the TC Member joins the TC, grants to each other TC Party in that TC automatically and without further action on its part, and on an ongoing basis, a limited covenant not to assert any Essential Claims required to implement such OASIS Draft Deliverable and covering making or using (but not selling or otherwise distributing) Licensed Products that implement such OASIS Draft Deliverable...” *Id.*, at 6 *Limited Patent Covenant for Deliverable Development.*

⁸⁷ “Specifically, it is helpful to indicate whether, upon approval by the IESG for publication as RFCs of the relevant IETF specification(s), all persons will be able to obtain the right to implement, use, distribute and exercise other rights with respect to an Implementing Technology a) under a royalty-free and otherwise reasonable and non-discriminatory license, or b) under a license that contains reasonable and non-discriminatory terms and conditions, including a reasonable royalty or other payment, or c) without the need to obtain a license from the IPR holder.” See S. Bradner, 6.5. *What Licensing Information to Detail in a Disclosure*, RFC 3979 -Intellectual Property Rights in IETF Technology: Best Current Practice, at: <http://tools.ietf.org/html/rfc3979> (“This document specifies an Internet Best Current Practices for the Internet Community...”) *Id.*

of which have evolved from one based on ICT ‘products’ to one based on ICT ‘services’,⁸⁸ and certain opportunistic national governments,⁸⁹ are working together to obscure the differences between these two concepts, in an effort to ‘change’ (arguably weaken) the longstanding international IP law paradigm from one based on private property rights (patents and copyrights) to one based on ‘universal access to knowledge’ (A2K)/free know-how. ITSSD research has revealed that such protagonists have employed both utilitarian arguments and moral suasion to persuade national and international governments and policymakers that collaboratively produced and widely shared knowledge is more likely to lead to innovation and technology transfer than under the current patent and copyright systems. Given the extent of such efforts, the ITSSD believes that paragraph 122 should more extensively address the issues underlying why, in the context of ICT, “the notion of “open source”...should not be confused with open standards.”⁹⁰ Indeed, it is possible that royalty-free copyrighted OSS can operate at the same time as and not conflict with royalty-based patents that may underlie the OSS.⁹¹

8. Knowledge Ecology International (KEI)

Part IV of the WIPO Report on the International Patent System highlights the inherent tensions that exist between patents and standards particularly when the “implementation of a standard calls for the use of technology covered by one or more patents”. To some observers, these tensions that routinely arise in the realm of patents and standards can appear as distant and arcane areas with little relevance to the field of international trade. Recent developments in the WTO Technical Barriers to Trade (TBT) Committee, the Internet Governance Forum (IGF) and the increased attention that the WIPO Standing Committee on the Law of Patents

⁸⁸ New ICT sector business models have emerged pursuant to which companies sell ‘business solutions’ that include open source software (OSS) and/or services for OSS. The OSS is given away for free so that other components of an IT solution, *i.e.*, hardware, custom software, and services, can be sold for profit. For example, for-profit services may include solutions consulting, maintenance, support, or system integration.

⁸⁹ See *Rediscovering the Value of Intellectual Property Rights*, supra, at II. Brazil Challenges the Established IPR Framework, B. Brazil Actively Promotes a New International Paradigm of ‘Open Source’/ ‘Universal Access to Knowledge (A2K)’, at pp. 72-101 and accompanying endnotes. These companies include IBM, SUN, Linux, Red Hat and Novell.

⁹⁰ “Open ICT standards can be implemented using OS, but ...“Open source”and “open standards”are NOT the same thing.” See Richard Owens and Philippe Baechtold, *IPRs and Standards: Some Issues*, supra at Slide 4.

⁹¹ The contracts entered into between companies and customers cover solutions and services that often include the OSS or require the customer to download certain OSS (free of charge) from the internet. *Although no royalty is charged for use of the copyrighted OSS, such free use is circumscribed by a license with enforceable terms and conditions* that is usually embedded as a file within the software itself.

Yet, it should also be pointed that, although the authors of the OSS do not charge the companies which give away the OSS to sell services any royalties for the use of the OSS, it does not preclude other 3rd parties entities that might have patents infringed by the OSS from requiring the OSS authors and their recipients of OSS to take a patent license. Patent licenses offered by parties other than the OSS’s authors or distributors do not conflict with OSS licenses. As a result many standards developed under a RAND/FRAND regime are implemented in OSS today. There are notable examples in which commercial implementations of RAND/FRAND-based standards have been widely adopted despite a well-known need to accept third party patent licenses. (See for example Open SSL.) Solutions and service providers can be expected to compensate patent holders when OSS including patented technology is required by the solutions or service contract.

(SCP) has paid to patents and standards illustrate both the relevance and the importance of this topic.

Beginning with the WIPO Working Group on Reform of the Patent Cooperation Treaty meeting in May 2004, KEI has underscored the problems faced by standard setting organizations (SSOs) with respect to the disclosure of relevant patent claims.

Standard setting organizations have a legitimate interest in knowing before they adopt a standard if it will be free of patents, or if the patents relating to the standard will be licensed on reasonable terms. Increasingly this is a global problem. The Internet Engineering Task Force (IETF), the World Wide Web Consortium (w3c) and other bodies create global standards. They should know the entire global patent landscape before they act. At present there is no global framework that requires patent owners to disclose patents relevant to the standard.

In establishing standards for new technologies, protocols and platforms, it is generally the case that a standard setting organization (SSO) seeks disclosure of patent claims essential to the working of the relevant field of technology. If there exist relevant patent claims, the SSO will either (a) choose a different standard not encumbered by the patent, or (b) ask the patent owner to agree not to enforce existing or future patent claims against those implementing the standard, (c) request the patent holder to license the patent on a royalty-free basis, or (d) seek a commitment by the patent owner to license on reasonable and non-discriminatory (RAND) terms.

Patent owners are not currently required to disclose such patent claims, except in limited circumstances in some countries. For example, in the United States and some other countries, there is an expectation that patent owners must sometimes disclose patent claims when they are members of the body adopting the standard. This obligation is inadequate, however, because it does not exist in some countries, or to patent owners who are not active in the standard setting process.

The WIPO report highlights that tensions can arise between patents and standards with respect to the disclosure of patents “which become apparent when the implementation of a standard calls for the use of technology covered by one or more patents.” As the International Bureau has noted, current competition and legal remedies may not be enough to solve the inherent tensions that routinely arise in the realm of patents and standards. Reiterating our call at the 12th session of the WIPO SCP, WIPO should consider if the current systems of providing constructive notice regarding patent status to standards making bodies is working well in a global economy. WIPO should also consider whether or not it can facilitate global disclosures of patents on proposed standards, including a possible an instrument on patents and standards that would address both the issue of disclosure and remedies to non-disclosure, not only for members of standards-making organizations, but extending to third parties as well.

KEI notes that issues concerning standards are increasingly global concerns, involving goods and services that move in international trade across borders.

One issue that is very important and highlighted in the WIPO report concerns the disclosure (and non-disclosure) of patents relevant to the implementation of a proposed standard. When goods move in international trade, the systems for such disclosure cannot be based upon the laws of a single country, and there is a strong rationale for global norm-setting

in this area. Companies and patent owners who operate in good faith do not rely upon patent ambushes.

We note that many businesses believe that the current systems for disclosure are inadequate, in part because they do not extend outside of the membership of standard-setting bodies, and the disclosures that are made are often deliberately not helpful. Issues of standards are increasingly important for vast areas of the modern economy, including of course information, computing and telecommunications technologies and services, as well many other many other areas, such as certain energy and environmental technologies, and important elements of transportation technologies, to mention a few.

In March 2005, a multi stakeholder group proposed a treaty on access to knowledge. This included a mechanism for managing disclosures on patents relevant to proposed standards.

“Part 6.1 and 6.2 of May 10, 2005 Draft proposal for a Treaty on Access to Knowledge

Part 6 - Promotion of Open Standards

Article 6-1 - Committee on Open Standards

A committee on open standards (COS) shall be established.

Article 6-2 - Disclosure obligations for patents relating to standards development organizations.

(a) The COS shall establish a process and criteria for a Standards Development Organization (SDO) to request a managed disclosure of relevant patent claims for standards relevant to a knowledge good or service. To make such a request, the SDO must be global, with a membership that is open to any party, and the qualifying open standard must:

VERSION 1

- (i) be adopted and maintained by a not-for-profit organization, and with ongoing development based upon an open decision-making procedure available to all interested parties (consensus or majority decision);
- (ii) be published, with the specification of the standard available either freely or at a nominal charge, with permissible to all to copy, distribute and use it for no fee or at a nominal fee; and
- (iii) the intellectual property aspects of the standard, including the relevant patents or data, shall be made irrevocably available on a royalty-free basis; and
- (iv) there are no constraints on the re-use of the standard.

VERSION 2

- (i) be published without restriction (e.g., potential implementers are not restricted from accessing the standard) in electronic or tangible form, and in sufficient detail to enable a complete understanding of the standard’s scope and purpose;

- (ii) be publicly available without cost or for a reasonable non-discriminatory fee for adoption and implementation by any interested party;
 - (iii) Any patent or data rights necessary to implement the standards are made available by those developing the specification to all implementers on reasonable and non-discriminatory (RAND) terms (either with or without payment of a reasonable royalty or fee); and
 - (iv) The process to develop, maintain, approve, or ratify the standard is by consensus, in a market-driven standards-setting organization that is open to all interested and qualified participants.
- (b) The request for a managed disclosure process shall include the following:
- (i) A description of the SDO
 - (ii) An initial specification of the standard, including the expected applications for the standard,
 - (iii) The benefits to the public of the development of the standard,
 - (iv) Disclosures of patents relevant to the proposed standard that are not responsive to the requirements to be specific with regard to the relevance of the patent to the proposed standard shall be rejected.
- (c) Members agree that a patent holder that fails to make constructive disclosures of relevant patent claims will be prevented from enforcing the patent against the implementation of the open standard.”

Recommendations and Suggestions

- The SCP should gather information and evidence regarding state practice in terms of obligations to disclose patents on proposed standards.
- To facilitate the information gathering process, the SCP should develop a questionnaire for WIPO member states.
- Innovative businesses and consumers should be given a forum on the WIPO web page to share their views on the adequacy of the current systems of managing disclosures.
- The SCP should consider a disclosure mechanism based upon the one proposed in the March 10, 2005 draft of the stakeholder proposal for an access to knowledge treaty.

9. Third World Network (TWN)

Licensing and the Transfer of Technology

In para 99, in an attempt to try and justify patents encouraging technology transfer and FDI, the Report states in a convoluted manner that although “there is not much evidence”, research says that patents and enforcement measures “encourage technology transfer but that it is only one among many other factors influencing such a transfer, which include the size of

the market, the faculty to absorb technology, financial incentives and the existing infrastructure, among others”.

If there is no hard evidence making a positive link between patents and technology transfer and FDI, and if “patents” is only one of the many factors, then the positive link between patents and technology transfer and FDI is non-existent.

It is noteworthy that CIPR has stated that, “If the question is addressed in terms of what factors are most important in determining foreign investment, it is quite common for IPRs to be omitted altogether.”⁹²

The Report does recognize that too strong patent protection in particular in the early stage of industrialization when learning takes place through reverse engineering and duplicative imitation, or an abuse of such rights, may also hinder technology transfer and increase the cost of licences. The Report would benefit from a further elaboration on this point, of which there is growing evidence.

As mentioned above (see comment on Chapter II) discussion on the role of patents in transfer of technology is incomplete without evidence being presented on how the now-industrialized countries acquired technology and what type of patent policies they adopted when they were in the process of development; and the role of reverse engineering and imitation in enhancing local capacity in the now-industrialized countries, east asian economies (e.g. Japan, Korea and Taiwan)⁹³ as well as in developing countries such as India which has an enviable pharmaceutical industry.

The Report also focuses on voluntary licensing agreements as one means of transferring technology. Of course the assumption here is that patent holders are willing to license technology on favorable terms to developing countries. The Report needs to present conclusive empirical evidence, to support its assertion, since there is evidence to the contrary.

Developing countries, which have the capacity to absorb technology often, find it difficult to obtain such licences on favorable terms as they are seen as potential competitors. A concrete example on this point is the abovementioned study conducted by Watal of the effect of IPRs on technology transfer, in the case of India, in the context of the Montreal Protocol.

In addition most developing countries do not have sufficiently mature anti-competitive structures to deal with abuses of patent rights effectively. But the Report does not elaborate on this point in para 106-108.

The Chapter also avoids discussion on the role of compulsory license in accessing technology, especially when a patent holder refuses to license the use of a technology on fair and reasonable terms. The Report should elaborate on the use of compulsory licence to access technologies e.g. the grounds on which CL can be issued, the provisions available in the TRIPS Agreement on this matter etc; examples of countries or courts that have used or threatened to use compulsory licensing to access to technologies or to deal with anti-

⁹² CIPR, p. 27

⁹³ See e.g. Nagesh Kumar, “Intellectual Property Rights, Technology and Economic Development: Experiences of Asian Countries”, Study paper prepared for the UK Commission on IPRs, available at http://www.iprcommission.org/graphic/documents/study_papers.htm

competitive practices. For such examples see KEI Research Note 2007:2 on “Recent examples of the use of compulsory licenses on patents”.

Standards

The issue of “Standards” is discussed in para 111 to 122 of the WIPO report.

The report has rightly identified that early disclosure of patents can help the better functioning of the standardization process. However, the report does not articulate the current behavior prevailing among industry participants where patents are strategically used by firms to avoid early disclosure of “essential” patents pending during the process of standard setting. Further, a review of the patent disclosure and licensing policies adopted by standard-setting organizations would reveal that most standard-setting organization do not provide coherent set of norms concerning the time of disclosure, identification of “essential” patents, reasons for optional licensing (i.e. royalty free, F/RAND etc.). There is also no compelling reason why royalty free licensing should not be made mandatory when some industry consortiums in the area of ICT have opted for the same.

The report also fails to mention the special concerns of developing countries in relation to patents and standards including China’s proposal to the WTO Technical Barriers to Trade Committee.⁹⁴ Developing country manufacturers, who are generally downstream implementers of technical standards, often find themselves in a perpetual trap due to the effects of royalty staking and patent ambush. Thus the Report should discuss the concerns of developing country and its industries in relation to patents and standards.

While the report spells out that countries can adopt measures in the nature of limitations and exceptions, compulsory licensing or limitations on enforcement of patent rights, special problems may accrue when products involving technical standards are traded across borders and the countries laws do not provide for such remedies. The report also does not discuss the possible limitation on the very grant of patents in some areas of technologies available under article 27.1 of TRIPS. The report also does not discuss how differences in the application of competition laws within different jurisdictions in cases involving misuse of patents or other problems concerning patents in technical standards by both standard participants and third parties can create problems of legitimacy for international technical standardization process.⁹⁵

Collaborative Research Projects: Public Private Collaboration

The WIPO patent report in para 130-132 presents the US Bayh Dole Act of 1980 (BD) as a possible means for technology diffusion. However, there needs to be more in-depth

⁹⁴ See proposal submitted by China in the WTO TBT committee (IPR Issues in Standardization – G/TBT/W/251 and G/TBT/W/251/Add.1)

⁹⁵ For example, consider the recent decision of US CAFC in *Rambus Inc v. FTC* (2008) Available at: <http://pacer.cadc.uscourts.gov/common/opinions/200804/07-1086-1112217.pdf>. The FTC has gone in appeal. A similar case is pending with the European Competition Commission- See, ECC Press Release (2007) Available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/330&format=HTML&aged=0&language=EN&guiLanguage=en>. Following recent pro-open standards advocacy by the European Competition Commission, the results in application of competition laws to patents may show greater degree of diversion. See for example ECC press release (2008) in support of open standards Available at: <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/317>

analysis of whether this is indeed the case. A recent paper, which should be thoroughly, studied for purposes of this report states:

“Although universities can and do patent much more in the post-BD era than they did previously, neither overall trends in post-BD patenting and licensing nor individual case studies of commercialized technologies show that BD facilitated technology transfer and commercialization. Empirical research suggests that among the few academic patents and licenses that resulted in commercial products, a significant share (including some of the most prominent revenue generators) could have been effectively transferred by placed in the public domain or licensed non-exclusively”.⁹⁶

In addition, under the topic of Public Private Collaboration, only the example of BD is given, which the report itself admits has its own pitfalls, and yet it concludes by saying that “Experience shows, however that the successful development of new products often requires a certain form of cooperation between the public and private sectors” and that “In order to achieve such results, it may be argued that funding for research projects run by the public private partnerships in developing countries should be increased”. The Report fails to provide examples of the successful public private models in developing countries to support its contention that funding for such models should be increased.

The report hopes that allowing patents on research coming out of the academia and public funded research would create incentives for building local technical know-how and scientific expertise that could encourage domestic production in various industries. The basis for this hope is not clear noting there is very weak evidence that that BD has even worked in the US in terms of facilitating technology transfer and commercialization, (and such evidence is also not presented in the WIPO report).

The report also fails to explain why technology diffusion is not faster through publications since historically most of the economic contributions of public sector research institutions have occurred without patents through dissemination of knowledge, discoveries and technologies by means of journal publications, presentations at conferences and training of students.⁹⁷

The report also does not address the increasing problems of patenting of upstream research tools and platforms that have resulted due to BD.⁹⁸

The report takes a market oriented approach towards outcomes of public funded research. This notion has been questioned time and again and many commentators are of the view that this market oriented view promoted through extensive patenting has failed to further

⁹⁶ So AD, Sampat BN, Rai AK, Cook-Deegan R, Reichman JH, et al (2008) Is Bayh-Dole good for developing countries? Lessons from the US experience. PLoS Biol 6 (10): e262.doi:10.1371/journal.pbio.0060262

⁹⁷ So AD, Sampat BN, Rai AK, Cook-Deegan R, Reichman JH, et al (2008) Is Bayh-Dole good for developing countries? Lessons from the US experience. PLoS Biol 6 (10): e262.doi:10.1371/journal.pbio.0060262

⁹⁸ So AD, Sampat BN, Rai AK, Cook-Deegan R, Reichman JH, et al (2008) Is Bayh-Dole good for developing countries? Lessons from the US experience. PLoS Biol 6 (10): e262.doi:10.1371/journal.pbio.0060262

basic science and innovative research and has deterred scientists from fundamental research to applied technologies.⁹⁹

CHAPTER V. THE CURRENT MULTILATERAL FRAMEWORK

10. Canada

(e) *Administrative Cooperation*

(i) *International Patent Classification*

Para. 154, second sentence: consideration should be given to substitute the eighth edition of the IPC by the ninth, which enters into force on January 1, 2009 and will thus be the “current” edition when the report is adopted/published next March.

(ii) *The Budapest Treaty*

Paras. 155 to 157: the Budapest Treaty is the only treaty mentioned in part V where the report does not specify the number of contracting parties. For the sake of being thorough, it could be mentioned that there are 71 contracting parties.

(f) *International Filing and Processing System*

Para. 159, fourth line: the number of contracting parties to the PCT is 139, not 138.

11. Third World Network (TWN)

Existing International Instruments

In para 133 of the report, the issue of stringent “working requirement” for patents prior to the Paris Convention (1883) is mentioned. However, it does not explain the rationale behind imposing stricter working requirements by the then industrializing nations. Studies have claimed that local working is part of the fundamental obligations of the patentee and thus cannot be dispensed with.¹⁰⁰ The WIPO report should bring out proper legal and contextual facts concerning the issue of local working as it is linked to the efficiency argument of a grant of patent.

Patent Cooperation Treaty

Issues concerning the Patent Cooperation Treaty (para 158-166) as an efficient system for patent filings are questionable in the light of problems connected to demand management and quality of patents applied through PCT and granted by national offices. It is noteworthy that an overly low threshold of novelty and inventive step criterion followed in many jurisdictions has created an artificial demand.

⁹⁹ David Mowery, Richard Nelson, Bhaven Sampat, Arvids Ziedonis "Ivory Tower and Industrial Innovation: University–Industry Technology Transfer Before and After Bayh-Dole" *Stanford University Press* Stanford.

¹⁰⁰ Micheal Halewood, Regulating Patent Holders: Local Working Requirements and Compulsory Licensing at International Law, *Osgoode Hall Law Journal*, Vol. 35 No.2 p. 245 (1997). Available at: http://www.ohlj.ca/archive/articles/35_2_halewood.pdf

The success of the PCT should not be solely based on the number of contracting parties, or the surge in patent applications for international patent filings, but must be based on more constructive parameters like quality and value of such patents applied and granted.¹⁰¹ The patent system must not encourage strategic patenting by making filings easier, more affordable and by making enforcement easier.¹⁰² Such practices may chill innovation and competition in complex fields of technology.¹⁰³ Thus the question remains - has PCT contributed to it since greater filing may lead to patent thickets and in turn endorse strategic patenting activities thereby having a chilling effect on innovation?

The Report should also explore the impact of joining PCT on the number of patent applications received in a developing country. As noted in para 47-52 the most intensive users of the PCT system tend to be a select group of developed countries. Thus if by joining the PCT, a developing country finds itself having to deal with many more patent applications (made by foreign patent holders), this will create even more access problems for such a country (which it would not have to deal with if it did not join the PCT), in addition to having adequate examination structures to deal with the increase in patent applications.

CHAPTER VI. PATENT SYSTEMS AND EXISTING FORMS OF COOPERATION

12. Congo

Exceptions and Limitations to the Rights

Concerning the limits of non-voluntary licences, the beneficiary of the licence may not, without the consent of the patent owner, grant any third party permission to perform any of the acts that he is authorized to perform under the non-voluntary licence. A non-voluntary licence may be transferred together with the establishment of the beneficiary of the non-voluntary licence or with the portion of his establishment that exploits the patented invention. No such transfer shall be valid without the authorization of the civil court.

13. Institute for Trade, Standards and Sustainable Development (ITSSD)

Paragraph 252 draws the general conclusion that computer software innovation has “special characteristics” and is actually *not* innovative in nature, that consumers need for and depend on information and communication technologies to remain ‘inherently connected’ with each other, and that, “*In order to communicate and share information and files, interoperability needs to be preserved among programs, systems and network components*” (presumably at all costs). In other words, this paragraph emphasizes the consumer interests as being *the* most important of those in the ‘hierarchy of interests’ previously discussed in connection with the concept of ‘interest balancing’ identified in paragraphs 2, 37, 106 and 119. Thus, it is implied that the grant of exclusive private patent rights can only get in the

¹⁰¹ Dominique Guellec and Bruno van Pottelsberghe de la Potterie, Application, Grants and the Value of Patents, Published in *Economic Letters*, 69(1) 2000.

¹⁰² D Harhoff, Strategic Patenting and Patent Policy, Presentation Prepared for the EC-BEPA Workshop on EU Patent Policy – Brussels, September 19th, 2007. Available at: http://ec.europa.eu/dgs/policy_advisers/docs/strategic_patenting_Harhoff.pdf

¹⁰³ James Bessan, Strategic Patenting of Complex Technologies, Available at: <http://www.researchoninnovation.org/thicket.pdf>

way of promoting interoperability, consumer interconnectivity and competition within society at large.

The ITSSD believes that the making of these statements in the absence of a definition of 'special characteristics' may lead stakeholders to reach unproven conclusions. Indeed, one could argue that there are certain 'special' characteristics of computer software which are equally, or perhaps, more applicable to digital engineering relating to computer and electronics hardware.

Paragraph 252 also states that, "In other words, the value of a good or service depends on the number of users of that good or service (network effect)." This is clearly a reference to an antitrust concept that has been used to address the theoretical impact (a market failure that could occur as the result of) that the exercise of a patent could have on competition in 'network industries'. The ITSSD wishes to share with the SCP its preliminary research on 'network effect'. First, network industries include not only computer software, but also "communications, the Internet, computer hardware, commercial intermediaries, payment systems, and financial markets."¹⁰⁴ Second, according to at least one expert, "[n]etwork effects derive from benefits that consumers receive when other consumers consume network goods" (i.e., they derive mutual benefits).¹⁰⁵ "To obtain mutual benefits from consumption, it is necessary for there to be coordination between consumer decisions."¹⁰⁶ "The network effects argument predicts that market failure will occur if consumers cannot coordinate their consumption decisions. Advocates of regulatory intervention believe that consumers may not be able to capture the full benefits of networks. The problem with this argument [however,] is that it *assumes* that there is an absence of consumer coordination."¹⁰⁷ The pessimistic view is that transaction costs [e.g., patent monopoly costs] prevent consumers from coordination, thus leading to externalities and market failure."¹⁰⁸ "In [such an] environment, firms [can] gain competitive advantage that provides extra incentives for anticompetitive behavior, including monopolization and exclusion."¹⁰⁹ Notwithstanding this view, which many experts seem to hold, this commentator believes that such conclusions are invalid. In fact, he argues that by employing antitrust (anti-competition) policies to correct 'network externalities' regulators will adversely impact both competition and innovation.¹¹⁰

Third, in order for the network effects argument in favor of governmental intervention to be persuasive in the context of patents, one must assume that only dominant firms are able to obtain patents in the relevant field of technology (which is emphatically not the case in the

¹⁰⁴ See Daniel F. Spulber, *Consumer Coordination in the Small and in the Large: Implications For Antitrust in Markets with Network Effects*, 4 *Journal of Competition Law and Economics* (2008), pp. 1-56, 2, available at SSRN: <http://ssrn.com/abstract=1146442> .

¹⁰⁵ *Id.*, at p. 2.

¹⁰⁶ *Id.*, at p. 5.

¹⁰⁷ *Id.*, at p. 3.

¹⁰⁸ *Id.*, at p. 5.

¹⁰⁹ *Id.*, at p. 4.

¹¹⁰ "Some antitrust scholars and policy makers call for additional antitrust enforcement in markets with network effects. In particular, the presence of network effects is said to restrain innovation by incumbent firms and to lead to exclusionary behavior. Also, it is alleged that network effects create conditions for natural monopoly and that as a consequence incumbent firms may be able to deter entry and monopolize markets. I demonstrate that these arguments are based on flawed economic analysis. Network effects do not constitute a major market failure. Antitrust policy that is based on correcting "network externalities" is likely to impact adversely both competition and innovation. There is no economic basis for heightened antitrust scrutiny in markets with network effects." *Id.*, at p. 8.

area of software). While it is true that patents held by the dominant firm may enhance its market power, other patents held by would-be competitors will constrain the options available to a dominant firm, tending to its diminish market power. Thus, the competitive effect of patentability in the field may either increase or decrease the contestability of the market.

Fourth, the “natural monopoly” and “network effects” arguments are neither unique to software nor particularly relevant to the question of patentability. If the SCP insists on retaining a reference to network effects within the WIPO Report, the ITSSD requests that a more detailed explanation of their relevance to patentability and computer software be prepared.

14. Latin American Association of Pharmaceutical Industries (ALIFAR)

Prior art – Novelty – Inventive step – Grace period, para 210.

The criteria for evaluating novelty (prior art) and inventive step are among the main flexibilities of the patent system in the TRIPS Agreement. The definition which each national law provides for these patentability requirements and criteria applied by industrial property offices demonstrates the inappropriateness of establishing uniform standards which limit the margins for maneuver of countries in evaluating and granting patents.

Low standard patents do not promote innovation or development but, on the other hand, avoid others using and manufacturing inventions which are simple obvious modifications of available technologies.

The same is true of the grace period linked to the requirement of novelty and prior art.

Quality, para 241

The patent system was devised to reward inventive capacity, stimulate progress and promote innovation. The inventor’s contribution to society and the need to recover the investment in the generation of his invention serve as the underlying justification for the system.

However, the achievement of the main objectives has been distorted owing to problems with the management and design of the system. This is translated in the form of a reduction in the standards of non-obviousness or inventive step applied in the examination of the grant of patents, with the result that patents of low quality and broad scope are being granted.

Thousands of patents are granted for commonplace developments and it should be asked whether this exponential growth in the number of patent applications filed each year is evidence of the increasing importance of knowledge assets in the modern economy or are the result of the slackness of a system which has relaxed its requirements.

The implications of the system include:

(a) industrial property offices have a wealth of cases to resolve, which largely surpasses its capacities and resources. This situation may lead to the flawed examination of applications or to the same steps taken by a number of offices in developed countries being followed, in the belief that the examination which they are conducting is a guarantee of solidity.

(b) commonplace patents may play an important role in hampering competition, extending the life of patents close to expiry or affecting the commercialization of products in the public domain.

(c) commonplace patents are in many cases the cause of “the tangle of patents” which may constitute an obstacle to the progress of research.

The problem arises when the lax criteria and flawed examination apply in certain areas of particular social and economic impact, as is the case in the pharmaceutical industry. Even where the patent may be weak or questionable, the economic capacity of certain firms will allow them to use patents aggressively in order to exclude from the market especially small and medium-sized producers who lack the resources to meet expenses and prolonged disputes.

The application of the ISO standard may wrongly be assumed to be a presumption of the validity of the patents granted, where the standard applies only to the procedure and has no relation to the quality of the examination.

15. Third World Network (TWN)

Search and Examination

The issue of search and examination is discussed in para 181-197. The report states in para 181 that search and examination thus ensure that granted patents meet *a priori* the requirements prescribed under the applicable law and as a consequence, patent owners and third parties will enjoy more legal certainty in patent rights. However, this paradigm has come under recent challenge. It is noted by patent experts that the patent system fails to provide sufficient notice since the boundaries of the patents applied/granted are often unclear.¹¹¹ The report does not consider this paradigm involved in inefficiencies created by arguably a patent system that generates incentives for litigation rather than innovation.

In para 188, the WIPO report states “countries with full search and examination systems have been increasingly posing the same question because of their increasing backlogs”. The problem really is the trend in developed countries in relaxing the criteria, standards or practise of granting patents. The number of patents tripled from 1983 to 2002 (from 62 000 to 177 000) accompanied by a proliferation of patent awards of dubious merit for example “inventions” that are not new or are trivially obvious.¹¹² According to Jaffe and Lerner, the US PTO has become so overtaxed and its incentives so skewed to granting patents that the tests for novelty and non-obviousness have become largely non-operative. Thus the main issue should be to deal with the source of the problem and tighten the patentability criteria.

Further, if the concern for not adopting stringent patentability criterion is due to the time taken for examination and pendency of applications, then there is sufficient evidence from the recent past which has pointed out that a more stringent examination process does not lengthen the pendency period.¹¹³

¹¹¹ Bessen and Meurer, *Patent Failure: How Judges, Bureaucrats and Lawyers put Innovators at Risk*. Princeton University Press (2008).

¹¹² Jaffe, A. and Lerner, J. (2004), “Innovation and its Discontents”, Princeton University Press

¹¹³ Batabyal and DeAngelo, *Average Pendency and Examination Errors: A Queuing Theoretic Analysis*, (2007). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=983817

The report states that there is “evidence to suggest that, in many cases, applications for the same invention are being examined multiple times by different patent offices. Consequently, countries are increasingly seeking for international cooperation.” Although there be may some duplication, there is a sound reason for it i.e. that the examination should be done according to a country’s patentability criterion which in turn should reflect the country’s level of development and priorities. Thus duplication should not be seen as an efficiency issue.

Inventive step

Concerning the level of inventive step criterion (para 217-220), the report is of the opinion that “the concrete application of the inventive step requirement is quite complex and it cannot be simply limited to a debate on a “high” level of inventive step versus a “low” level of inventive step (para 220). However, such debate does make sense when the inventive step criterion adopted by a country’s patent system has a potential to exclude or include certain category of patents.¹¹⁴ Further recent decisions rendered by the US Supreme Court has come out heavily on the loose criterion of non-obviousness employed by the US patent office and has suggested corrective measures.¹¹⁵ There is sufficient evidence to the effect that a low level of inventive step (non-obviousness) can inhibit competition, which the current report has not taken into consideration.¹¹⁶

CHAPTER VII. SUPPORT STRUCTURES FOR THE PATENT SYSTEM

16. Congo

Professional secrecy should be extended to people skilled in the art who are industrial property agents or patent examiners. Patent examiners are competent to receive information that is sufficient for producing a specification.

17. Intellectual Property Institute of Canada (IPIC)

Introduction

The Intellectual Property Institute of Canada (IPIC) is the professional association of patent agents, trade-mark agents, and lawyers practicing in all areas of intellectual property law. Our membership totals more than 1,700 individuals, consisting of practitioners in law firms and agencies of all sizes, sole practitioners, in-house corporate intellectual property professionals, government personnel, and academics. Our members represent small and large businesses throughout Canada, Canadian universities and other institutions with intellectual property rights (e.g. patents, trade-marks, copyright and industrial designs) in Canada or elsewhere, and foreign organisations who do business in Canada, using their intellectual property rights.

¹¹⁴ See for example, section 3(d) of the Indian Patents Act, 1970. This section excludes certain forms of inventions if the mere discovery of known substance shall not be patented unless they differ significantly in properties with regard to “efficacy”.

¹¹⁵ See *KSR v. Teleflex*, 550 U.S. ___, 127 S. Ct. 1727, 82 U.S.P.Q.2d 1385 (2007).

¹¹⁶ See US Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (2003). Available at: <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>

During the September 2008 Assemblies of the Members States of the World Intellectual Property Organization, IPIC was granted the status of national non-governmental organization observer. Previously, IPIC has attended, by invitation, meetings of the Standing Committee on the Law of Patents (SCP).

IPIC is grateful for the opportunity to provide comments on SCP/12/3 and on the future work of the SCP. This report focuses on one aspect of the support structures for the patent system: professional privilege (section VII (b) of SCP/12/3). We note and welcome the decision of the Committee to mandate the WIPO Secretariat to establish a preliminary study on the issue of client-attorney privilege (as reported in SCP/12/4). IPIC has been aware for some time of the difficulties caused by the lack of uniformity of privilege for patent agents, not only within a national group of practitioners but also internationally, and has noted with concern the trend of recent Court decisions to limit the scope of privilege available for IP practitioners. This trend threatens to undermine the effective management and enforcement of IP rights, to the detriment of the IP system itself.

IPIC has done extensive research on this topic and we provide below brief excerpts of this research. We would be pleased to provide more detailed information if it can be of assistance to the SCP. We hope that our comments will be useful to the Secretariat and to the SCP.

Privilege for Trade-mark Agents in Canada

A detailed analysis in support of privilege for trade-mark agents in Canada was prepared in 2001 at the request of IPIC by a senior Canadian practitioner, Mr. James Fogo.¹¹⁷ In his report, Mr. Fogo notes that the advice given by trade-mark agents in the course of advising a client in securing and protecting a trade-mark registration is akin to advice given by lawyers. In fact, the advice of a trade-mark agent might well be the very same advice that a lawyer would give. However, while the lawyer's communications are privileged, the trade-mark agent's are not.

This problem was solved in the United Kingdom, Australia and New Zealand by statutes that have accorded professional privilege to trade-mark agents. In the U.K., prior to the passing of this legislation, one notable decision remarked upon the lack of privilege for trade-mark agents as follows:

“It does seem to me to be a little odd and possibly perverse, that if a trade mark agent is entitled to advise a client in relation to certain legal matters and to conduct certain legal proceedings on his behalf, the same privilege should not apply as would certainly apply in a case where the advice was being given and the proceedings were being conducted by a solicitor.”¹¹⁸

It is important to note that this lack of privilege may even extend to lawyer-agents. There have been at least two decisions in Canada where the courts have found that solicitor-client privilege exists when members of a firm are acting as solicitors, but “not when acting as trade-mark agents”.¹¹⁹

¹¹⁷ Privilege for Communications with Trade-mark Agents Resident in Canada and Listed under Rule 21 of the Trade-mark Regulations 1996, by James G. Fogo, September 2001

¹¹⁸ *Dormueuil Trade Mark* [1983] R.P.C. 131

¹¹⁹ *Visa International Service Association v. Visa Travel International Ltd.*, 74 C.P.R. (2d) 243; *Rentokill Group Ltd. v. Barrigar & Oyen*, 75 C.P.R. (2d) 10

Ultimately, the lack of privilege is a problem for the client. A client must be able to freely disclose information to an agent of his choice and to obtain advice which the client wishes to be confidential. The government allows trade-mark agents to perform certain duties under the *Trade-marks Act*. The client should be able to use the services of such agents without putting confidential information at risk of disclosure.

Mr. Fogo in his conclusion astutely observes that by providing statutory privilege to trade-mark agents, Canada will then be brought into line with leading intellectual property nations.

Privilege for Patent Agents in Canada

Support for professional privilege for patent agents in Canada is well developed and was researched by a senior practitioner at the request of IPIC, Mr. William Hayhurst.¹²⁰ In his report submitted in 2001, Mr. Hayhurst discusses the anomaly that a client who needs advice on matters relating to inventions and patents does not enjoy privilege for communications with a patent agent who is qualified to provide the necessary advice.¹²¹ The same client would be guaranteed privilege for the identical communications if dealing with a lawyer who is unfamiliar with patent law and practice and inexperienced in applying these to the relevant technologies.

The United Kingdom, Australia, New Zealand and other jurisdictions have enacted statutory rights of professional privilege for communications with patent agents and patent attorneys. Even in the United States, where no statutory protection has yet been granted, communications from a patent agent have been found to be privileged under a common law doctrine.

A client's patent protection in Canada can be hindered by the lack of professional privilege for patent agents. An inventor seeking advice may be reluctant in communicating certain information to a non-lawyer Canadian patent agent, with the concern that the communications becomes admissible as evidence should litigation arise. Such a lack of full and frank disclosure may prevent the patent agent from giving reliable and sound advice.

The lack of uniform standards on privilege and on the recognition of privilege in different countries affects the rights of clients, and the choices available to them. For example, in the U.K., where privilege attaches to correspondence with patent agents, clients have been warned that caution must be exercised in dealing with Canadian patent agents because correspondence with them is not privileged. For some clients, the right of privilege between agent and client can be of such vital importance that it can easily outweigh the convenience of consulting a local practitioner.

To obtain legal advice from a patent agent, the same conditions should apply as those associated with solicitor-client privilege: the client must be able to consult freely and in

¹²⁰ Privilege for Communications with Registered Patent Agents who are Residents in Canada, by William Hayhurst, Q.C., July 24 2001

¹²¹ Section 15(a) of the *Patent Rules*, SOR/96-423, provides that the Commissioner shall enter on the register of patent agents "... the name of any resident of Canada who has demonstrated a good knowledge of Canadian patent law and practice by passing the qualifying examinations for patent agents relating to patent law and practice"

confidence. At present, patent agents in Canada can give their clients an assurance of confidentiality, but not an assurance of privilege.

Mr. Hayhurst provides reasoned implementation proposals and consideration of their results, concluding that providing statutory privilege for patent agents in Canada will benefit users of the patent system and strengthen the international position of the profession.

Canadian Law on Privilege for Patent and Trade-mark Agents

Numerous Canadian court decisions have held that communications between patent or trade-mark agents and their clients are not privileged. In a paper presented at the WIPO-AIPPI Conference on Client Privilege in Intellectual Property Professional Advice in May 2008, Steven B. Garland and Glen Kurokawa provided an extensive analysis of the jurisprudence significant to Canadian practitioners.¹²² Below is a summary of this analysis.

The origin of the Canadian approach stems from the old English case *Moseley v. Victoria Rubber Co.* (1886), 3 R.P.C. 351, 55 L.T. 482 (High Court of Justice, Chancery Division) [*“Moseley”*], which held that “communications between a man and his patent agent are not privileged.” The judge in the *Moseley* case also had cause to note that any communications made to a solicitor acting in his capacity as a patent agent were not privileged.

It is informative to the present discussion to note that the U.K. and Canadian approaches to agent privilege, while having the same origins, have since taken decidedly different paths. Whereas in the United Kingdom there is now a statutory provision of privilege to agent-client communications pursuant to section 280 of the U.K. *Copyright, Designs, and Patents Act*, in Canada there is no such statutory provision. Canada has no equivalent judicially recognized privilege provision for agents either. In fact, the Canadian judicial approach to privilege for agents has been shown to enable parties to reach through the Canadian patent system to pierce the privilege that has been afforded to a client by the U.K. patent system. For example, in *Lilly Icos LLC v. Pfizer Ireland Pharmaceuticals* (2006), 55 C.P.R. (4th) 457, the Federal Court concluded that communications between the inventors and their U.K. patent attorneys were not privileged and were required to be produced in the Canadian litigation, despite the fact that they were considered privileged in the U.K. under Section 280 of the U.K. *Copyright, Designs and Patents Act 1988*, where the communications took place. The Canadian Court stated that judicial comity between countries does not require Canada to recognize a privilege not established in Canada.

In the United States, while Courts generally respect and apply a privilege that attaches to communications as a result of foreign law practice, U.S. Courts have also decided that, where no applicable privilege exists between a foreign agent and his client, none shall be recognized in the U.S. proceedings (*Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer Inc.*, 52 U.S.P.Q. 2d 1897, 188 F.R.D. 189 (U.S. District Court, Southern New York, 1999) [*“Rhone-Poulenc”*]).

The present lack of harmony in countries’ approaches to privilege rights for clients of agents would appear to permit erosion of the privilege rights across borders. In Canada as will be shown below, Courts have consistently held that communications between agents and

¹²² Intellectual Property Advisor-Client Privileged Communications: Canada and Other Jurisdictions by Steven B. Garland and Glen Kurokawa, May 2008

their clients are not privileged. It is apparently not within the auspices of Canadian Courts, either through the mechanisms of judicial comity or otherwise, to render decisions that take the global nature of the patent system into account where privilege is concerned.

One of the leading Canadian decisions on the privilege is that of the Federal Court of Appeal in *Lumonics Research Ltd. v. Gould et al.* (1983), 70 C.P.R. (2d) 11 (Federal Court of Appeal) [*“Lumonics Research”*], in which the Court ruled that professional legal privilege does not extend to communications between patent agents and their clients for the sole reason that patent agents are not members of the legal profession. It should be noted that this decision was rendered despite the fact that registered Canadian patent agents, lawyers or not, are the only people qualified under the Canadian *Patent Act* and *Rules* to represent clients before the Canadian Intellectual Property Office. While the Court’s comments were directed to patent agents, the decision applies equally to trade-mark agents (see, for example, *Rentokil Group Ltd. v. Barrigar & Oyen* (1983), 75 C.P.R. (2d) 10 (Federal Court, Trial Division) and *Visa International Service Assn. v. VisaTravel International Ltd.* (1983), 74 C.P.R. (2d) 243 (Federal Court, Trial Division)).

It was held in *Procter & Gamble Co. v. Calgon Interamerican Corporation et al.* (1980), 48 C.P.R. (2d) 63 (Federal Court, Trial Division) [*“Procter & Gamble”*] that in order to assert privilege, the legal advisor with whom the plaintiff communicated must have been professionally qualified to advise it in respect of Canadian law (*United States of America v. Mammoth Oil Co.*, [1925] 2 D.L.R. 966, 28 O.W.N. 22 (Ont. C.A.)). It was held that while such communication with a qualified employee is as privileged as if with a qualified private practitioner, any such lawyer must have been qualified to practice law in Canada as a barrister and solicitor, not as a patent agent.

While privilege *can* attach to patent or trade-mark agent communications in appropriate circumstances, most particularly by way of the litigation privilege (see, for example, *ABC Extrusion Co. v. Signtech Inc.* (1990), 33 C.P.R. (3d) 474 (Federal Court, Trial Division)) the Federal Court of Canada has consistently found that communications between clients and agents *per se* are not protected by privilege as per lawyer-client communications (for further examples see also *Sperry Corporation v. John Deere Ltd. et al.* (1984), 82 C.P.R. (2d) 1 (Federal Court, Trial Division); *Scientific Games, Inc. v. Pollard Banknote Ltd.* (1997), 76 C.P.R. (3d) 22 (Federal Court, Trial Division); and *Whirlpool Corp. v. Camco Inc.* (1997), 72 C.P.R. (3d) 444 (Federal Court, Trial Division)).

Equally troubling are the number of Canadian decisions that have held that privilege will not necessarily extend to communications between a client and a lawyer who is also a patent or trade-mark agent where that person is acting in his or her capacity as an agent and not as a lawyer. In these situations, the court will look at what “hat” the lawyer is wearing at the time the advice is provided. If in fact the lawyer is found by the Court to be acting in his or her capacity as a patent agent, or trade-mark agent, and not as a lawyer, then the communications may not be privileged. See, for example, *Montreal Fast Print (1975) Ltd. v. Polylok Corporation* (1983), 74 C.P.R. (2d) 34 (Federal Court, Trial Division) [*“Montreal Fast Print”*], reconsidering or rehearing refused by (1983), 75 C.P.R. (2d) 95 (Federal Court, Trial Division). Very recently, Madam Justice Snider of the Federal Court confirmed this view.

The Canadian Federal Court of Appeal has also ruled that communications from an in-house counsel who is also a patent agent will be privileged only where the in-house counsel is acting in his capacity as a lawyer in *IBM Canada Ltd. v. Xerox of Canada Ltd. et al.* (1977), 32 C.P.R. (2d) 205 (Federal Court of Appeal).

Several cases decided in the provincial Courts of Canada have also held likewise. In *Sunwell Engineering Co. v. Mogilevsky* (1986), 9 C.P.R. (3d) 479 (Ontario Supreme Court), it was stated that although it is not uncommon for one person to be both a solicitor and patent agent, where that situation arises it is necessary to determine whether the communication between the solicitor and the client involves the solicitor *qua* solicitor or *qua* patent agent.

The Federal Court of Appeal in *Lumonics Research supra*, in implicitly acknowledging that patent agents provide legal advice stated:

... all confidential communications made to or from a member of the legal profession for the purpose of obtaining legal advice or assistance are privileged, whether or not those communications relate to the kind of legal advice or assistance that are normally given by patent agents. Legal advice does not cease to be legal advice merely because it relates to proceedings in the Patent Office. Those proceedings normally raise legal issues; for that reason, when the assistance of a solicitor is sought with respect to such proceedings, what is sought is, in effect, legal advice and assistance. And, this, in spite of the fact that a solicitor, as such, cannot represent an applicant in proceedings before the Patent Office.

Nevertheless, this dichotomy in approach with respect to lawyers who are also agents does exist in Canada and has resulted in courts in the past concluding that certain communications between a lawyer and a client were required to be produced.

The law on whether communications between clients and non-lawyer agents working in law firms are subject to privilege is also uncertain. In *Whirlpool Corp. v. Camco Inc.* (1997), 72 C.P.R. (3d) 444 (Federal Court, Trial Division), Teitelbaum J. of the Federal Court noted:

The fact that a patent agent was part of a firm that also carries on business as barristers and solicitors and as patent agents under the same name is not material. Just as Mr. Justice Mahoney determined at page 65 in *Calgon, supra*, the correspondence at issue in the case at bar is directed to and from one of the patent agents rather than one of the lawyers in the firm.

In *Procter & Gamble Co., supra*, correspondence directed to and from one of the patent agents, rather than a lawyer, of the law firm was held not to be privileged. Similarly, in *Montreal Fast Print, supra*, patent agents were not able to assert privilege over their communications despite working for a law firm because they were acting solely in their capacity as patent agents.

Adding to the level of uncertainty in Canada, the approach may not be absolute. In *Group Tremca Inc. v. Techno-Bloc Inc.* (1998), [1998] F.C.J. No. 1458 (Federal Court, Trial Division), affirmed by (1999), [1999] F.C.J. No. 1813 (Federal Court of Appeal) and leave to appeal refused by (2000), 2000 CarswellNat 1723 (Supreme Court of Canada), the Court apparently viewed the relationship with the patent agent as a relationship by extension with the firm of solicitors for whom the patent agent worked, thereby attracting privilege.

It is certainly possible that information obtained from an IP advisor's file could be used in support of an adverse order against the IP owner, or a defendant, on the issue of costs. Such was the result in the Canadian case of *Stamicarbon B.V. v. Urea Casale S.A.* (2002), 17 C.P.R. (4th) 377 (Federal Court of Appeal), leave to appeal refused by (2002), 2002 CarswellNat 2821 (Supreme Court of Canada) where the defendant patentee in an

impeachment action was forced to disclose communications between the company and its non-lawyer Canadian patent agent. The plaintiff succeeded in obtaining summary judgment at the trial level and the patent agent's files were relied upon in obtaining a partial award of solicitor and client costs against the patentee. Although the defendant successfully appealed the order on the merits (such that the order for costs was also reversed), *Stamicarbon* is an example of how intellectual property remedies can be affected by a lack of privilege.

Privilege as it Applies to the Property Right Itself

Regarding situations in which agents are sought for advice, the process of securing intellectual property rights is a matter of information management. In the case of patents, information is gleaned not only through the quasi-adversarial efforts of an intellectual property office to sanction what is patentable, but also by the cooperative efforts of the inventor and his agent both before the patent is applied for and during the application process. In a world where intellectual property offices are clearly experiencing workload challenges, it seems appropriate that a worldwide intellectual property system should promote mechanisms that foster cooperation between the inventor and his patent agent to carve out and advocate for the scope of monopoly to which the inventor truly has a right; no more and no less.

With a patent being developed as a result of information, and being attackable in an adversarial process based on information, it seems appropriate that barriers to a full and frank discussion of information pertinent to the patentability of the proposed invention itself should be removed wherever possible.

It has been shown that the exchange of information between an inventor and his patent agent, where privilege does not apply, can be used in a manner adverse to the inventor. While on one hand this would appear to promote the utilization of all rational means for ascertaining truth during the adversarial process (as expressed in *M. (A.) v. Ryan* (1997), [1997] 1 S.C.R. 157 (Supreme Court of Canada)), the lack of privilege has very clear and disparaging implications where intellectual property formation and assessment are concerned. Without privilege, there is a very real danger that relevant information will not be exchanged, discussion based on the information will not be had, and as a result, that a patent will be granted and foisted upon the public that may be misrepresentative of the scope of protection to which the inventor truly has a right— either too broad or too narrow.

In the adversarial context, where there is no privilege, the motive to examine and respect the boundaries of a patent right through full and frank discussion with an agent is contrary to the interests of the investigating party. As a result, it is all too easy to give too wide a berth to the patent (affording more scope to the patent than is truly deserved), or alternatively unwittingly crossing its boundaries (leading to unintended and costly litigation). In other words, the discussion respecting the boundary of the patent is simply not had, so the patent boundary remains unvetted or unearned, to the detriment of the public interest.

With the more recent advent of various forms of IP markets, IP is increasingly being treated throughout the world as a unique form of property, as opposed to purely a single-dimensional defensive legal right. In the SCP report, the Secretariat discusses the creation of an IP marketplace. Of course, the idea of IP as property that can efficiently attract capital and other resources to an underlying endeavor depends on the systems that support it. For patents, a system such as harmonized privilege promotes certainty because it promotes efforts by the inventor and his agent to invest in creating deserved patent rights. Deserved patent rights in turn promote market efficiencies, enabling capital to freely flow to the patent rights and their underlying endeavors.

Where there is no general global harmony on privilege, the pursuit of patent rights and therefore allocation of the world's capital could easily be distorted in favor of those countries that recognize class privilege (i.e. a more certain patent right), rather than in favor of the underlying market opportunity.

Support for Legislative Change to Introduce Statutory Privilege in Canada for Patent and Trade-mark Agents

There is widespread support in Canada for statutory protection from disclosure of confidential communications between clients and their patent or trade-mark agents. Organizations expressing this support do so for a number of reasons, chief of which are:

- To allow clients to have a frank and open discussion with their agent.
- To ensure that Canadian companies are not disadvantaged when entering litigation in other jurisdictions.
- To ensure that foreign companies investing, performing R&D and obtaining IP protection in Canada do not see their IP (including their non-Canadian IP) placed at risk for doing so.

IPIC has been promoting for a number of years the idea of statutory protection for confidential communications. In doing this work, IPIC members have met with a number of organizations to discuss the issue. These organizations have expressed concern with the current state of affairs. To persuade the government to adopt legislation, these organizations have written to IPIC or to the Minister of Industry or have responded to a public consultation held by the Government of Canada.

For example, John P. Molloy, President and CEO of PARTEQ (technology transfer arm of Queen's University) wrote in a letter to the Minister of Industry on December 4, 2006:

“Protection of communication is critical for successful litigation in intellectual property. If we must live in fear of litigation because our communication is not privileged, then we (do) not have equivalent protection of our intellectual property to that which a U.S. university would enjoy for the same patent.”

And Thomas d'Aquino, President and CEO of the Canadian Council of Chief Executives, wrote in a letter to the Minister of Industry on February 24, 2003:

“The lack of such privilege in Canada appears to undermine the competitiveness of Canadian-based enterprises, either by exposing them to greater risks in litigation than would be faced by companies in other countries or by forcing them to pay higher fees to engage patent and trademark agents outside Canada who do enjoy privileged communications.”

As shown below, organizations having formally expressed their support represent a diverse cross-section of the Canadian economy:

- *Business associations:*
 - Canadian Chamber of Commerce
 - Canadian Council of Chief Executives (represents the CEOs of the 150 largest corporations)
 - Canadian Federation of Independent Business (represents over 100,000 small and medium businesses)
 - Canadian Chemical Producers' Association
 - Aerospace Industries Association of Canada (represents companies such as Bombardier and Pratt & Whitney Canada)
 - Ottawa Centre for Research and Innovation (represents high technology companies in the national capital area)

- *Universities:*
 - University Health Network (Toronto area hospitals associated with universities)
 - PARTEQ (technology transfer office of Queen's University)
 - University-Industry Liaison Office of the University of British Columbia

- *Corporations:*
 - Nortel
 - DuPont Canada
 - IBM Canada
 - OncoGenex Pharmaceuticals
 - And a number of small and medium businesses

- *General Law and IP firms:*
 - Lang Michener
 - Ogilvy Renault
 - Stikeman Elliott
 - Gowling Lafleur Henderson
 - Heenan Blaikie
 - Miller Thomson
 - Smart & Biggar
 - Blake, Cassels & Graydon
 - Sim & McBurney
 - Bereskin & Parr
 - Ridout & Maybee
 - L'Espérance & Martineau
 - Kirby Eades Gales Baker
 - Shapiro Cohen

Conclusion

IPIC believes that professional privilege is an important part of a well functioning patent (and trade-mark) system. Unfortunately, as we have explained in this submission, IPIC is in a position to make this observation because of the absence of privilege in Canada. We are hopeful that the situation will eventually be corrected given the level of support for a solution to this problem. Meanwhile, because of the importance of privilege and of the international nature of the patent system, we strongly encourage the Standing Committee on the Law of Patents to continue examining this issue and to seek harmonization among member states in support of the protection of confidential client-agent communications. IPIC would be pleased to assist in this work.

18. International Association for the Protection of Intellectual Property (AIPPI)

AIPPI Submission to WIPO on WIPO Report SCP/12/3 – Privilege; protection against disclosure of communications relating to ‘Intellectual Property Professional Advice’, including Privilege

This Submission is in response to the invitation by WIPO by letter dated 24 July, 2008 of the then Deputy Director General, Francis Gurry. In the context of this Submission, that invitation relates to the Professional Privilege section of SCP/12/3.

The invitation by WIPO and the making of this Submission have a substantial previous history including AIPPI’s proposal to WIPO for a treaty to be established on ‘Intellectual Property Adviser Privilege’ by letter to WIPO dated 26 July, 2005. That proposal was put forward by AIPPI as a working paper for consideration by WIPO as part of any further study of the topic, to be made by WIPO.

AIPPI refers to that Submission generally and in particular as to the urgency which now applies to this topic. What was urgent then is no less urgent now. AIPPI considers that an even greater case for urgency can be made now than applied then.

A further part of that history is the WIPO/AIPPI Conference on Client Privilege in Intellectual Property Professional Advice (CIPPA) held in Geneva in May 2008 (http://www.wipo.int/meetings/en/details.jsp?meeting_id=15183). The papers submitted in that Conference are relied upon by AIPPI in making this Submission.

Many of the points established in that Conference are reflected in this Submission. We refer here in particular to the establishment of the following points but they are not exhaustive.

- There is an urgent need for harmonisation of national laws and the making of national laws to achieve protection against IP professional advice being forcibly disclosed.
- Private and public interests are aligned in support of providing Privilege or equivalent protection against such disclosure.
- There is also an urgent need to study national laws on employed lawyers ie those employed by companies (also called ‘in-house lawyers’) and patent attorneys employed by companies having Privilege or equivalent protection (as they already do in many countries) against forcible disclosure of their IP advice to their employers. (This issue is not dealt with by this Submission; it is the subject of investigation and study to be carried out by a Special Committee of AIPPI.)

1. *Context*

- 1.1 The Standing Committee on the law of Patents (SCP) is considering subjects for detailed study by WIPO. WIPO has invited submissions by third parties on the SCP Report – SCP/12/3. One of the subjects of that Report being considered for detailed study is Professional Privilege. AIPPI thanks WIPO (and through WIPO, the Member States) for the opportunity of making this Submission.
- 1.2 ‘Privilege’ refers to the right of the client of an IP professional adviser not to have to disclose communications to and from that professional and third parties, relating to the obtaining and giving of advice by that professional to the client. Not all countries have Privilege. Many have other forms of protection against a person having to

disclose their professional advice on intellectual property – viz professional secrecy or confidentiality. This point was reported in the Professional Privilege section of SCP/12/3.

- 1.3 Thus, work on the subject of ‘Privilege’ must reach out to the important and urgent need to resolve problems around the lack of harmony in national laws or the lack of national laws, and the mechanisms which apply to or should be applied for protection from disclosure of IP professional advice, generally.
- 1.4 This Submission applies to all forms of protection against disclosure of professional IP advice. So it includes not only the right of persons not to have to disclose their IP professional advice but also the effective facility which persons may have in a particular country which makes any attempt to force disclosure by the client practically worthless viz professional secrecy in France. To incorporate both aspects of protection (ie than ‘Privilege’ is alone), we use the acronym ‘RFND’ which means ‘right or effective facility for non-disclosure’ of professional IP advice, in whatever form it may be.

2. *Summary and Principal Submission*

- 2.1 The present status of RFND and of national laws which fail to provide protection against persons having to disclose their IP professional advice, are at the heart of the problems which now apply.
- 2.2 The need which exists for creation of harmonised national laws on such protection is primarily one affecting the users of intellectual property but it also affects creators, developers, and those who market IP and the products and processes to which the IP relates.
- 2.3 There is also a need for action to support countries which do provide protection against disclosure but whose national laws in effect fail to achieve their intended effect, at the international level.
- 2.4 National protection from disclosure of communications between clients and their IP advisers in relation to and including IP advice, is widespread around the world.
- 2.5 The promotion and development of IP around the world involves transmission of IP advice obtained nationally (and documents incorporating or relating to that advice), to other IP advisers.
- 2.6 Where such IP advice is transmitted internationally, the effect of the national law of any country from which the advice originates is frequently not recognised overseas and thus, the communications protected nationally, not only lose their national protection, but they then have no protection against disclosure whether national or international.
- 2.7 As clients need to transmit IP communications internationally (eg in rationalising their advice from one country to another), the national law of each country needs international support if it is to be effective both nationally and internationally.
- 2.8 Any countries which presently do not protect IP professional advice from disclosure should be encouraged to apply such protection nationally, to obtain in their own

countries the benefits recognised by those countries which provide such protection nationally. Those benefits include the client obtaining the best advice and the law being enforced by the correct advice being given to and applied by the client. A positive effect of ‘best advice’ can be reflected in the quality of the drafting of documents involved in registered IP. The matters referred to in this paragraph are where private and public interests are in this context, aligned.

2.9 For these reasons, AIPPI submits that it is essential that WIPO be mandated to study in detail, and urgently so, how harmonised national laws with international support can be made to achieve for IP professional advice, national and international protection from forcible disclosure.

3. *‘Professional Privilege’ in paragraphs 258-261 of the SCP/12/3 Report*

3.1 The Report acknowledges in 260 that Privilege may be lost (in effect as described above). In 259, the Report acknowledges that protection from disclosure may take a form other than Privilege per se. Therefore, other forms of protection (viz professional secrecy) may likewise not be applied overseas and may be lost. The Report thus acknowledges the shortcomings of national laws and the effective discounting of national laws by non-recognition of national laws for Privilege and other forms of protection from disclosure, internationally.

3.2 It is these two problems (lack of recognition of national laws and inadequate national laws) which either alone or together produce the failure to meet the needs of users of the national and international systems of IP for protection against disclosure, in relation to their IP professional advice.

4. *Further considerations in support of WIPO being mandated by the Member States to engage urgently in detailed study of RFND.*

4.1 AIPPI urges the Member States to treat detailed study of RFND as a matter to be studied urgently by WIPO for the following further reasons.

4.2 In effect, the lack of international harmonisation of laws to support RFND (in particular the lack of application of minimum standards) means that in particular cases (some of which have been litigated and thus this point is proven), national laws have been found to be ineffective in relation to IP professional advisers who are overseas. Here when we refer to the need for support of effective “national laws”, we mean, of course, the laws of particular Member States.

4.3 National laws have also been found by litigation to be less than is required to be fully effective locally (viz Australia). In Australia and Canada, the major pharmaceutical company Pfizer litigated in effect seeking to have recognised in those countries, protection from disclosure of documents relating to advice it obtained from an employee patent attorney in the UK. Notwithstanding that the documents were privileged from disclosure in the UK, the respective courts decided that the documents were not protected from disclosure in Australia and Canada. These cases are more fully described in the Canadian and Australian papers submitted in the WIPO Conference on Privilege in May 2008 (the citation for which is stated above).

- 4.4 These outcomes are contrary not only to the basic objectives of national laws but also the objectives of the Paris Convention (effective transfer of technology) and the need for trade in the subjects of IP.
- 4.5 Where the right of non-disclosure or the effective facility of non-disclosure is applied by national law of particular countries, the reasons given for their existence are usually similar from country to country. Such national laws are well-intended to serve the social and economic objectives of the particular country. If it happens to be a country which is a signatory of the Paris Convention (and most are), the RFND in place there in effect supports international transfer of technology and trade.
- 4.6 Ownership of IP frequently involves international registration of IP and international trade which follows from the obtaining of registered intellectual property rights in more than one country. Owners of such IP in many cases (ie companies) have legal duties to rationalise the advice which they obtain where there are differences in the advice received.
- 4.7 Even assuming that the IP rights being obtained or being enforced from one country to another are essentially the same, the national law positions on (for example) registrability, scope, construction, validity and infringement are often different. IP claimants or owners *per force* have to accept those differences but they need to establish whether the differences are for substantial reasons and not just caused (for example) by misunderstandings or lack of instructions. The need for IP legal advice taking into account the differences (including in advice) from one country to another, is obviously one which has to be met. The persons involved frequently need to transmit their advice in relation to the one country to the IP professional advisers they have in another country, in meeting that need.
- 4.8 The loss of national effectiveness of RFND occurs for various reasons but they include most frequently that the qualifications of the IP professional in the one country are not recognised in another country as supporting the client/IP professional relationship which attracts Privilege in the first country.
- 4.9 Thus the good intentions of the national laws are lost because clients realising the risks referred to in the previous paragraph, cannot make full disclosure to their professionals for fear that their communications (or sensitivities relating to those) may be published. It is not surprising that clients adapt their commercial behaviour to avoid the risks (see Section 6 below). However, that behaviour is negative to what the national law intended to encourage – ie full disclosure between clients and their IP professional advisers.
5. *Why detailed analysis by WIPO of RFND is required*
 - 5.1 Thus far the analysis made by WIPO as reflected in the SCP/12/3, has not (reportedly) reached out to a number of issues vital to solving the problems involved in this context. AIPPI foresees the need for detailed study of substantial issues to work out how to resolve the problems. AIPPI fully realises that WIPO itself will by the process of analysis come up against problems that AIPPI itself has not yet realised. Thus, any identification of the problems to be resolved by study at this stage cannot be complete.

- 5.2 AIPPI foresees the following matters (among others) to be pursued in detailed studies.
- (1) Can the differences between common law and civil law countries in relation to RFND be dealt with by a consensus on minimum standards, in a way which is practical to harmonise national laws of those countries on non-disclosure of IP professional advice.
 - (2) Assuming that protection against disclosure is to apply to such IP professional advice, to what in particular should it apply, how should that be described and thus, what is the acceptable minimum scope of such protection.
 - (3) How should the minimum standards required be described so that they appeal to and can be adopted by those countries which do not as yet provide protection by RFND.
 - (4) How should the qualifications of IP professional advisers be defined so as to fit the circumstances of as many countries as possible both as to their internal requirements and as to how they see their recognition of IP professional advisers overseas.
 - (5) Can a workable number of Member States embrace (as many have already) the need for RFND to promote for their social and economic benefit, full disclosure as between IP professional advisers and their clients, by adopting minimum standards for protection of IP advice against disclosure.
 - (6) What is the appropriate way to proceed – treaty or other form of international instrument.

6. *In conclusion*

- 6.1 AIPPI observes that it is impossible to quantify the cost to national economies of practices and devices now employed each day by clients and their IP professional advisers to overcome the shortcomings of national laws and international arrangements in this context. Those practices and devices are well known to IP professional advisers around the world. They include – never putting advice on sensitive topics in writing. Lack of communication is at odds with full disclosure. As well, this leaves clients well short of what they really need for certainty and for proof of responsibility of the advisers for the advice upon which the clients then act.
- 6.2 Thousands of hours of professional time are involved in trying to decide what is or what is not subject to RFND and the consequences of disclosure or non-disclosure of data which is potentially subject to RFND. These matters have to be resolved per force and are frequently an expensive diversion from resolving the essential issues which are important to the client and the public such as – entitlement, scope, validity and infringement of particular IP. Clients have had to litigate issues in trying to resolve what is and is not subject to RFND. This is not resolving what the clients and the public essentially need to know.
- 6.3 By analogy with a railway, the lack of certainty and the lack of harmony around the subject of protection from disclosure of IP professional advice means that users of the IP systems both nationally and internationally, incur enormous expense in relation to resolving issues that are not on the main line to what those users and the public need. This work in effect involves clients in expensive sidings.
- 6.4 IP professional advisers have empirical experience of clients who have simply decided not to trade or not to pursue enforcement in particular countries because that would

risk disclosure of advice obtained in another country through lack of recognition of RFND in the particular country.

6.5 AIPPI commends to WIPO and the Member States its support of WIPO being mandated to analyse the problems and potential solutions to the differences between national laws on protection from disclosure of IP professional advice, in order for appropriate minimum standards to be developed and harmonisation of national laws to occur.

19. International Chamber of Commerce (ICC)

I. The WIPO/AIPPI Conference on 22-23 May 2008

1. Client privilege in intellectual property advice was the subject of a conference held at the World Intellectual Property Organisation in Geneva on 22-23 May 2008. ICC commends WIPO for hosting (with AIPPI¹²³) this conference; it was an outstanding exercise in consultation by an intergovernmental organisation.

2. Delegates to the Conference heard presentations on the subject of client privilege from all over the world. It was clear that client privilege required international attention. Sections II to VI of this paper set out the background as it emerged from the Conference; Section VII sets out the problems that were identified at the Conference; and Section VIII sets out ICC's recommendation for dealing with the problems, i.e. that WIPO should commence work on an International Treaty.

II. Privilege in common-law countries

3. Client privilege is a necessary counterbalance to "discovery" (alternatively, "disclosure") in common-law countries, such as UK, USA, Australia, Canada, India, and Malaysia. In these countries Courts have long had extensive powers, which they routinely use, to require parties to any litigation to produce documents;¹²⁴ such production is called "discovery". These powers extend to the discovery of the documents of professional advisers such as doctors; a party may be expected to relieve his doctor of the obligation of professional secrecy and to supply medical records to the Court. However, in general the Court is not allowed to order discovery of the communications between a party and his legal adviser (neither in relation to the trial nor in relation to matters preceding the trial¹²⁵). Such communications are, in short, "privileged". Nor is the Court in general¹²⁶ allowed to draw an adverse inference from a party's decision not to waive privilege.

4. According privilege to communications between clients and legal advisers is in the interests of justice; it is a public good. If a client presents his legal adviser with all the facts relevant to his proposed course of action and if the legal adviser can present the client with his opinions frankly and in writing, then the probability that the client will act lawfully and avoid

¹²³ The International Association for the Protection of Intellectual Property.

¹²⁴ In recent years, electronic records have been included.

¹²⁵ Take the example of a patent infringement action. The communications between the patentee and his legal adviser about their proposed conduct of the action are not discoverable, nor are the communications between him and the legal adviser who drafted the patent application, probably long before any infringement action was specifically contemplated.

¹²⁶ An exception formerly existed in USA in relation to triple damages for patent infringement, but this exception has been recently narrowed.

litigation is increased. If, however, the client and legal adviser fear that these communications might later be exposed in Court (i.e. if there is doubt about privilege) then they will tend to be inhibited, incomplete, implicit, and oral. This means that the client is more likely to act unlawfully and therefore to become involved in litigation; moreover, if he does not receive explicit, recorded legal advice based on full information, he is in truth not getting what he has paid for.

5. The privilege system generally works well for matters falling entirely within a single common-law jurisdiction.¹²⁷ For instance, in a patent litigation in the UK, the advice of a UK solicitor, barrister, or patent attorney given at any time to the claimant on the validity of his UK patent or given to the defendant on his infringement of a UK patent is unquestionably privileged. Each of these legal professions is regulated so that their members have an obligation to the Courts which override their duty to serve their clients. Therefore, privilege cannot serve as a cover for dishonesty by the client. (Communications between a client and an unregulated legal adviser¹²⁸ are not privileged.)

III. IP is unusually international

6. IP is uniquely international both legally and commercially. Under various international and regional Conventions -

(i) copyright protection is accorded to a work internationally regardless of the state of origin of the work;

(ii) the filing of a patent, trade mark, or registered design application in one country establishes a right of priority to the grant of such rights in others; and

(iii) various regional and international systems exist for applying for intellectual property rights (e.g. PCT, EPC, Madrid, OHIM).

These arrangements go back to the 19th century, indicating how long IP has been globalised. Moreover, substantive IP law is remarkably uniform across the world as a result of deliberate imitation and of formal harmonisation by international and regional treaties. It would be rare for a substantial company not to seek patents for a significant invention in at least four states selected from the G7 countries, and pharmaceutical companies routinely apply for patents in very many states. Likewise, companies frequently launch new brands internationally. In this case, the “standard” procedure is for the company to select the brand from a number of possibilities after an international “clearance” (or “availability”) search of third-party trade marks, and then to file its own trade mark applications internationally. The distribution of books, music, and motion pictures under the protection of copyright has long been an international business, in recent years modified and extended by the Internet.

7. Companies’ activities are now more global than ever. More and more frequently, IP litigations on essentially the same subject matter occur in parallel in two or more states.

¹²⁷ An exception is Canada, specifically in relation to IP matters.

¹²⁸ Whether the giving of legal advice by unregulated persons is allowed at all varies from country to country (in UK it generally is); but privilege is always restricted to the clients of regulated persons.

IV. *IP is unusual in that legal advice is routinely given by legal advisers who are not “lawyers”*

8. Few “lawyers” (as the term is generally understood¹²⁹) have the scientific and/or engineering knowledge that would be necessary for them to achieve competence in patent work. As a result, in many countries there are legal advisers known as “patent attorneys”¹³⁰ or “patent agents” who leave University with a science or engineering degree and then complete examinations in intellectual property and related law. In some countries, there are also “trade mark agents” or “trade mark attorneys” qualified by examination. Usually the legal training of patent and trade mark agents and attorneys is more international in scope than that of “lawyers”.

9. These professions undoubtedly consist of “legal advisers”, although the term “lawyer” is usually not applied to them.¹³¹ The existence of these professions (at least one is 100 years old) is a response to the needs of clients. The members of these professions are not ancillary to “lawyers” (in contrast to paralegals), and take ultimate responsibility for the work they do. In many countries, such professions are the principal source of advice on applying for patents, registered trade marks, and registered designs, and a major source of advice on a range of other matters as set out in Section V below.

V. *The scope of IP advice given, whether by “lawyers” or other, “non lawyer” legal advisers, is broad and often “mission-critical” for companies*

10. IP advisers, regardless of their training and title, cover a wide range of legal matters. For instance, “non-lawyer” patent attorneys and agents do not advise purely on applying for patents – indeed, they would often be negligent if they did so. Examples of the advice that clients need and of the importance of privilege to clients are as follows:-

(i) Company researchers obtain some technical results which they think have commercial prospects. They and commercial management would like to secure patent protection. To the extent legal privilege is effective, their legal adviser can engage in challenging and productive discussion, playing devil’s advocate and anticipating objections to patentability from Patent Offices and third parties. At the end of this discussion, the adviser may conclude that there is a valid monopoly of useful commercial scope to be had, and then proceed to file patent applications in territories of commercial interest. However, if there is no privilege, such productive discussion is inhibited by the fear that in a later litigation views recorded unclearly or in partial ignorance, or taken out of context, will be used to attack the validity of the patent. According privilege in these circumstances increases the likelihood of a quality submission to the relevant Patent Office and of the grant of a quality patent, both of which are in the public interest.

(ii) To the extent privilege is effective, a legal adviser may say in writing to a company, “I think that if you make product X, then your competitor A would probably win if he sued you for infringement of his patent no 123456.” This explicit, recorded advice makes it

¹²⁹ In this paper, “lawyer” is used as it was at the conference referred to in paragraph 1, to mean US “attorneys”, UK “barristers” and “solicitors”, French “avocats”, German “Rechtsanwälte, and the like.

¹³⁰ Examples of countries with “patent attorneys” of this sort include UK, Germany, Australia, and Japan, and also there are “European Patent Attorneys” before the European Patent Office; but USA reserves the term “patent attorney” for “lawyers” with additional qualification.

¹³¹ Including in UK, *despite* the use of “lawyer” to cover “patent attorneys” and “trade mark attorneys” as well as “solicitors” and “barristers” in the UK Legal Services Act 2007!

more likely that the company will not make product X, or else will seek a licence from A. If such explicit, recorded advice cannot be given without fear that it would prejudice the client in the event that the advice is not acted on, then it will not be given, and the risk of litigation is increased.

(iii) By analogy with (i) and (ii), legal advisers may have to express views on the validity and infringement of other intellectual property rights, both registered ones (ie ones which are applied for at Offices) and ones which do not require registration. These rights include registered trade marks,¹³² registered designs, copyright and performing rights, unregistered design right, rights in semiconductor topography, database extraction rights, and Plant Breeder's rights.

(iv) Legal advice may be needed also on –

(a) the law relating to *ownership* of intellectual property rights;

(b) the law of *confidence* or “trade secrets” (secret technical knowhow being commercially akin to an intellectual property right, and this law also being relevant to patent validity in some cases);

(c) the laws of *passing-off, unfair competition, domain names, and geographical indications* which complement the law of registered trade marks;

(d) the law of *contract* in relation to assignment and licensing of intellectual property rights and technical know how;

(e) *competition (anti-trust) law* relating to contracts on intellectual property rights and abuse of a dominant position, together with provisions in IP statutes themselves relating to abuse of IP rights and compulsory licensing; and

(f) the *criminal* law relating to intellectual property right infringement.

VI. *Problems with privilege in IP that occur*

11. At the conference referred to in paragraph 1, the problems that arise were authoritatively and extensively discussed, and are summarised below.

(A) *Litigation in a common-law country where one of the parties is from another common-law country (or has a relevant establishment there).*

12. The current “best practice” (as in US litigation) is for the Court in the country where the litigation occurs to respect any privilege that exists in another common-law country. However, this still requires the expense of a “mini-trial” to establish the precise scope of advice which is privileged in the other country.

¹³² Paragraph 6, last paragraph gives more detail on trade marks. Note that if a legal adviser, advising on whether a proposed new brand infringes third-party trade mark rights, fears to give his advice explicitly and in writing lest it is later discovered, then the risk of a brand being launched which results in a litigation is increased.

13. Australian and Canadian Courts have taken a narrower view than US Courts¹³³ so that UK litigants have been faced with disclosing UK documents (in practice for all the world to see) that a UK or US Court would not have seen.

(B) Litigation in a common-law country where one of the parties is from a civil-law country (or has a relevant establishment there).

14. The party from the civil law country is generally at an unjustifiable disadvantage because (without a tradition of discovery) civil-law countries do not have an established law of privilege as distinct from professional secrecy. Therefore as, the result of an expensive “mini-trial” on privilege in USA (one of the parties being a French company), documents were discoverable because the French law was silent on privilege. However, it is clear that a French Court would in practice not have seen these documents.

(C) IP infringement actions in civil-law EU countries.

15. Recently, “discovery” in relation to defendants has been in effect “exported” from UK to civil-law countries through the EU IP Enforcement Directive. The Directive is now being aggressively used in some EU civil-law countries. However, the Directive did not counterbalance the requirement for discovery with provisions on privilege. This will inevitably lead to problems similar to those described under heading (B) above.

(D) In-house IP advisers

16. All major companies have in-house legal advisers. In-house legal advisers are in possession of background information that no external adviser has and are therefore able to advise their employers of legal opportunities and also to warn them of legal risks, both of these with a precision and confidence that external advisers cannot have.¹³⁴ They are in a position to encourage or challenge their employer/client in a way that external advisers are not. For instance, an internal legal adviser handling a company’s patent applications may be aware, as an external adviser would not be, of the true significance of a technical achievement despite the lesser impression it might first make on some one not experienced in the relevant technical field; conversely, he may be aware of prior art in the field, even without performing a search, that makes an alleged invention unpatentable. Likewise, in-house trade mark advisers are in a uniquely good position to liaise with business people and to understand the marketplace.

17. Companies choose to have in-house legal advisers not just for any cost savings which they may make but because they are the most effective for certain tasks. Pharmaceutical companies, and others, are so reliant for their continued existence on patents that their in-house IP advisers are key to their business.

18. There are some countries (e.g. USA, UK, Netherlands) where in-house legal advisers and private practice legal advisers are on the same lists and subject to the same disciplinary regulation. The Courts in these countries allow the client/employers of in-house legal advisers to benefit from privilege in the same way as if they used external legal advisers. This

¹³³ Australia is taking action to remedy the situation.

¹³⁴ This is not to say external advisers are not essential. For instance, the in-house advisers in country A commonly use private practice in country B to file and prosecute patent, trade mark, and design applications there. Also, in-house advisers frequently choose to instruct outside advisers on litigations.

is because the disciplinary regulation requires them to be “independent” of their employers in having an obligation to the Courts which overrides their duty to their employer/clients. (An instance of this is that they may not lie to the Court or Patent Offices even on their client/employer’s instruction.) An international organisation which privileges communications with in-house advisers is the European Patent Office; this is justified because all European Patent Attorneys (EPAs) are on the same list and subject to the same disciplinary regulation whether they are in-house or in private practice.

19. However, in some other countries (e.g. France and Germany), in-house legal advisers are on different lists and/or independence is not presumed. To anticipate ICC’s recommendations below, it does not seem practical for an International Treaty to dictate how countries should regulate their own local legal professions. However, clients justifiably fear that a Court in a country where local in-house advisers are presumed *not* to be independent will refuse to respect the privilege of clients of foreign in-house advisers who *are* recognized as being independent in their own jurisdictions (e.g. UK and US legal advisers and European Patent Attorneys).¹³⁵

VII. *The overall impact on IP-intensive international business*

20. Intellectual property underpins much of modern business, and business is more international than ever. Companies wish to keep out of Court if they can, and for this they desire legal advice on intellectual property matters on an international scale. If, however, companies do have to engage in Court actions on IP, they wish the Court to focus on the substantive issues of intellectual property law.

21. In contrast, at present, companies are –

(i) inhibited from taking IP legal advice from the best people, especially in writing and especially in certain jurisdictions,

(ii) inhibited from justifiably litigating against infringers of their IP in certain jurisdictions,

(iii) inhibited from setting up research and development facilities in countries where inventors’ communications with local IP advisers are not privileged,¹³⁶

(iv) inhibited from using in-house IP advisers where these are more effective, and

(v) forced in the course of litigation into expensive “mini-trials” on privilege which delay any consideration of the proper and central issues of IP infringement and validity.

¹³⁵ In principle, as well as (A) to (D), there is a fifth area of possible concern, (E) International enforcement, though we are not aware of any actual cases. Suppose a company gets an award of damages in country A against a company resident in country B because the latter company had infringed the first company’s patent by exporting product to country A. Suppose then that the infringing company has no assets in country A, so that the patentee seeks to enforce the judgement in country B. If the Court in country B considers that legal advice that would have been privileged in country B was discovered in the course of the action in country A, it might, depending on the relevant international treaties, consider that the trial in country A had been unfair and refuse to enforce the judgement.

¹³⁶ One of the companies at the conference referred to in paragraph 1 made this point publicly.

VIII. *ICC's recommended solution to these problems*

22. While ICC welcomes the unilateral action that some states such as Australia are taking to remedy these problems, it believes that an effective solution on a reasonable timescale requires leadership from WIPO. Accordingly, ICC recommends that -

(i) A WIPO Treaty should require each Contracting State¹³⁷ to specify categories of adviser whose clients benefit from privilege before the State's Courts, intellectual property offices, tribunals, and investigators. These should be all such local general lawyers and local specialist IP advisers as the State considers to be adequately regulated, plus (in the case of EPC members) locally-resident EPAs (both private practice and in-house).

(ii) Within each Contracting State, the following communications from or to the specified categories of adviser should be privileged (together with documents, material, and information preparatory to or otherwise related to such communications):

‘Communications as to any matter relating to any invention, design, technical information, trade secret, trade mark, geographical indication, domain name, literary or artistic work, performance, software, plant variety, database, or semiconductor topography, or relating to passing off¹³⁸ or unfair competition.’

(iii) Each Contracting State's Courts, intellectual property offices, tribunals, and investigators should respect the privilege of communications as defined in (ii) (plus preparatory/related documents, material, and information) from or to advisers specified under (i) by other States (both private practice and in-house), and in any case from or to EPAs resident in EPC States (both private practice and in-house).

23. Note in the ICC proposal the special status that is proposed for European Patent Attorneys (EPAs). A high and increasing proportion of IP advisers in the EPC states are *in practice* EPAs as well as possibly having local national qualifications. Therefore, even if the governments of EPC member states are uneasy about the sufficiency of regulation of certain *local* IP advisers, and therefore do not want to specify them under (i), much of the existing problem will be solved by the specification of locally-resident EPAs under (i) together with the requirement relating to EPAs under (iii).

20. Latin American Association of Pharmaceutical Industries (ALIFAR)

Support structures for the patent system, Para. 254

The training of human resources should be directly related to the degree of development of the countries which receive training. The information provided should be broad and sufficiently diverse so that each country possesses the necessary knowledge and tools to interpret the international rules and agreements as well as deciding their own criteria for evaluating and granting patents.

¹³⁷ For simplicity, we use the word “State” here while appreciating that international forms of accession may be additionally desirable, especially if a European patent litigation system comes into existence.

¹³⁸ “Passing-off” is a term used to some common-law jurisdictions, and corresponds to some aspects of unfair competition in other jurisdictions.

These guidelines should be followed both in the training of examiners and in training programs for judges and other actors involved (universities, society).

The uniformity of rules may be contrary to the needs and degrees of development of many countries.

CHAPTER VIII. PERCEIVED THREATS TO THE EFFECTIVENESS OF PATENTS AS INCENTIVES TO INNOVATION

21. Third World Network (TWN)

The WIPO report states that problems created by the friction in the patent system due to emerging technologies shall be solved in the near future as “past experiences suggest that, with the development of technology from a cutting-edge stage to a more mature stage, questions relating to the applications of patent law on that technology would gradually be clarified and legal certainty and predictability would increase due to convergence of practices and case law”. But this remains an open-ended question as the issue of legal certainty of the patent system is increasingly under challenge.¹³⁹ Further a “one size fits all” approach to the patent system is wrongly conceived and presents fundamental flaws in determining the right degree of incentives needed based on the nature of technology, markets, innovation dynamics etc. It is anticipated that the patent system will evolve into two types, one that protects the traditional subject matters (chemical, mechanical and other inventions), and new subject matters will need some soft incentives.¹⁴⁰ In this regard, it is commendable that the WIPO report asks a very pertinent question, i.e. “...whether the current patent law is an appropriate mechanism to foster innovation in a specific new technological area?”

The report states that use of patents as financial devices have led to the phenomenon of “patent trolls”. However, the report does not take a critical look at the issue. It does not say why patent trolls emerge in the first place- where the report would probably want to enquire if they have emerged due to unwarranted reliance placed on the patent system? Third World Network (TWN). There is increasing evidence to the effect that trolls inhibit innovation and competition and are thus antithesis to welfare and create inefficiencies.¹⁴¹ Even a recent Supreme Court decision in the United States has come out heavily on the functioning of trolls.¹⁴² Further it is witnessed that such patent trolls are engaged in forum shopping to get favourable judgments from specific courts within a jurisdiction.¹⁴³

Although the report identifies patent litigation as one of the threats to the perceived effectiveness of the patent system, it presumes that it is a natural outcome of the patent system. It fails to ask critical questions concerning the efficiencies lost due to the litigation

¹³⁹ Bessen and Meurer, *Patent Failure: How Judges, Bureaucrats and Lawyers put Innovators at Risk*. Princeton University Press (2008).

¹⁴⁰ See European Patent Office, *Scenarios for the Future* (2007).

¹⁴¹ Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, *Notre Dame Law Review* (2007). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=921252#

¹⁴² *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

¹⁴³ See Techdirt, *Why Patent Trolls Worldwide Love Marshall –Texas*, Available at: <http://www.techdirt.com/articles/20060203/0332207.shtml>

model and issues concerning opportunistic and anti-competitive patent litigation.¹⁴⁴ Some lawsuits could have been avoided by restricting certain subject matter like software and business methods from the purview of the patent system. Patent thickets leads to the tragedy of anti-commons in many technology markets, primarily in the area of biotechnology inventions. While cross licensing and patent pools are ex post measures to arrive at solutions, ex ante measure can involve use of pre-grant flexibilities in the form of higher degree of patentability criterion and excluding certain subject matter from the patent system- which the report does not take into consideration. Thus more efficient solutions to the problems posed by patent thickets should naturally emphasize on pre-grant use of patent thresholds.

CHAPTER IX. THE INNOVATION INCENTIVE IN THE CONTEXT OF PUBLIC POLICY OBJECTIVES

22. Canada

Para 293, last sentence re: pilot landscapes: The report mentions pilot landscapes projects undertaken by WIPO in collaboration with the WHO in the area of public health. Could the Bureau expand on such initiative and, if possible, provide a link to this work or more information on this project?

(b) *Biological Diversity and Traditional Knowledge*

In general, Canada would suggest the addition of “fair and equitable” wherever the term “equitable sharing of benefits” appears as this is consistent with CBD language (for example page 81, para 295: “and fair and equitable sharing of benefits arising from the utilization of genetic resources,” to the first line, as well as “fair and equitable benefit sharing” further on in this paragraph).

Para 294, first bullet: In regards to “legal definitions”, could the Bureau clarify which legal definitions they are referring to? (i.e. the CBD definition of genetic resources? definition of patentable subject matter?). Canada would be grateful for further clarification on the object of this bullet.

Para 294, regarding the second bullet: The patent system is designed to only reward novel and non-obvious innovations, not knowledge already in the public domain. While patent prosecution cannot guarantee defect-free patents, there are several available mechanisms to challenge the validity of unduly granted patents (e.g. re-examination, opposition, court challenges). Proposals to establish TK databases would greatly reduce the likelihood of anticipated patents being granted by providing patent examiners with additional sources of potential prior art.

Para 297: While there is comprehensive measure of “disclosure requirement” proposals, there is no mention of other proposals that have been put forward in various international fora to deal with genetic resources and access and benefit-sharing, including proposals calling for the establishment of a database on genetic resources to facilitate the task

¹⁴⁴ Meurer, Controlling Opportunistic and Anticompetitive Intellectual Property Litigation, Available at: Boston College Law Review (2003). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=361760.

of patent examiners in their prior art searches, the use of contracts between users and providers of genetic resources and material transfer agreements.

Para 296: The term “TK” is a term of art that potentially captures a vast range of subjects. Work by WIPO highlights the fact that there is no internationally agreed upon definition of TK. The lack of a clear understanding as to what is meant by the term TK raises a number of potential issues. For example, when the document discusses the possible links between the grant or exercise of patent rights with GRs and associated TK, is a link also being made to TCEs, including TCEs that may already be protected by copyright laws?

(c) *Ethics*

Para 302, bullet 2: this bullet is drawing an analogy between the consent of prior informed consent (PIC) of human subjects in bioethics and PIC under article 15.5 of the Convention on Biological Diversity, which refers to the consent of Contracting parties to the CBD. The two seem very different given that the PIC obligation under the CBD is not for individuals but rather for countries.

23. Latin American Association of Pharmaceutical Industries (ALIFAR)

Incentives for innovation and general public policy objectives. para. 286

The debate on the impact of intellectual property protection on access to healthcare being conducted at the World Health Organization (WHO), the TRIPS Council Declaration of August 30, 2003 and the WIPO Development Agenda promoted by a group of countries demonstrate the difficulties generated by intellectual property in certain sensitive sectors of technology. Healthcare appears to be the area where the use of the available flexibilities appears to be most necessary, instead of harmonizing rules which involve new and more rigorous standards of benefit to rights holders and which may affect access to healthcare in certain countries.

24. Third World Network (TWN)

The WIPO report is ineffective and inept in its accounting of the conflicts between the IP system and issues of public interests and tensions that have arisen as a result of the patent system (which developing countries had to adopt because of the TRIPS Agreement) and its impact on the achievement of public policy objectives in the area of health, knowledge, biodiversity, agriculture etc.

For example when discussing health, it ignores the issues of why the public welfare impact of the patent system is most critically under scrutiny in the field of public health. It makes no mention of the high prices of medicines that patients have had to deal with as a result of the patent system (harmonized under TRIPS Agreement) for example, at one point the brand name HIV/AIDS costs US\$10,000 per person per year, i.e. beyond the reach of most patients. It was only after the entry of generic medicines from India (which could produce as a result of no patent protection) did the prices of the medicines drop to about US\$ 350 per person per year. As more competitors entered the market, the price of HIV/AIDS medicines dropped to about US\$ 200. As a result of this competition, the brand name companies also reduced the prices of medicines. The availability of generic medicines is one of the reasons for the increased number of patients receiving treatment. Of course the problem of high prices of medicines is now seen in relation to 2nd and 3rd line ARV treatment, medicines for cancer, diabetes and other diseases.

The Report also makes no mention of how pressures are placed by developed country governments as well as by the industry on developing countries that wish to make use of flexibilities that are available. Of course this questions the whole rationale for having patent system since valid measures to improve access, are repeatedly denied in the context of developing countries. These pressures and tensions over affordability of medicines as a result of patents in developing countries eventually led to the adoption of the Doha Declaration of TRIPS and public health. But once again the Report disregards the existence of this groundbreaking political statement of WTO members.

Even where the Report mentions the August 2003 Decision (and the TRIPS amendment), the Report pays no heed to the initial frictions and eventual compromises that led to Decision. The report also disregards the many questions raised about the effectiveness of the August Decision (and the TRIPS amendment) in providing swift access to affordable medicines to developing countries.¹⁴⁵

The WIPO Report also does not report on the use of flexibilities such as compulsory licences by developing countries, its positive impact in promoting access (despite the availability of some evidence)¹⁴⁶ and the reactions of developed countries.¹⁴⁷

Finally in the area of health there is also the problem of the patent system only being an incentive promoting research in the health problems of developed countries while ignoring the R&D needs of the developing countries thus resulting in a 10/90 gap. Once again this is also not explicitly addressed in para 291-293.

In para 294 – 302, the issue of patenting of life science research as well as genetic resources (including plants and animals) is reduced to a question of ethics and accommodating the different value systems. Economic and social considerations that arise

¹⁴⁵ See MSF document, The WTO Decision on Compulsory Licensing: Does it Enable Import of Medicines for Developing countries with Grave Public Health Problems? (2008), Available at: [http://www.kommers.se/upload/Analysarkiv/Arbetsomr%C3%A5den/WTO/Handel%20och%20Oskydd%20f%C3%B6r%20immateriella%20r%C3%A4ttigheter%20-%20TRIPS/Rapport%20The WTO decision on compulsory licensing.pdf](http://www.kommers.se/upload/Analysarkiv/Arbetsomr%C3%A5den/WTO/Handel%20och%20Oskydd%20f%C3%B6r%20immateriella%20r%C3%A4ttigheter%20-%20TRIPS/Rapport%20The%20WTO%20decision%20on%20compulsory%20licensing.pdf)

¹⁴⁶ See e.g. Khor, M., “Malaysia’s Experience in Increasing Access to Antiretroviral Drugs: Exercising the ‘Government Use’ Option”, Intellectual Property rights Series No. 9 available at http://www.twinside.org.sg/IP_IPRS.htm; Khor, Martin., “Patents, Compulsory license and Access to medicines (February 2007) available at <http://www.twinside.org.sg/pos.htm>; Oh, Cecilia, & Musungu, Sisule, “The use of flexibilities in TRIPS by developing countries: can they promote access to medicines?” available at <http://www.who.int/intellectualproperty/studies/en/>; KEI Research Note 2007:2 on “Recent examples of the use of compulsory licenses on patents” available at www.keionline.org; See also The Ministry of Public Health And The National Health Security Office Thailand (February 2008), “The 10 burning questions regarding the Government Use of Patents on the four anti-cancer drugs in Thailand” available at <http://eng.moph.go.th/>, The Ministry of Public Health And The National Health Security Office Thailand (February 2007), Facts and Evidences on the 10 Burning Issues Related to the Government Use of Patents on Three Patented Essential Drugs in Thailand available at <http://eng.moph.go.th>

¹⁴⁷ See e.g., threats by European Commissioner over issue of compulsory license by Thailand and pressures by the United States. See, <http://www.twinside.org.sg/title2/health.info/2008/twnhealthinfo20080402.htm>; See also <http://www.cptech.org/ip/health/cl/recent-examples.html#Brazil>

from the patenting of life forms particularly for developing countries are not discussed despite much concrete evidence on this issue.¹⁴⁸

There are many studies to date that show countless patent claims (some of them extraordinarily broad) over seeds, genes, plants, proteins and other life forms.¹⁴⁹ According to an ActionAid study,¹⁵⁰ techniques to decode and identify the best plant genes are accelerating and the biotechnology industry is racing to map the genomes of the world's staple food crops with a view to patenting the vital and most interesting genes. The study also states that "Only 10 per cent of seed is bought commercially in the developing world and many poor farmers buy seed only once in five years... We believe the right to livelihood--a basic human right--is threatened by patents on life in food and agriculture. Our analysis is that these patents pose a threat to farmers' livelihoods and global food security. They may decrease farmers' access to affordable seed, reduce efforts in public plant breeding, increase the loss of genetic diversity and prevent traditional forms of seed and plant sharing."

In some countries farmers are already being prosecuted for alleged violation of IPRs. A study by the Center of Food Safety¹⁵¹ shows how American farmers have been impacted by litigation arising from the use (some of it unintentional) of patented genetically engineered crops produced by Monsanto. The report noted at that time that Monsanto had filed lawsuits against 147 American farmers for the use of genetically engineered crops and the company had a staff of 75 devoted solely to investigating and prosecuting farmers. According to estimates then, Monsanto had been awarded over \$15 million for judgments granted in their favour with the largest recorded single payment received from one farmer being US\$3,052,800. This trend in developed countries may be replicated in developing countries.

It is also significant to note that the beginning of the 21st century has seen significant concentration of control over the seed industry due to the various mergers and acquisitions. According to a report by ETC in October 2007,¹⁵² around 57% of the commercial seed market worldwide, which is worth US\$13, 014 million is owned by 10 multinationals companies. The report further states that the market share of the top 10 seed companies is even greater i.e. at 66% when looking at the proprietary seed market (i.e. brand names commercial seed subject to intellectual property). In fact the top 4 companies account for over half (51%) of the total proprietary seed market.

In the context of climate technologies, it is worth noting a recent report by the ETC Group¹⁵³ that reveals that the world's largest seed and agrochemical corporations are claiming patents on genes in plants that will be able to withstand environmental stresses such as

¹⁴⁸ See e.g. ActionAid (1999), "Crops and Robbers: Biopiracy and the Patenting of Staple Food Crops"; Centre for Food Safety (2005), Report on "Monsanto vs US Farmers"; ETC Group, (October 2007), "The World's Top 10 Seed Companies - 2006", www.etcgroup.org; ETC Group, (May/June 2008) by the ETC Group (Action Group on Erosion, Technology and Concentration) on "Patenting the "Climate Genes" And Capturing the Climate Agenda", www.etcgroup.org; See also <http://www.no-patents-on-seeds.org/>

¹⁴⁹ *ibid.*

¹⁵⁰ ActionAid (1999), "Crops and Robbers: Biopiracy and the Patenting of Staple Food Crops"

¹⁵¹ Centre for Food Safety (2005), Report on "Monsanto vs US Farmers"

¹⁵² ETC Group, (October 2007), "The World's Top 10 Seed Companies - 2006", www.etcgroup.org

¹⁵³ ETC Group, (May/June 2008) by the ETC Group (Action Group on Erosion, Technology and Concentration) on "Patenting the "Climate Genes" And Capturing the Climate Agenda", www.etcgroup.org

drought, heat, cold, floods etc. There are about 532 patent documents filed by corporations on “climate ready” genes at patent offices around the world. According to the report “The Gene Giants are staking patent claims on genes related to environmental stresses – not just those in a single engineered plant species – but also to substantially similar genetic sequence in virtually all engineered food crops”. It further states that these proprietary technologies will ultimately “concentrate corporate power, drive up costs, inhibit independent research, and further undermine the rights of farmers to save and exchange seeds”.

The issues of patenting of life science research and genetic resources have to be explored in the context of its impact on access to such resources by developing countries to achieve public policy objectives such as the right to food, access to climate technologies, access to seeds, plant and animal varieties etc. This issue should also be addressed taking into account the implications of the current trend of mergers, which result in a concentration of patent portfolio in the hands of a new multinational companies.

In this regard the WIPO report must also mention the review of Article 27.3(b) and the relevant proposals and WTO documents on this issue.

CHAPTER X. DEVELOPMENT RELATED CONCERNS

25. Canada

Para 305: The Development Agenda consists of 45 recommendations; is the Bureau including the establishment of the CDIP as a recommendation?

Para 311: Last sentence regarding the international patent system: While discussions are on-going as to whether or not the international patent system should be used to support the objectives of the CBD, this paragraph presumes that there is a link between the patent system and biodiversity and that the use of the patent system is necessary.

Para 315: Canada has some concern with the sentence “The first question is whether the current, or any future, international patent system could be compatible with national policy objectives”, this paragraph suggests that there is currently incompatibility between the international patent system and national policy objectives. It would be better to state: “The first question is whether or not the current, or any future, international patent system could be considered incompatible with national policy objectives.”

26. Third World Network (TWN)

In para 306, the WIPO report states that “The patent system was created as a mechanism to promote technological development, diffusion and transfer of technology and private investment flows” and that the “The international patent system is aiming at achieving or at least facilitating those goals at the international levels”.

Under the comment on Chapter II, several observations have been made with regard to the patent system and its relationship to technology transfer and investment flows. The WIPO report must take into account these observations and avoid making unqualified statement such as in para 306. It is not just that there is concern that the international patent system runs counter to national development, but the link between patents and technology transfer and development in developing countries as well as investment flows to developing countries is weak. Instead if one were to better understand the economic development of the now-

industrialised countries, it is obvious that the lack of patent protection played a major role in facilitating technology catch up.

In para 307 and 308 the is assumption that developing countries have innovative capacity to be unleashed and entities from those countries will rush to claim patents, if patent information is made available and cost is reduced. Of course the basis for this assumption is not clear. What is widely known is that most developing countries do not have the innovations systems as seen in the developed countries to be able to exploit the patent system. (See Comment under Chapter II and III)

In para 309, the value of reverse engineering, imitation as means for technological catch up and industrial development is not recognized although they have been used successfully by the now-industrialised countries. To benefit from reverse engineering, a country must be very selective in the type of patents that are granted in its country. Loose patentability criteria will enable more technologies to be patented in the country, thus foreclosing the option of reverse engineering. See also above Comments on Chapter IV.

In relation to para 315, there is an assumption on the effectiveness of the 30th August Decision in providing swift access to medicines. Once again the WIPO report ignores all the frictions, tensions, and debate that took place and that continue in relation to the 30th August Decision (and the subsequent TRIPS amendment). It is definitely too early to claim as done in the WIPO report that “multilateral fora” can deliver on issues that are of concern to public interest. The jury is still out on the protocol amending the TRIPS Agreement (which by the way is still not in force).

In fact there is much evidence to the contrary. For example despite the reaffirmation in the Doha Declaration on TRIPS and public health, developed countries which are a part of the multilateral fora and its industries continue to persecute and threaten sanctions against developing countries that make use of flexibilities such as the compulsory licence, even when it concerns saving lives of patients in developing countries.

[End of Annex III and of document]