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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16.7.2008  
COM(2008) 465 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL AND THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE**

**An Industrial Property Rights Strategy for Europe**

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**1. INTRODUCTION**

Intellectual property law establishes protection over intangible property. For example, when a manufactured product is sold, the product itself is then owned by the purchaser. However, intellectual property rights allow associated intangible elements to remain in the ownership of the creator or inventor of the product. These intangible elements include the idea or invention behind the product or the name or sign to distinguish it from others. Traditionally, intellectual property can be divided into two main categories: industrial property and copyright. This Communication focuses on **industrial property rights**<sup>1</sup>.

Patents and trade marks are the best-known industrial property rights. Patents are a limited-term exclusive right granted to an inventor in return for the disclosure of technical information from the invention. By contrast, the rights associated with trade marks, which are signs indicating the origin of goods and services have no maximum duration provided they continue to be used in trade. However, both these rights can only be maintained in force by the payment of maintenance fees. Industrial property rights are diverse and include lesser-known rights such as industrial designs, geographical indications and plant variety rights. However, what all these rights have in common is that they enable holders to prevent unauthorised use of an intangible asset of potential commercial value, whether this is an idea behind an innovative product or process, or an indication to the consumer of origin.

Europe requires strong industrial property rights to protect its innovations and remain competitive in the global knowledge-based economy. In the EU, protection at Community level exists for most of the registered industrial property rights. However, pending an agreement on the Community patent, businesses do not have this possibility in patents. To fill this gap, the Commission published a Communication<sup>2</sup> in April 2007 to revitalise the debate on the patent system in Europe and set out a way forward to a Community patent and improved patent jurisdiction for the EU. The Commission considers that progress in this matter is vital and reaffirms its intention to seek agreement as a question of priority on these proposals.

Last year's Communication provided the impetus towards progress on outstanding Community legislative issues in patents. Having now established momentum towards finding solutions on patents, this Communication turns towards developing a horizontal and integrated strategy across the spectrum of industrial property rights. The Communication does not intend to discuss the relative merits of formal industrial property rights and alternative business models such as open source software or trade secrets, but focuses on the industrial

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<sup>1</sup> On copyright, the Commission has published a Green Paper "Copyright in the Knowledge Economy" COM(2008) 466 final

<sup>2</sup> "Enhancing the patent system in Europe" COM(2007) 165 final

property rights themselves. It analyses existing initiatives with a view to proposing actions for the system to function in an optimal way to meet challenges that Europe will face in the coming years.

## **2. THE CHALLENGES**

In the Strategic Report on the renewed Lisbon strategy for growth and jobs, the Commission identified investing in knowledge and innovation as one of four priority areas for focused actions in the 2008-2010 cycle<sup>3</sup>. Protection of intellectual property is a key framework condition for innovation, stimulating R&D investment and transfer of knowledge from the laboratory to the marketplace. A clear regime for intellectual property rights is an essential condition for the single market and in making the "fifth freedom", the free movement of knowledge, a reality. This may also contribute as part of wider policy to finding solutions that could address global issues of increasing significance such as climate change, the ageing world population, and a possible energy crisis.

### **2.1. The economic and societal benefits of industrial property rights**

Property, whether tangible or not, is crucial to the operation of a market economy. Industrial property rights such as patents, designs and plant variety rights give an incentive to produce new inventions and other innovations by awarding an exclusive right for a limited period. Such industrial property rights facilitate entry of newcomers to a market by helping to attract venture capital and enabling production to be licensed to incumbents. Trade mark rights are essential for a system of undistorted competition, allowing the customer to distinguish the products and services of undertakings. Trade marks provide a highly effective means of communication. On the one hand, they serve as a medium for information and advertising, and on the other hand, as a symbol to create and represent the entrepreneurial capacity and the image of an undertaking. Without competing imitations, the producer can increase his market share, enhance profit margins and develop customer loyalty.

The benefits of patent rights also extend beyond the rights holder by dissemination of knowledge. While rival companies may lose market share due to a competitor's patents, they benefit from new technological opportunities in published inventions, reducing the need to perform reverse-engineering. This can create a virtuous circle of innovation which, in the long term, balances the initial effect of high prices during the period of market exclusivity. Industrial property can therefore have a positive effect on competition when accompanied by rigorous application of competition rules to prevent abuses of rights.

An example of the pro-competitive effects of industrial property is the formation of technology pools<sup>4</sup> in patents, by reducing transaction costs and by setting a limit on cumulative royalties. The creation of a pool allows for one-stop licensing of the technologies covered by the pool. In cases where licensees receive on-going services concerning the application of the licensed technology, joint licensing and servicing can lead to further cost reductions.

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<sup>3</sup> "Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010) Keeping up the pace of change" COM(2007) 803 final PART I

<sup>4</sup> Commission Notice "Guidelines on the application of article 81 of the EC Treaty to technology transfer agreements" OJ C 101, 27.04.2004, p.2

Despite these benefits, industrial property rights are not an end in themselves. Policy needs to consider the trade-off between offering an exclusive right and the diffusion of new products and processes in order for industrial property rights to continue to produce economic and social benefits in the future.

## 2.2. The changing innovation environment

In the global knowledge-based economy, the importance of innovation as a driver of competitive advantage has increased; EU business can no longer rely on prices to maintain their competitiveness. Within this environment, small and medium-sized enterprises (SMEs) and public research organisations (PROs) including universities are playing an ever-increasing role with licensing of industrial property rights becoming more important. The Commission has put even more emphasis on SMEs in the Lisbon Cycle of 2008-10 by proposing new measures in the Small Business Act for Europe<sup>5</sup>. Furthermore, the importance of knowledge transfer between PROs and the private sector in boosting European competitiveness has been recently reaffirmed with a Recommendation by the Commission to Member States. This includes a Code of Practice for PROs on the management of intellectual property<sup>6</sup> and builds on the call for the creation of a European knowledge transfer framework<sup>7</sup>. The Recommendation will help to create a more level playing field and facilitate transnational knowledge transfer. This may also be improved by a harmonised definition and application of the research exemption to patent infringement<sup>8</sup>. Furthermore, as many PROs are becoming more entrepreneurial, e.g. through licensing activities or the creation of spin-offs, their needs are, to an increasing extent, similar to SMEs. Many of the measures for SMEs outlined in this Communication can therefore also be of benefit to research institutions.

As an essential part of the management of intellectual assets, industrial property rights are playing an increasing role in a company's overall business strategy. In recent years, there has been a dramatic growth in the demand for patents, trade marks and other registered rights. However, other ways to safeguard information like trade secrets remain important, as does lead-time advantage over competitors. Furthermore, in the ICT sector, open-source software business models now co-exist alongside proprietary models. In a survey last year of European company executives, 53% said the use of intellectual property rights will be very important or critical to their business model in two years, compared to 35% who considered this was also the case at the time of the survey<sup>9</sup>. However, the growing importance of intellectual assets in value creation contrasts with lack of a standardised treatment of these assets in corporate reporting, which may hinder access to finance for businesses. This might be remedied by future international developments in intangibles reporting systems.

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<sup>5</sup> "Think small first – A 'Small Business Act' for Europe" COM(2008) 394 final

<sup>6</sup> "Commission Recommendation on the management of intellectual property in knowledge transfer activities and Code of Practice for universities and other public research organisations" C(2008) 1329

<sup>7</sup> "Improving knowledge transfer between research institutions and industry across Europe: embracing open innovation" COM(2007) 182 final

<sup>8</sup> The research exemption to patent infringement allows a patented technique to be used by researchers for experimental or private and non-commercial purposes. Its application in EU Member States is currently being evaluated in a broad-based study, see [http://www.eutechnologytransfer.eu/deliverables/experimental\\_use\\_exemption.pdf](http://www.eutechnologytransfer.eu/deliverables/experimental_use_exemption.pdf)

<sup>9</sup> "The value of knowledge: European firms and the intellectual property challenge", Economist Intelligence Unit white paper 2007 published by the Economist

### 2.3. A strategy on industrial property rights for Europe

Internationally-agreed principles for industrial property protection date back to the 19<sup>th</sup> Century<sup>10</sup>. Towards the end of the 20<sup>th</sup> Century, minimum standards were embedded in the TRIPs agreement<sup>11</sup>. In the 21<sup>st</sup> Century, a strategy on industrial property rights needs to ensure Europe responds to the challenges of the global knowledge-based economy. The intellectual property system should continue to act as a catalyst for innovation and contribute to the overall Lisbon strategy. The Commission has laid out criteria to achieve this: such a system should be **high-quality**, featuring tough examination standards; **affordable**, balancing cost with quality and legal certainty; **consistent**, with a common interpretation of laws and unified court proceedings; and **balanced**, between rewarding valuable intellectual creation and ensuring the easy circulation of ideas and innovation<sup>12</sup>.

Whereas a regulatory framework already exists on a number of industrial property rights at EU level, in the field of patents, the situation is very different. It is clear that affordability, consistency and balance between rewards to inventors and the circulation of ideas would be greatly improved by the adoption of a Community Patent and EU-wide patent jurisdiction.

This Communication outlines actions for a high-quality industrial property rights system to allow Europe to benefit from its potential in addressing the challenges of economic globalisation. The strategy complements the Communication on the patent system in Europe<sup>13</sup>, but it is wider in scope, addressing industrial property rights in a horizontal manner. High quality rights are an essential requirement for all aspects of the system – support for business including SMEs, facilitation of knowledge transfer and effective enforcement of rights to combat counterfeiting and piracy. Only with a quality system can Europe benefit from new opportunities in the global economy and fulfill its responsibilities.

The elements of this integrated strategy are interdependent and mutually reinforcing but not exhaustive. The Community is competent on important policy aspects and the Commission therefore has a particular responsibility to assist in finding ways forward. However, the responsibility for success is a shared one. In the context of the Lisbon agenda, Member States are therefore invited to take into account this strategy when formulating their own strategies, addressing, amongst other things, possibilities for simplification in line with better regulation. Equally, other stakeholders such as inventors, universities, businesses and end-users play a vital role and need to make informed choices in the management of industrial property rights.

### 3. THE QUALITY OF INDUSTRIAL PROPERTY RIGHTS

A high quality system of industrial property rights should achieve the acknowledged objectives of encouraging innovation and diffusion of new technology and knowledge. This goes beyond technical and legal examination of individual rights to consider their economic impact. High quality rights only offering rewards to inventions that meet the legal

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<sup>10</sup> Paris Convention for the Protection of Industrial Property (done in Paris 1883, last revised Stockholm 1967)

<sup>11</sup> Trade-related aspects of intellectual property rights - See [http://www.wto.int/english/docs\\_e/legal\\_e/27-trips\\_01\\_e.htm](http://www.wto.int/english/docs_e/legal_e/27-trips_01_e.htm)

<sup>12</sup> "An innovation-friendly, modern Europe" COM(2006) 589 final

<sup>13</sup> "Enhancing the patent system in Europe" COM(2007) 165 final

requirements are essential to a well-functioning system, along with user-friendly access of information on these rights to businesses and society.

### 3.1. Patents

The quality of patents in Europe is generally perceived to be high. Nevertheless, stakeholders are concerned about maintaining and improving patent quality in Europe and avoid shortcomings of some other patent offices<sup>14</sup>. This concern is also shared in the European Parliament<sup>15</sup>. For example, large numbers of overlapping patent rights can create additional barriers to commercialise new technologies that already exist in "patent thickets"<sup>16</sup>. Poor quality rights can also contribute to problems with "patent trolls"<sup>17</sup> that have arisen in the US judicial system.

Europe is no exception to worldwide trend of continually rising numbers of patent applications. In 2006, the number of patent applications filed at the European Patent Office (EPO) in a year exceeded 200,000 for the first time and grew by 5.6%<sup>18</sup>. Applications are also becoming more voluminous, with both the number of claims and pages of applications at the EPO doubling over the past 20 years<sup>19</sup>. The increase in numbers and complexity of patent applications worldwide has resulted in rising backlogs of pending applications<sup>20</sup>, increasing market uncertainty caused by other factors such as unused patents. In addition, a greater proportion of prior art<sup>21</sup> is published in non-European languages such as Chinese and Korean. Along with applications in new fields of technology, these trends pose particular challenges to patent offices. There is also a need for improved access to patent information for companies and innovators.

It is vital that patents are awarded only where a true inventive contribution is made. The granting of poor quality patent rights has a negative effect, contributing to economic and legal uncertainty. The EPO has "raising the bar" as a strategy concerning its future workload, and patent offices in Europe should work together, e.g. by mutual exploitation of work to maintain high quality rights and avoid patents being granted in fields which are not patentable such as software and business methods. Examiners also need to be kept abreast with latest developments in their field through continuing professional development. Furthermore, the role of patent offices includes refusing applications which should properly be accounted for when measuring their performance. In addition, stakeholders have an important role to play to

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<sup>14</sup> Consultation and public hearing on future patent policy in Europe in 2006

[http://ec.europa.eu/internal\\_market/indprop/docs/patent/hearing/preliminary\\_findings\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/patent/hearing/preliminary_findings_en.pdf)

<sup>15</sup> "Policy options for the improvement of the European patent system" – a study requested by the Science Technology Options Assessment (STOA) group in the European Parliament at [http://www.europarl.europa.eu/stoa/publications/studies/stoa16\\_en.pdf](http://www.europarl.europa.eu/stoa/publications/studies/stoa16_en.pdf)

<sup>16</sup> A patent thicket refers to the potential problem that due to the high number of patents associated with a particular product or technology, innovation in the sector is slowed down because of fear of hold-up and patent infringement litigation.

<sup>17</sup> "Patent trolls" are patent owners whose main business is to use patent rights to threaten companies with infringement actions to obtain an interlocutory injunction and extract licence fees from third parties

<sup>18</sup> EPO Annual Report 2006 at <http://www.epo.org/about-us/office/annual-reports/2006.htm>

<sup>19</sup> "When small is beautiful: measuring the evolution and consequences of the voluminosity of patent applications at the EPO", Eugenio Archontopoulos *et al.* Information Economics and Policy, Vol 19, No. 2 (June 2007)

<sup>20</sup> There are as many as 10 million unexamined patents in the world, and at the EPO, the number of pending examination procedures reached 304100 in 2006, a rising from 285400 in 2005.

<sup>21</sup> Prior art is the information made available to the public before a given date that is relevant to the originality of a patent application, and therefore the scope of the patent rights that should be granted.

prevent patent offices receiving too many applications with no inventive step. Initiatives such as patent peer review schemes by fellow experts and voluntary codes of best practice to improve the standard of incoming applications are encouraging ways of improving patent quality against the background of increasing demand.

Utility models, which exist in some EU Member States, are similar to patents in giving the holder an exclusive right to a technical invention, but they have a shorter lifespan than patents. The invention protected by a utility model must be new, but generally the level of inventiveness required is less than for patents. Utility models and national patents granted in Member States which do not conduct a thorough assessment of inventive step are a faster route of protection. However, they can be seen as lower quality rights than examined patents, and can therefore increase legal uncertainty.

*The Commission will*

*- launch a comprehensive study on patent quality to analyse the risks of low quality rights and explore ways to avoid their presence in Europe*

*- study the extent of possible problems with unused patents, including evaluating their causes and suggesting remedies.*

*Member States with utility models and patents not examined for inventive step are invited to assess the contribution these rights make to innovation.*

### **3.2. Trade marks**

Europe depends on powerful brands<sup>22</sup>. This requires strong trade mark protection that is effective against improper licensing, non-use or unfair use, or infringements.

Registration processes including the examination of trade marks must be subject to high quality standards, in particular to ensure that the resulting registrations are entitled to a presumption of validity, meeting customers' expectations. They must be transparent, reliable, consistent and affordable for business. At EU level the Office for the Harmonisation of the Internal Market (OHIM) has set up a User Satisfaction Survey. The 2007 results show an increase in the overall satisfaction of agents and proprietors, with fewer complaints and greater efficiency at resolving them. However, there is room for improvement in appeal decisions, particularly timeliness. Furthermore, despite the greater use of e-business tools, speed and reliability could be better. OHIM has developed a Quality Management System, launched a Service Charter defining its objectives by what users can expect, and has the ambition to become a fully fledged "e-organisation"<sup>23</sup>.

Trade mark registration in the Community has been harmonised in Member States for more than 15 years, with national and Community trade mark rights co-existing for over 10 years. Although the trade mark system shows clear successes, it is time for an overall evaluation.

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<sup>22</sup> Eurobrand2007 Study at <http://study.eurobrand.cc/valueranking2007/>

<sup>23</sup> See for details the OHIM website: <http://oami.europa.eu/en/userscorner/default.htm>

*The Commission will evaluate the overall functioning of the Community and national trade mark systems. The study will analyse the impact of the trade mark systems in the EU on stakeholders, and could form a basis for future review of the Community trade mark system and enhanced cooperation between the OHIM and national offices.*

### 3.3. Other industrial property rights

Apart from trade marks, other systems for industrial property rights exist at Community level. The Community design<sup>24</sup> system began in 2003 and now provides a route to protection in third countries following accession in 2008 of the EC to the Geneva Act of Hague Agreement on the international registration of designs. Although national design law has to a large extent been harmonised with the Designs Directive<sup>25</sup>, adoption of the proposal to liberalise the aftermarket in spare parts<sup>26</sup> would provide a more consistent system in the Single Market. Given these ongoing developments and the relatively new Community design system, the Commission does not currently envisage an evaluation of the design system.

Longer-established Community protection systems include geographical indications (GIs) and Community Plant Variety (CPV) rights. The EC provides GI registration systems for wines and agricultural products and foodstuffs by protected designation of origin (PDO), and for protected geographical indication (PGI) which also extends to spirits<sup>27</sup>. These systems assure consumers they are buying a genuine product that owes its identity or reputation to the region of origin. GI protection systems have different function and objectives from trade mark protection. However, both systems contribute to protecting product names from misuse and imitation. The Commission is presently carrying out an *ex post* evaluation of the overall application of the system for agricultural products since 1992. The relationship with trade marks is part of the study. It will also publish a Green Paper on agricultural product quality policy in 2008, which is intended to consult stakeholders on product standards, production requirements and quality schemes including the future development of the GI systems. Furthermore, how to facilitate GI protection for non-agricultural products is another issue that the Commission is reflecting on, so as to bring benefits to European and third countries' producers.

For the CPV system, the Community Plant Variety Office, which grants CPV protection, is commissioning an evaluation on its role and activities. An overall evaluation of the Community legislation governing CPV rights might also be envisaged after the current evaluation on the *acquis* on the marketing of seed and plant propagating material which also considers the links with the CPV system.

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<sup>24</sup> Council Regulation (EC) No 6/2002 of 21 December 2001 on Community designs OJ L 3, 5.1.2002, p.1  
<sup>25</sup> Directive 98/71/EC of 13 October 1998 on the legal protection of designs OJ L 289, 28.10.1998, p.2

<sup>26</sup> "Proposal for a Directive of the European Parliament and the Council amending Directive 98/71/EC on the legal protection of designs" COM (2004) 582 final

<sup>27</sup> Protection is available by three Regulations covering wines (Council Regulation (EC) No. 1493/1999 OJ L 179 14.7.1999, p.1), spirits (Council Regulation (EC) No. 110/2008 OJ L 39, 13.2.2008, p.16) and agricultural and food stuff products (Council Regulation (EC) No. 510/2006 OJ L 93 31.3.2006, p.12).

*The Commission will:*

- *publish a Green Paper in 2008 on agricultural product quality policy which will cover GIs*
- *carry out an assessment, including via public consultation, on the feasibility of geographical indication protection to non-agricultural products.*

### **3.4. Industrial Property Rights and Competition**

Promotion of innovation and driving economic growth are common goals of industrial property and competition law. Strong protection of industrial property rights should be accompanied by rigorous application of competition rules.

The existence and exercise of an industrial property right are not of themselves incompatible with competition law. Only in exceptional circumstances may the "exercise" of a right constitute an infringement of EC competition rules, in particular if the company is dominant and its behaviour is likely to lead to elimination of competition in a relevant market. The Court of First Instance has confirmed the circumstances when e.g. a refusal to license may be abusive, namely when the information that is refused is indispensable to compete in a secondary market, when competition in that secondary market is likely to be eliminated, and when new products for which there is consumer demand are prevented from coming to market<sup>28</sup>.

An area of growing prominence in the interface between industrial property and competition law is standard-setting. In general, standard-setting is a positive contribution to innovation and economic development. Nevertheless, in order to avoid potential distortions of competition, standard-setting should be carried out in an open and transparent manner<sup>29</sup>. One example of a distortion may be a "*patent ambush*", whereby the owner of a proprietary technology essential to a standard extracts an artificially inflated *ex post* (i.e. after a standard is set) value for his patented technology by deliberately concealing his patent during the standard-setting process.

Rules within standard-setting organisations may specify an *ex ante* (i.e. before a standard is set) duty to disclose essential patent applications and/or issued patents or a duty to offer commitments to license the essential patents on fair, reasonable and non-discriminatory (FRAND) terms<sup>30</sup>. Some bodies have also adopted rules whereby holders of potentially essential technologies to a standard declare maximum royalty rates that they would charge were their technology selected to become part of the standard. The Commission encourages European standards organisations to make these policies effective.

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<sup>28</sup> Judgment of the Court of First Instance (Grand Chamber) of 17 September 2007, *Microsoft v Commission*, Case T-201/04

<sup>29</sup> Commission Notice - Guidelines on the applicability of Article 81 to horizontal co-operation agreements, OJ C 3, 6.1.2003, p. 2

<sup>30</sup> General Guidelines for the Cooperation between CEN, Cenelec and ETSI and the European Commission and the European Free Trade Association, signed on 28 March 2003, OJ C 91, 16.04.2003, p.7

Rules requiring *ex ante* disclosure of maximum royalty rates should not be used as a sham for illegitimate price discussions. However, in themselves, they are not anti-competitive. Indeed, in appropriate circumstances, they could have the potential to be strongly pro-competitive allowing for *ex ante* competition based on both the technical merit and price of a technology. In such a scenario, the consumer will be the ultimate beneficiary, since *ex ante* competition would prevent an artificially high *ex post* price from being charged. This notwithstanding, it is generally not for competition law to second guess a specific IP policy of a standard-setting body, but rather to provide guidance on which elements may or may not be anti-competitive. It is for industry to choose which scheme best suits its needs within these parameters<sup>31</sup>.

*The Commission will:*

- *launch a fact-finding study to analyse the interplay between intellectual property rights and standards in the promotion of innovation*<sup>32</sup>
- *adopt a consultative document on standardisation in information and communications technologies (ICT) in the first quarter of 2009 which will include how standards relate to industrial property rights in the sector.*

#### **4. INNOVATION SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES**

Small and medium-sized enterprises (SMEs)<sup>33</sup>, account for 99% of all enterprises, providing 85 million jobs in Europe. Successful exploitation of industrial property rights can provide the essential leverage for SMEs to prosper. However, SMEs often do not take full advantage of opportunities to exploit industrial property rights<sup>34</sup>. Research indicates that they utilise formal industrial property rights less and instead rely on other protection methods, such as trade secrets or marketing advantages. When this is due to lack of awareness or support, this is undesirable and highlights the need for prompt policy actions.

##### **4.1. Improving SME access to industrial property rights**

High costs are often cited by SMEs as a reason for not having formal industrial property rights. Unlike trade marks and designs, SMEs cannot choose between national and Community regimes in patents. The entry into force of the London Agreement<sup>35</sup> on 1 May 2008 will help SMEs benefit from the Single Market by reducing translation costs for European patents<sup>36</sup>. But there is vast potential for improvement by a cost-effective, accessible Community patent<sup>37</sup>, which has again been demanded by SMEs in the consultation on the

<sup>31</sup> For example, in some circumstances, royalty-free licenses can be effective in promoting wide take-up of standards in areas where strong network effects apply.

<sup>32</sup> "Towards an increased contribution from standardisation to innovation in Europe" COM(2008) 133 final

<sup>33</sup> Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises OL L 124 20.5.2003 p.36

<sup>34</sup> "Implementing the Community Lisbon Programme Modern SME Policy for Growth and Employment" COM(2005) 551 final

<sup>35</sup> The Agreement dated 17 October 2000 on the application of Article 65 EPC [2001] OJEP 549

<sup>36</sup> See <http://www.epo.org/patents/law/legislative-initiatives/epc2000.html>

<sup>37</sup> "Enhancing the patent system in Europe" COM (2007) 165 final – see Annex II and references therein for calculations of cost benefits of the London Agreement and Community patent

Small Business Act<sup>38</sup>. The Small Business Act set out, as one of its ten principles, that the EU and Member States should encourage SMEs to benefit more from the opportunities offered by the Single Market, including, amongst other things, their access to patents and trade marks.

Other suggested solutions are incentives for SMEs such as prior art searches and subsidies for the first 10 patent applications<sup>39</sup> which could increase use of industrial property right protection. Whether lowering costs for all SMEs (e.g. by reduced processing fees<sup>40</sup>), offering targeted subsidies<sup>41</sup>, or incentives to decrease taxation from income from licensing industrial property rights<sup>42</sup> would be more effective could warrant investigation<sup>43</sup>.

*The Commission*

*- continues to work on an efficient and cost-effective, high quality and legally-secure patent system at European level, including a Community patent and EU-wide patent jurisdiction*

*- will explore how the fee structure for the future Community patent can be designed to facilitate access for SMEs.*

*Pending the adoption of the Community patent, Member States are encouraged within the Community framework for State aid for Research and Development and Innovation<sup>44</sup>*

*- to make use of the provisions to support industrial property rights*

*- explore ways SMEs can make better use of rights within this framework such as reducing patent fees, or tax incentives to promote licensing activity .*

## **4.2. Improving SME access to dispute resolution procedures**

SMEs often have limited resources to initiate legal action, particularly patent litigation. An affordable, efficient and reliable EU-wide integrated patent jurisdiction would be an obvious and highly effective remedy.

Another suggested solution is patent litigation insurance. The most recent study on this topic by the Commission<sup>45</sup> evaluated the feasibility of a small number of schemes. It concluded that only a mandatory system would be economically viable. However, this result is put into

<sup>38</sup> [http://ec.europa.eu/enterprise/entrepreneurship/sba\\_en.htm#aa](http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm#aa)

<sup>39</sup> [http://ec.europa.eu/internal\\_market/indprop/docs/patent/hearing/preliminary\\_findings\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/patent/hearing/preliminary_findings_en.pdf)

<sup>40</sup> Small entities can obtain a 50% fee reduction under US patent law, see [http://www.uspto.gov/web/offices/pac/mpep/mpep\\_e8r6\\_appxl.pdf](http://www.uspto.gov/web/offices/pac/mpep/mpep_e8r6_appxl.pdf)

<sup>41</sup> For example, subsidising first-time patent applicants (e.g. 1er brevet service of OSEO Innovation in France or INSTI SME Patent Action in Germany), or allowing further subsidies (e.g. IPAS service in Ireland).

<sup>42</sup> Some countries allow income tax reductions from licence revenues from patents.

<sup>43</sup> A memorandum on removing barriers for a better use of the IPR system by SMEs: A report for the Directorate-General for Enterprise and Industry June 2007 at [http://www.proinno-europe.eu/NWEV/uploaded\\_documents/IPR\\_Expert\\_group\\_report\\_final\\_23\\_07\\_07.pdf](http://www.proinno-europe.eu/NWEV/uploaded_documents/IPR_Expert_group_report_final_23_07_07.pdf)

<sup>44</sup> OJ C 323, 30.12.2006 2006, p.1

<sup>45</sup> "The possible introduction of an insurance against costs for litigation in patent cases" by CJA Consultants Ltd at [http://ec.europa.eu/internal\\_market/indprop/docs/patent/studies/pli\\_report\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/patent/studies/pli_report_en.pdf) - a follow-up study

question by recent work on setting up voluntary schemes. The Commission will therefore follow further developments in this field.

Alternative dispute resolution (ADR) mechanisms, particularly mediation, can complement the judicial system and be a viable alternative both for SMEs and larger companies if they are speedy, reliable and cost-effective. Directive 2008/52/EC<sup>46</sup> provides a framework for mediation in cross-border disputes. It facilitates access to dispute resolution by addressing key aspects of the relationship between mediation and civil proceedings and providing useful tools to promote mediation. The Commission also encourages the application of high mediation standards in domestic disputes and supports the use of the European Code of Conduct for Mediators<sup>47</sup> to improve quality and consistency of mediation services.

In the context of work on the Community patent and an integrated patent jurisdiction system, the creation of a patent arbitration and mediation centre at Community level is being explored to deal with cases where validity is not at stake. Complementing ADR facilities for patents outside the Community framework, this centre could ensure proximity and better accessibility to patent disputes by SMEs. The centre would establish a Community list of mediators and arbitrators who could assist the parties in settlement of their dispute. Although ADR would not be mandatory, a judge of the integrated patent jurisdiction would investigate with the parties the possibilities for settlement of the dispute by the arbitration and mediation centre.

*The Commission will*

*- explore how mediation and arbitration can further be encouraged and facilitated in the context of ongoing work on an EU-wide patent litigation system.*

*Member States are*

*- encouraged within the context of the Lisbon strategy to provide sufficient support for SMEs to enforce their industrial property rights.*

#### **4.3. Quality support for SMEs on management of Industrial Property Rights**

Despite the large numbers of publicly funded services in Europe providing support to SMEs, fairly few can be described as high performers, although some "islands" of well designed programmes exist<sup>48</sup>. Industrial property rights, throughout their life-cycle, should, along with other intellectual assets, be included as an integral element of the business plan of companies. Quality support to SMEs on management of industrial property rights should be tailored to their individual needs. This requires a rare combination of technical, legal and business expertise. The ip4inno "train-the-trainer" initiative<sup>49</sup> prepares trainers specialising in IPRs to disperse knowledge to business advisory communities. SME support services can also make better use of their own expertise. National patent offices and technology/development agencies working in combination can create synergies by combining their technical/legal and

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<sup>46</sup> Directive 2008/52/EC of the European Parliament and of the Council of 21 May 2008 on certain aspects of mediation in civil and commercial matters, OJ L 136, 25.5.2008, p.3.

<sup>47</sup> See [http://ec.europa.eu/civiljustice/adr/adr\\_ec\\_code\\_conduct\\_en.htm](http://ec.europa.eu/civiljustice/adr/adr_ec_code_conduct_en.htm)

<sup>48</sup> Benchmarking National and Regional Support Services for SMEs in the Field of Intellectual and Industrial Property at [http://www.proinno-europe.eu/admin/uploaded\\_documents/Benchmarking-Report-SME.pdf](http://www.proinno-europe.eu/admin/uploaded_documents/Benchmarking-Report-SME.pdf)

<sup>49</sup> See <http://www.proinno-europe.eu/index.cfm?fuseaction=page.display&topicID=63&parentID=54>

business expertise. The aim of the IP-Base Project is to promote the development of new awareness actions and support services. It is based on collaboration between national patent offices and local innovation structures, including the Enterprise Europe Network.

European SMEs increasingly need to operate in markets outside the EU in order to survive and prosper. Robust IPR protection is vital for SMEs to make full use of new trading opportunities. The Commission will enhance help for companies in third countries. For example, in China, an IPR Helpdesk has been launched to provide business-oriented advice on IPRs including enforcement. This pilot action will be assessed to consider whether this support should be continued on longer-term basis, expanded or modified to meet future needs of SMEs.

*The Commission will*

*- assess the IPR Helpdesk in China with a view to providing optimised IPR support services for SMEs in third countries and to assessing the potential for continued and expanded support.*

*Member States are encouraged to*

*- raise awareness of intellectual asset management for all businesses and researchers, including SMEs.*

## **5. ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS - COMBATING COUNTERFEITING AND PIRACY**

Protection of new innovations by intellectual property must be accompanied by effective enforcement mechanisms. Counterfeiting and piracy are reaching alarming levels with significant implications for innovation, economic growth and job creation in the EU and risks for health and safety of European citizens. Worldwide, international trade in counterfeited and pirated products in 2005 was estimated at \$200 billion<sup>50</sup>. Counterfeiting and piracy is an enormous phenomenon which is thought to be growing in absolute value and proportionally to global GDP in line with trends in international trade. There is therefore an acute need for intensified action, both within the EU and in third countries, to protect European companies and their investments in innovation.

### **5.1. Effective enforcement through Community legislation**

Within the single market, the Enforcement Directive<sup>51</sup> is the cornerstone of the EU's contribution to the fight against counterfeiting and piracy. Correct transposition and practical application is necessary to achieve its goals. The Commission is helping coordinate the implementation reports from Member States required by 29 April 2009.

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<sup>50</sup> Organisation for Economic Cooperation and Development, The Economic Impact of Counterfeiting and Piracy 4/6/07 DSTI/IND(2007)9/PART4/REV1

<sup>51</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ L 157, 30.4.2004, p.16

Criminal law measures also constitute, in appropriate cases, a means of enforcing intellectual property rights. Differences in the implementation of criminal procedures and penalties create discrepancies in the level of protection available for rights holders. The Commission continues to believe that Member States need to put in place effective criminal law measures.

Where a court has held that intellectual property rights have been infringed, enforcement of the judgment or order should not pose significant difficulties for the rights holder. The Commission is considering how cross-border enforcement can be simplified as part of a review of the Brussels I Regulation.<sup>52</sup> One of the elements envisaged is the abolition of the exequatur requirement<sup>53</sup> as a pre-condition for enforcement of a judgment from another Member State.

*The Commission will*

*- ensure a full transposition and effective application of the Enforcement Directive 2004/48/EC*

*- consider how cross-border enforcement of judgments can be improved in its review of the Brussels I Regulation.*

## **5.2. Frontier initiatives**

At the borders of the Community, goods suspected of infringing IPRs can be seized under Customs legislation<sup>54</sup>. For this to be effective, holders of IPRs need to cooperate fully with customs and exchange data that will enable customs to target suspect shipments successfully. Such cooperation is one of the pillars of the action plan for a customs response to combat counterfeiting and piracy adopted by the Commission in October 2005<sup>55</sup> and endorsed by the Council. The Commission will soon present the results of its implementation and intends to subsequently launch a new customs action plan building on the success of the first one. The recent amendments to the Customs Code to improve controls for safety and security purposes offer new tools for the rapid dissemination of information on high risk traffic. These tools should be used to the full.

The number of cases treated by customs involving counterfeit and pirated products rose by over 15% to over 43,000 cases in 2007<sup>56</sup>. Customs enforcement has brought significant results but is clearly only part of the solution. It is critical that this is accompanied by actions preventing the distribution and ultimately the manufacturing of IPR-infringing goods. In addition, it is recognised that further cooperation with customs in manufacturing countries is essential. To this end, a joint customs action plan against counterfeiting and piracy is being drawn up with the authorities in China. This plan should be finalised in 2008.

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<sup>52</sup> Council Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, OJ L 12, 16.1.2001, p.1

<sup>53</sup> Where there is an exequatur requirement, a judgment given in a Member State which is enforceable in that Member State is enforceable in another Member State when it has been declared enforceable there.

<sup>54</sup> Council Regulation (EC) No 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights OJ L 328, 30.10.2004, p.16

<sup>55</sup> "A customs response to latest trends in Counterfeiting and piracy" COM(2005) 479 final

<sup>56</sup> See [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterfeit\\_piracy/statistics2007.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics2007.pdf)

At the same time, the unitary Community patent title providing complete geographical protection without any loopholes would render more effective the fight against counterfeiting and the copying of products patented by European companies. This would help to prevent the entry of counterfeit products into the European Single Market and facilitate their seizure by customs authorities at all external borders of the EU and their removal from the market wherever they enter distribution channels.

*The Commission will*

- seek to ensure full use by rights holders and Customs of information-sharing tools in order to target high risk traffic of counterfeit goods
- develop a new action plan on a customs response against counterfeiting and piracy
- develop a joint action plan against counterfeiting and piracy with the Chinese customs authorities during 2008.

### 5.3. Complementary non-legislative actions

Effective enforcement requires improved networks between the Commission and Member States, between different national authorities in the Member States, and between the public and private sector. Awareness of the damage of counterfeiting and piracy also needs improving. Consumers sometimes associate counterfeit goods with cheap clothing and luxury products, but are ignorant of the health and safety risks of fake versions of medicines, personal care products, electronic components and motor vehicle components. In addition, there is limited awareness of the link between counterfeit goods and tax evasion, money laundering, drug cartels, paramilitary involvement, organised criminal gang associations and child labour. The idea of education and awareness-raising on the importance of copyright for the availability of content is widely supported as a tool in the fight against piracy<sup>57</sup>. A public "zero-tolerance" approach towards IPR infringement would help improve enforcement for rights holders, including SMEs.<sup>58</sup>

To improve intelligence networks, the Commission will work with Member States and study how collection and documentation of information on illegal activity can be more effective. Within a Member State, coordination between the key players including customs authorities, the police, trading standards officers, prosecutors, IP offices and the courts can be enhanced by sharing best-practices. Between Member States, an efficient network of administrative cross-border cooperation could be set up to facilitate rapid exchange of information. This could build on existing systems, such as the internal market information system<sup>59</sup> which could be used to disseminate information on counterfeit goods.

Greater cooperation between the public and private sectors can also improve enforcement. The Commission will explore the extent to which an inter-industry deal can be brokered at EU level to crackdown on large-scale illegal downloading of copyright-protected material,

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<sup>57</sup> "Creative content online in the single market" COM(2007) 836 final

<sup>58</sup> Effects of counterfeiting on EU SMEs and a review of various public and private IPR enforcement initiatives and resources at [http://www.ec.europa.eu/enterprise/enterprise\\_policy/industry/doc/Counterfeiting\\_Main%20Report\\_Final.pdf](http://www.ec.europa.eu/enterprise/enterprise_policy/industry/doc/Counterfeiting_Main%20Report_Final.pdf)

<sup>59</sup> See <http://ec.europa.eu/idabc/en/document/5378/5637>

striking the balance between the need to safeguard personal data and the impact that file-sharing websites have on the creative industry. A stakeholder agreement at EU level could also be achieved as a step towards eliminating the selling of counterfeit products over the internet.

*The Commission will*

- consider the potential contribution that further awareness-raising activity can make towards changing the public perception about counterfeited and pirated goods, both at European level and by Member States*
- study how information gathering can be improved so that comprehensive documentation can be set up as a basis for better targeted enforcement actions*
- work to improve cooperation between all players involved in the fight against counterfeiting and piracy within individual Member States to enhance efficiency of actions at national level*
- explore solutions to establish an effective network for administrative cooperation between Member States to allow for Europe-wide actions*
- act to facilitate public/private sector agreements in the fight against IP violations*
- seek to broker an inter-industry agreement at EU level to reduce the internet traffic related to piracy and the selling of counterfeit goods.*

*Member States are invited, within the scope of the Lisbon strategy, to ensure sufficient information and resources are available to enforcement authorities to work constructively with right holders in combating violations of intellectual property.*

## **6. INTERNATIONAL DIMENSION**

### **6.1. Trade mark law reform**

The WIPO Singapore Treaty on the Law of Trademarks<sup>60</sup> of 2006 builds on the 1994 Trademark Law Treaty and aims at creating a modern and dynamic international framework for the harmonisation of administrative trade mark registration procedures. The Treaty provides for new developments in communications technology, relief measures on time limits, and explicitly recognises non-traditional visible trade marks and non-visible marks, such as sound and taste marks. There are also special arrangements to provide developing countries with technical assistance to help them take full advantage of the provisions of the Treaty. European industry can benefit from the successful agreement of the Treaty only by ratification or accession by EU Member States and the EC.

*The Commission will prepare the ground for the accession of the EC to the Singapore Treaty on the Law of Trademarks and encourages Member States to ratify this treaty.*

<sup>60</sup>

See <http://www.wipo.int/treaties/en/ip/singapore/>

## 6.2. Patent reform agenda

Patent law harmonisation could make it easier for European companies to patent their inventions outside the EU. Since 1970, the Patent Cooperation Treaty (PCT)<sup>61</sup> has offered a route to global patent protection by a single international application. Formalities law has largely been harmonised by the Patent Law Treaty<sup>62</sup> of 2000, but little progress has been made in agreeing a Substantive Patent Law Treaty (SPLT). Developing countries have raised concerns that a patent system should adequately take into account their interests. But key differences in the patent system also persist among industrialised countries. In the US, ownership of a patent is awarded to the first individual to realise an invention, unlike Europe where ownership is awarded to the first to file a patent application. Other differences are the grace period in the US preceding the filing of an application where disclosures can be made without prejudicing later patent applications, and no obligation to publish all US pending applications at 18 months from their filing or priority date. In the Transatlantic Economic Council, the Commission will work with EU Member States to establish a way forward in international patent law harmonisation.

Substantive patent law harmonisation would simplify patent processing, facilitate greater work sharing activities between patent offices, and could ultimately lead to mutual recognition of granted patents between offices. Europe has the responsibility to ensure that high quality standards on patentability are also part of multilateral frameworks.

*The Commission will work with EU Member States towards international patent law harmonisation in the negotiations for a Substantive Patent Law Treaty and in the Transatlantic Economic Council.*

## 6.3. Enforcement of intellectual property rights in third countries

As a key competitive asset for EU businesses, there is a growing concern about the increasing misappropriation of IPRs in third countries. Following the Strategy for the Enforcement of IPRs in Third Countries in 2004,<sup>63</sup> the Commission highlighted the need to reinforce IPR enforcement activity and cooperation with a number of priority countries<sup>64</sup> defined on the basis of a separate survey<sup>65</sup> which will be regularly updated. Actions with priority countries include strengthening cooperation with like-minded countries, establishing IPR dialogues, shifting technical assistance resources to enforcement and building awareness of IPR issues in EU companies operating in these countries. At a bilateral level, all trade agreements under discussion include specific chapters on IPR. By regulatory convergence, these should achieve effective protection and enforcement of IPRs and further clarify international obligations.

Multilaterally, new initiatives on enforcement have emerged within different forums such as WTO/TRIPS Council, G8 (Heiligendamm process), OECD and WIPO. A recent proposal to strengthen the international IPR framework is the anti-counterfeiting trade agreement (ACTA). This joint US-Japan initiative seeks an international agreement on combating IPR infringements. It identifies three key areas for agreement: international cooperation,

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<sup>61</sup> See <http://www.wipo.int/treaties/en/registration/pct/>

<sup>62</sup> See <http://www.wipo.int/treaties/en/ip/plt/index.html>

<sup>63</sup> OJ C 129, 26.5.2005, p. 3

<sup>64</sup> "Global Europe: Competing in the World – a Contribution to the EU's Growth and Jobs Strategy" COM(2006) 567 final

<sup>65</sup> [http://ec.europa.eu/trade/issues/sectoral/intell\\_property/survey2006\\_en.htm](http://ec.europa.eu/trade/issues/sectoral/intell_property/survey2006_en.htm)

principally between customs and other enforcement agencies, enhancing the enforcement framework by enhancing expertise, and the statutory framework. Considering the potential that coordinated action can offer, the Commission is working based on a negotiating mandate to achieve a formal agreement.

*The Commission will*

- *conduct an IPR survey IPR of enforcement activity outside the EU on a regular basis*
- *seek effective protection and enforcement of intellectual property rights in bilateral trade agreements*
- *strengthen enforcement activity and cooperation in third countries through regulatory dialogues, particularly those with high levels of counterfeiting and piracy*
- *work towards a multilateral anti-counterfeiting trade agreement.*

#### **6.4. Development issues**

Recent years have seen a focus on industrial property in the developing world in international discussions, and how this can act as a tool for social, environmental, economic and cultural development. The Permanent Committee on Development and IP within WIPO created in 2007 could represent a significant platform to make progress in the debate. Another example is the WHO *ad hoc* Intergovernmental Working Group (IGWG) on Public Health, Innovation and IP which recently finalised a global strategy<sup>66</sup> with the aim to improve access to medicines and tackle the increasing problem of neglected diseases especially in developing countries. The EU continues to play a key role in the initiatives on industrial property to the benefit of those in developing and least developed countries.

In the framework of the United Nations Framework Convention on Climate Change, the relation between intellectual property rights policies and enabling environments for technology transfer has been established in the Bali Roadmap of 2007<sup>67</sup>. The EU is ready to engage in discussion where possible side effects may hamper the progress of developing countries in tackling climate change.

At the WIPO Intergovernmental Committee on IP, genetic resources, traditional knowledge and folklore (IGC), the European Community submitted a proposal in 2004 for establishing a mandatory requirement for a patent applicant to disclose the source/origin of any genetic resources and associated traditional knowledge used in its patent applications<sup>68</sup>. This requirement could help indigenous communities from where these genetic resources and traditional knowledge originate to allow verification of compliance with rules on Access and Benefit Sharing (ABS) in order to share the benefits from the commercial exploitation of patents and also assist Patent Offices in examining the novelty of these inventions. The Commission therefore continues to support efforts towards adoption of the proposal and notes that patent laws in some Member States contain provisions on the disclosure of the geographic origin of biological matter in patent applications.

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<sup>66</sup> <http://www.who.int/phi/documents/POAWhitePaper.pdf>

<sup>67</sup> See [http://unfccc.int/meetings/cop\\_13/items/4049.php](http://unfccc.int/meetings/cop_13/items/4049.php)

<sup>68</sup> See [http://www.wipo.int/tk/en/genetic/proposals/european\\_community.pdf](http://www.wipo.int/tk/en/genetic/proposals/european_community.pdf)

Following the Doha Declaration adopted by the WTO in 2001<sup>69</sup> and the subsequent decisions<sup>70</sup> to amend the TRIPS Agreement, the EU adopted the Regulation on compulsory licensing of patents relating to the manufacture of pharmaceutical products to export to countries with public health problems in May 2006<sup>71</sup>. EU ratification of the 2005 Protocol amending the TRIPS Agreement constitutes an important signal of commitment to this issue.

*The Commission will participate actively in international discussions aiming to help developing countries realise the potential of their industrial property rights.*

## 7. CONCLUSIONS

To remedy the shortcoming in the current industrial property rights system in order to make the most out of Europe's innovation potential and competitiveness, integrated action is needed. In the field of patents, the Community patent alone would be a major remedy to difficulties to protect inventions such as costs and complexity faced by inventors and businesses in Europe. In addition, an integrated EU-wide jurisdictional system could substantially improve accessibility to settle disputes and legal certainty for right holders as well as third parties. It is therefore of utmost importance that these objectives are achieved as a matter of urgency.

After the adoption of the pending legislative proposals, protection systems for the main industrial property rights will be in place at Community level. However, aspects of the systems will need evaluating over time to ensure their optimal effectiveness. Moreover, important complementary actions are needed to support the legal framework in order for it to provide strong enforceable rights for European businesses of all sectors and sizes as well as inventors and research organisations in order to take full advantage of the opportunities provided by global knowledge-based economy.

This Communication mainly sets out actions at Community level. However, it is intended to inspire further dialogue and actions from Member States and stakeholders in society. Here, Member States play a role in formulating strategies in their areas of competence. Moreover, inventors, research organisations and SMEs need to have a raised awareness of the potential of industrial property rights in order to make informed choices. When making use of formal industrial property rights, businesses in general should build them into an overall business strategy. The responsibility to realise the full potential that industrial property rights can provide to the economy in Europe is therefore a shared one.

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<sup>69</sup> See [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_trips\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm)

<sup>70</sup> See [http://www.wto.org/english/tratop\\_e/trips\\_e/implem\\_para6\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/implem_para6_e.htm) and [http://www.wto.org/english/tratop\\_e/trips\\_e/wtl641\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/wtl641_e.htm)

<sup>71</sup> Regulation (EC) No 816/2006 of the European Parliament and of the Council of 17 May 2006 on the compulsory licensing of patents related to the manufacture of pharmaceutical products for export to countries with public health problems, OJ L 157 09.06.2006. p.1