



Know IP - Stockholm Network Monthly Bulletin on IPRS

Commentary

The "one size fits all" vs. the "flexible tailor-made" patent debate - Helen Disney & Meir P. Pugatch*

Paraphrasing the words of Marx and Engels in the Communist Manifesto (admittedly with a certain degree of cynicism and manipulation): a spectre is haunting the current patent system - the spectre of a "tailor made", "flexible" and sensible IP system. Such a system, current critics of the patent system argue, is long overdue.

The patent system is old (certainly as old as the statute of monopolies of 1623 and may even date back to Venice 1474), but is it anachronistic? In this very brief and superficial article, we will try to answer this million dollar question (or shall we say trillion dollar question given the contribution of patented products to our knowledge economy). We believe that the patent system as a whole is capable of dealing with the technologies and inventions of the 21st Century. And, that while there is undoubtedly room for some serious improvements, the underlying rationale of the patent system is still very compelling, certainly compared to some of the proposed alternatives.

But first we need to deal with the current criticism of the patent system - that it is based on a "one-size fits all" model - which in some cases is well justified and poses some serious concerns. Critics of the patent system will emphasise its arbitrary nature on the one hand, and its rigidity on the other hand. They will argue that, while patents may have been considered an effective tool in previous centuries, when inventions were mostly

mechanical, the system is no longer effective in this century, given the huge technological diversity that characterises today's inventions. Generally speaking, critics of the patent system emphasise its deficiencies in three areas: Firstly, the subject matter of patentability - i.e. what is and what should be patentable and, more importantly, what isn't and what shouldn't be patentable. Secondly, and as a consequence of the first element, the scope of patentability in terms of coverage - i.e. is a given patent too wide or too narrow? Thirdly, the patent term - that it is either too short or too long in terms of the market exclusivity it secures.

With regard to the first and second aspects, Jaffe and Lerner provide ample anecdotal evidence and statistical analysis on the scope of the problem. Referring to the explosion of patent applications and patent grants in the last two decades in the US (according to the authors, patent grants have nearly tripled between 1983 and 2003, from 62,000 patents per year to 177,000 patents per year) they argue: "if this increase in patenting reflected an explosion in US inventiveness, it would be a cause for celebration. But unfortunately it is clear that the rapid increase in the rate of patenting has been accompanied by a proliferation of patents of a dubious merit".¹

The third point of criticism - the patent term - is even more problematic. Most of us dealing either with the theoretical or practical aspects of the patent system would tend to agree that the current period of 20 years, or any other period for that matter, is rather arbitrary and is not based on any kind of magic-bullet calculation. Nordhaus,

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¹. Jaffe, A. and B. Lerner *Innovation and its Discontents*. (Princeton, Princeton University Press: 2004), p.



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referring to the post-1624 English patent term of 14 years, based on the idea that two apprentices should each be trained for seven years, argued that in the US it was decided that 2.43 apprentices (given the US patent term of 17 years before 1994), would be the proper length'.¹

This leads us to the following question: to what extent would a tailor-made reward system (or any other name that critics of the patent system may propose) prove to be more effective in terms of providing incentives for the development and distribution of inventions?

Proposals to fundamentally change or even replace the current patent system with other forms of exclusivity, come in all shapes and sizes. Some proposals focus on the so-called level of inventive step – seeking to design a system that is able to rank and categorise various degrees of inventiveness from the truly "innovative" invention to the "petty" one. Other proposals seek to categorise the value of an invention based on the complexity of its industrial application, including the time and costs required to translate an invention to a product. And, there are those who wish to create a system that grants exclusivity on the basis of a pre-defined field of use, or on the basis of the uses of the invention in different fields, or a combination of both. Of course there are those fantastic proposals that seek to establish a completely new global research and reward system. Such a system, its advocates argue, would transcend and overpower the national principles of exclusivity. It will be guided by an informed and benign decision-making process, which will ultimately be able to match, effectively, the level of exclusivity or

¹. Nordhaus, W. D. *Invention, Growth and Welfare* (Cambridge, Massachusetts: MIT Press, 1969), p. 53

non-exclusivity to different inventions, based (among other considerations) on their degree of innovation and the amount and composition of public and private funds invested in the development of these inventions.

But despite their divergent elements, all these proposals do have one element in common. They assume that a system based on some kind of a discretionary power – which will be guided by some underlying assumptions and propositions about the usefulness of the value of different inventions – is more useful to society than the current patent system that is based on the three rigid criteria of novelty, inventive step and industrial applicability.

To put it more bluntly, these proposals are based on an underlying assumption that those who will be responsible for rewarding inventors for their inventions will be able to predict what the market wants and what consumers need. In contrast, the current patent system still makes a strong distinction between granting one the authority to decide which invention can be used by the market (in terms of the criteria of patentability) and granting someone the authority to decide which invention should be used by the market.

There is no doubt that some elements of the patent system should be improved and recalibrated. But the single most important principle of the patent system – that it is not for a patent examiner to decide which invention is valuable and which is not – it is for the market to decide and must be preserved. Proposals that seek to promote a centralised planning mechanism aimed at estimating the value of an invention as a condition for its exclusivity are bound to end in failure. Did we mention Marx and Engels?



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Topics of the Month

Standing on the shoulders of giants, or hitching a free ride? Phil Evans*

It probably says a lot about who you are when you are asked the significance of the phrase 'standing on the shoulders of giants'. Most readers of this piece will know it as the Isaac Newton part-quote found on the £2 coin (Our younger or perhaps just trendier readers will think first of Oasis, and then Isaac Newton of course). The Newtonian version is argued to mean that Newton recognised that he could only see as far as he did (in scientific terms) because of the works of others that preceded him. That relationship between discovery and its debt to other discoveries forms a rather useful jumping off point for any discussion of free-riding in intellectual property.

The reason the quote is such an interesting stepping off point comes not just from its erudition, but from its origin. While most attribute the observation to Newton it can in fact be traced back as far as Bernard of Chartres, who died in 1130 and indeed to antiquity and Didius Stella (the Spanish theologian Diego de Estella).

The fact that most people stopped in the street might think of Oasis is also telling, given the criticism they get for sounding like a bootleg version of the Beatles. And, naturally, there is already an album by the name of 'Standing on the Shoulders of Giants' by one Bill Lloyd, a US singer/ songwriter.

So to rather labour the point, there is nothing new under the sun; or perhaps there are very few totally new things under the sun. The process of invention, discovery, artistic creation, by its nature relies on the discoveries

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and creations of others. This might lead some to question whether there is any need for intellectual property protection of any kind.

However, it would be mistaking inspiration for free-riding. If a pharmaceutical company discovers a new compound that is an amalgam of previously discovered compounds merged in some new way, that is not necessarily free-riding on past discoveries. When the new Oasis album comes out and sounds strangely like something you might have heard before; that is not free-riding, it is inspired songwriting.

You may have noticed some caveats. The experience of the music industry and claims of free-riding, or plagiarism, is telling. There are endless web-sites dedicated to the claimed origins of Led Zeppelin tracks. During their prodigious early 1970s output Led Zep undoubtedly stepped over the inspiration line into the plagiarism line. During the late 1970s and early 1980s an entire musical genre was created by 'sampling' the drum line, the bass, the chorus or indeed almost any snatch of a previous track, and using it as the backdrop to a new record. There was huge debate about whether sampling was inspiration or free-riding plagiarism. Many of the artists that were sampled had either fallen out of popular favour (James Brown) or were largely out of print (Roy Ayers, the Blackbyrds, the Meters).

There are two rather telling results of the plagiarism claims. Firstly, those accused of free-riding were very often considerably better off than those whose works they were allegedly free-riding on; and secondly, the process of settling the claims produced compromises that allowed both parties to receive recognition and revenue from 'inspired' musical productions.

The wider issues that these cases threw up around free-riding centres on two



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main questions; firstly, who controls free-riding and secondly, what is the optimal way by which they control it?

The 'who controls' question is vital; in short – if I am standing on your shoulders to see further, or differently, do I have to ask your permission or pay a fee? The answer to that question points to the optimal way of controlling free-riding. If you are sitting upon my shoulders (metaphorically) it is surely right that it is up to me to decide whether I let you and how. Except that in this instance your sitting upon my shoulders allows you to pass on new information about the world that I, on my own, cannot find out. I must, therefore, be constrained in how I control your shoulder sitting. I can reasonably limit how much of my shoulder you sit on, or indeed whether you are allowed to jump up and down; but I should not, on my own, be allowed to entirely block you from sitting on my shoulders. Your desire to sit on my shoulders can be denied for a time, but not forever.

This brings us to the optimal way to deal with shoulder-sitters. The owner of the shoulders must have the initial control over who sits on their shoulders. However, they should not be allowed to stop all-comers from sitting on their shoulders for eternity.

Free-riding is something that happens either wittingly or not in all areas of endeavour. The issue is who controls that free-riding and how. It is important for those who seek to see farther that they are given the ability to sit on the shoulders of earlier giants. However, that vantage point cannot be without cost to recompense the giant for their inconvenience. However, the giant cannot be allowed to foreclose shoulder sitting; after all the only reason anyone wants to sit on the giants shoulders is because the giant is only a giant because it too has sat on the shoulders of earlier giants.

Topics of the Month

Protecting the Olympic Brand - Marketing and Advertising at the London 2012 Olympic Games - Duncan Curley and Rohan Masse*

The 2000 Olympic Games in Sydney, Australia generated revenues of almost US\$500 million for those parties who successfully negotiated licences with the International Organising Committee (the "IOC") to produce merchandise bearing the Olympic brand. The future commercial growth of the Olympic Games is likely to be reflected in the generation of ever increasing revenues from licensing this powerful symbol of sporting excellence.

A strong Olympic brand is crucial to the commercial success of the games. For this reason, the IOC fiercely protects its intellectual property rights in the Olympic Games brand and the Olympic logo.

As part of its IP protection programme, the IOC asserts its authority over the advertising and marketing of the Olympics in the Host City during the Games. Tight control of marketing has become critical to the IOC's commercial success as more and more parties try to benefit from being associated with the games without paying the fees requested by the IOC from its official partners.

For example, in the 1984 Games, Kodak sponsored TV broadcasts of the Olympics as well as the US track team. Yet Fuji was the official sponsor of the Los Angeles Games. At the Sydney Olympics in 2000, the official sponsor Ansett Air expressed its frustration at the adoption by Qantas Airlines of

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the slogan "The Spirit of Australia", which arguably reflected the Games' official slogan "Share the Spirit".

Until now, unofficial or "ambush" marketing has been an annoyance to those that have invested in sponsoring an event. However, unless the marketing breaches local laws or infringes intellectual property rights, such marketing has been difficult to prevent.

Immediately following the announcement that London was to be the Host City for the 2012 Olympic Games, The Olympic Games Bill was published by the UK government. The proposed legislation deals not only with the infrastructure requirements for hosting the Games, but also a provision that will make unauthorised ambush marketing in certain areas of London during the Olympic Games an offence. The Bill says that any unauthorised advertising within an exclusion zone around the Olympic venues, whether it be by way of the printed word, sound or light media, whether commercial or non-commercial, could result in a fine of up to £20,000.

The Bill also sets out to control the use of certain words and phrases relating to the Games so that they can be used only by those officially licensed by the IOC. The restricted words include: "Olympic", "Olympiad" and "Olympian", "Citius Altius Fortius", (the Olympic motto) and even "London 2012".

The UK Government has argued that it is only fair that those officially associated with the London Olympics get the maximum protection and full benefit from their investment. Whether this justifies criminalising what would ordinarily be competitive marketing techniques in a free economy is an issue that will no doubt be raised during the passage of the Bill in the UK Parliament.

Experts' Corner

IPRs, Trade Secrets and Interoperability: from Coca-Cola to the New Economy - Federico Etro*

New ideas are often protected with patents, but these are not the only forms of protection for innovations. Not all inventive and innovative activities fall under the scope of patentability and it is not always in the interest of a firm to patent every single innovation: some of them are just kept secret. Trade secrets exist in any business, they are also the result of years of investments and experience, and often represent a deserved comparative advantage in the market.

In most high tech sectors, firms adopt a combination of patents and trade secrets to protect products which are the result of multiple innovations. Defending (intellectual or material) property rights is one of the fundamental conditions for a proper functioning of the market economy: defending trade secrets has not a minor role in this context. But there is more than that. Let us start with one of the most famous trade secrets.

A key to the success of Coca-Cola has been, for more than a century, the formula of its famous soft drink. More precisely, in 1886, in Atlanta, the pharmacist Dr. Pemberton's prepared the popular syrup added of carbonated water for the first time in his backyard. At first he distributed the new product by carrying Coca-Cola in a jug down the street to Jacobs Pharmacy. The book keeper of the pharmacy, Frank M. Robinson, suggested the name and penned Coca-Cola in the unique flowing script that now is well known worldwide. As the company expanded, the new

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owner Candler could not prepare the syrup all himself, so the ingredients were all simply labelled 1 to 9 and the managers at the branch factories were only told the proportions required and the mixing procedure. Today, the secret of Coke lies in a safe deposit vault at the Trust Company of Georgia (USA) and, it is said, only the company directors can authorise the opening of the vault.

Although numerous outlets around the world have a franchise to bottle or can and to distribute the beverage, none of them know the precise ingredients. They are simply supplied with syrups and other ingredients from the Coca-Cola company and mix them with carbonated water. This trade secret represents a competitive advantage for Coca-Cola, but many companies around the world invest to prepare new and original soft drinks competing with Coke. While there is at least one well known global competitor, Pepsi, which has created a similar successful drink, the market for soft drinks is quite competitive and there is substantially free entry at the local level. Many competitors have tried to discover Coke's trade secret.

William Poundstone did some painstaking research when he published his 1993 book "Big Secrets". He suggests that the basic ingredients of Coke are: 1) sugar, 2) caramel, 3) caffeine, 4) phosphoric, 5) coca leaf extract (with its cocaine content removed) and a small amount of cola nut extract, 6) citric acid and sodium citrate, 7) lemon, orange, lime, cassia (a type of cinnamon), nutmeg oils, and probably others, 8) glycerine, 9) vanilla. Although the proportions of some of these ingredients all mixed with carbonated water can be discovered by chemical analysis; the most important and most elusive is the mixture of essential oils in merchandise 7). The flavour of the mixture is not simply the sum totals of the oils, because other flavours are created by

the interaction of the oils. Anyone trying to reproduce the mixture would need to know the exact ingredients, which are difficult to analyse with certainty. It is rumoured that no less than two and no more than three carefully selected people ever know the exact ingredients at the same time, and they never travel together.

Now imagine that Coca-Cola was required to disclose its secret formula. Anybody could reproduce the very same drink, "clone" it under a different name if you like, although it is hard to believe that this would create large gains for consumers. Close substitutes to Coke already exist and there are small margins to substantially reduce prices. However, the incentives for any other firm to invest and create new products could be drastically reduced if trade secrets would not be protected (again, not all innovations are patentable and, in general, trade secrets can be advantageous over patents for certain innovations).

Things get more complicated in high-tech sectors. In these sectors trade secrets often cover fundamental innovations and protecting them amounts to promote new fundamental innovations, which are the main engine of growth. In some fields, however, there may be a trade-off between trade secret protection and "interoperability" between products, which is, broadly speaking, the ability to exchange and use information and data, especially in networks (like telecommunications, on line business, software). Consider for example the leading on line search engine in the world, Google.

We may look at its patented innovations, but after that, we would need to know its trade secrets to fully discover the mechanism of its precious algorithms. This would help many software companies and websites to interoperate with Google even better than they already do, as it would allow



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other search engines to improve their performances compared to that of the leading search engine. But after that, it is likely that few companies would invest huge resources and take substantial risks to create a leading search engine or other brilliant ideas like Google when they can just free-ride on other's ideas. The same argument would apply to the trade secrets of Microsoft on the source codes of its successful operating system Windows and other trade secrets of leading innovative companies. Any forced disclosure of similar trade secrets represents a pure expropriation of legitimate investments and establishes inappropriate legal standards with perverse effects on incentives to innovate.

Fortunately, giving up to the precious role of trade secrets, or other IPRs, in promoting innovations is not the only way to solve interoperability challenges. The market can do it much better! Valuable ideas can be selectively commercialized on a voluntary basis through licenses. The Nobel prize winner R. Coase (1960, *The Problem of Social Cost*, *Journal of Law and Economics*) has clarified that whenever there is social value to generate, the market will properly allocate the IPRs, ensuring the accessibility of information that fuels interoperability, and acknowledging the legitimate ownership rights of the innovators, hence enhancing R&D investments.

This result is just strengthened in the markets of the New Economy, where interoperability enhances network effects and hence it is in the interest of the largest firms to promote it adequately to strengthen demand for their products. In particular, as the new theory of market leaders has shown (F. Etro, 2006, "Aggressive Leaders", *Rand Journal of Economics*), market leaders have an incentive to promote high levels of interoperability through licenses of their IPRs so as to increase

the size of their networks and markets, while any exogenous weakening of IPRs can only reduce the incentives to invest in R&D by both the leaders and their competitors.

And dynamic market forces can do even more. As long as IPRs are well protected and firms can invest knowing that successful innovations will be rewarded, market forces can select the best standard when multiple standards are available and interoperability is only partial.

In a famous book, S. Liebowitz and S. Margolis (1999, "Winners, Losers, and Microsoft: Competition and Antitrust in High Technology") have shown that this was the case in many episodes, such as in the adoption of the QWERTY keyboard (the one which is probably on your desk). For years it was claimed that the usual allocation of letters of this keyboard was an inefficient standard. These researchers on the other hand, found that all the evidence suggests that the Qwerty keyboard, somehow selected by the market, was not worse than any other alternative.

In my personal view, it can be very dangerous to weaken the protection of trade secrets and IPRs in high tech sectors, even under the purpose of promoting interoperability. Markets can properly balance the short run and long run interests of the consumers: promote innovation, enable an efficient degree of interoperability and select the best standards.



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Forthcoming Publications

'Intellectual Property Frontiers- Expanding the Frontiers of Discussion' - A Stockholm Network Publication, available from the SN Book Shop in January 2006

The Stockholm Network is delighted to launch its latest publication entitled *Intellectual Property Frontiers- Expanding the Borders of Discussion*. Edited by Ms. Anne K. Jensen and Dr. Meir Perez Pugatch, the publication addresses some of the central issues, as well as dilemmas, currently occupying the IP field.

By drawing on the expertise of eighteen distinguished scholars, policymakers and practitioners the publication aims to familiarise the readers with the diversity of themes and debates currently taking place. Given its wide scope and rich contents the publication can benefit both experts and laymen.

Structurally, the publication is divided into four sections: The Role of Intellectual Property in the Business Arena; Intellectual Property Dilemmas; Global Issues, and the European Perspective.

1. The Role of Intellectual Property in the Business Arena

Prof. Federico Etro, of the University of Milan, examines the role of IPRs in promoting innovations and emphasises the positive relation linking patents to investments in innovation. 'Protecting IPRs is necessary to properly promote innovations', Prof Etro argues; 'but an optimal patent system should trade-off social benefits and costs'.

Dr Geoff Gregson, lecturer in innovation and entrepreneurship at Edinburgh University, examines the creation and strategic use of IPRs by knowledge-based companies. Dr. Gregson argues that it is essential for

such companies to clearly understand and articulate the role of IP as an integral element of their commercial activities.

Dr Joseph P. Cook, of NERA Economic Consulting, raises the question of how best to exploit intellectual property rights in the third essay of this chapter. Dr Cook looks at the different ways in which a patent holder can exploit his or her intellectual property, and concludes that size and capital have a crucial influence on the various methods of IP exploitation.

Anne Jensen, of the Stockholm Network, looks at the opportunities and challenges facing small and medium sized enterprises with regards to intellectual property rights. Although many SMEs are becoming more strategic in their approach to IPRs, they still have a long way to go compared to larger sized companies, she concludes.

Dr Meir Perez Pugatch, of the University of Haifa/ Stockholm Network, asks 'what is the value of one's patent?' Dr Pugatch describes different methods of valuating patents. He concludes that there is a need for a more systematic analysis of the value of a patent, helping both inventors and investors to have a better understanding of the projects they are undertaking.

2. Intellectual Property Dilemmas

Trevor Cook, of Bird & Bird, considers the challenges facing the contemporary patent system, such as the discussion concerning patent duration, costs and patentability in general. 'The vitality of the patents system is reflected in the degree of controversies that it engenders', he concludes.

Dr Uma Suthersanen, of the Centre for Commercial Law Studies, Queen Mary - University of London, examines the



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relationship between copyright protection and technology, and how technology is simultaneously a threat and an opportunity to the copyright owner. 'Cases such as *Sony*, *Napster* and *Grokster* are a manifestation of this dilemma' she argues and asks whether there is a need to re-evaluate copyright laws so that they better reflect the interests of both the copyright and technology sectors.

Dr Grant E. Isaac, of the University of Saskatchewan, investigates the degree of 'scale neutrality' of IPRs, and focuses on the relationship between organisational capacity and strategic patent activities. Dr Grant argues that 'as an intellectual property policy instrument, patents are not scale neutral as strategic patent decisions can again be differentiated based on organisational size'.

Alan Cunningham, of the Centre for Commercial Law Studies, Queen Mary - University of London, writes about IPRs and justificatory dilemmas. 'How does one best, or rather properly, justify the existence of IP rights *per se*', Alan Cunningham asks, and looks at economic, political and philosophical arguments underpinning the current IP system and suggests an alternative perspective of justifying the grant of IPRs.

3. Global Issues

Pedro Velasco Martins and Eva Kaluzynska, of the European Commission - Directorate-General for Trade, investigate the international increase in trade in counterfeit goods. They argue that "the misappropriation of creativity, inventiveness or artistic creations is not a new phenomenon. However, it is growing exponentially. It is a problem with serious economic, social and even criminal consequences, for which there are no simple, pre-formatted solutions".

Douglas Lippoldt, of the Organisation for Economic Cooperation and Development (OECD), considers the links between the strengthening of IPR regimes, trade and foreign direct investments in developing countries. He argues that recent empirical evidence suggests that 'the strengthening of IPRs in developing countries has tended to have a positive influence on FDI and licensing and a moderate influence on merchandise trade', and that 'the reform of IPR regimes may also influence the pace of technological progress, a fundamental condition for economic development'.

Dr Meir Perez Pugatch, of the University of Haifa/ Stockholm Network, critically examines the different periods of determination, resentment and flexibility that characterise the TRIPS Agreement. He notes that in recent years we are experiencing an almost complete stagnation in the negotiating agenda of TRIPS. Dr Pugatch concludes that 'TRIPS should be strengthened and expanded in a way that represent the growing importance of knowledge-based companies'.

4. The European Perspective

Elizabeth M. Coleman, of the European Commission - Internal Market and Services Directorate, explains the substance of negotiations to establish a Community patent system since the Commission's proposal of 2000. Progress on establishing a Community patent will show how committed the member states are to the Lisbon Agenda, she argues.

Dr Duncan Curely, of McDermott Will & Emery, looks at IP and anti trust from a European perspective. 'One of the difficult questions facing IP and competition policy makers is how to balance the degree of monopoly protection given by IPRs on the one hand against the desirability of



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maintaining open and competitive markets, on the other', Dr Curley argues.

James Killick and Vincent Artis of White and Case address the issues that arose in relation to interoperability during the debates on the Computer Implemented Inventions (CII) directive in the European Union. 'The CII Directive is now a matter of history' the authors write, but a variety of rules 'have been effective in enabling undertakings to achieve interoperability'.

Manuel Campolini of Janson Baugniet writes about the state of pharmaceutical IPRs in Europe and argues that the EU is at a crossroads. 'While the EU has strengthened its pharmaceutical IP environment (...) such improvements are always adopted years after the implementation of their equivalents by the US', he argues.

Dr Graham Duffield, of the Centre for Commercial Law Studies, Queen Mary - University of London, considers the state of IPRs and biotechnology in Europe. He discusses some of the key areas of divergence and assesses the implications of lack of harmonisation for Europe and its biotechnology industry. 'The differences in biotech patent regulations within Europe (...) are unlikely to have much effect on the competitiveness of the European biotech industry' Dr Duffield argues.

We do hope you will find the publication useful, interesting and relevant.

To order a copy, please contact Anne Jensen anne@stockholm-network.org

New Project

The Stockholm Network and Managing Intellectual Property Magazine (MIP) are set to develop a new statistical index measuring the strength of IT related IPRs at the national level.

One of the most fundamental problems in the public discussion of European intellectual property (IP) policies is the lack of sufficient information about the specific composition of an IP environment that would best support Europe's high tech industries (in general) and the information technology sector (IT) in particular. In order to narrow such gaps, and with the intention of providing quality information, the Stockholm Network and MIP are to develop a statistical index aimed at measuring different elements of IP protection at the national level. The Index is based on a model developed by Dr Meir Perez Pugatch, of the Haifa University, and head of the Stockholm Network IP and Competition Programme.

Specifically, the index aims to provide a tool for measuring the strength of IP rights concerning the IT sector in different countries. Initially the Index will focus on the US, the UK, Germany, France, Japan and Singapore. In subsequent stages the IP-IT Index could also be applied to additional countries (developed and developing) increasing the measurement sample.

The index will cover five different categories: 1. Term of exclusivity; 2. Scope of exclusivity; 3. Strength of exclusivity; 4. Barriers to full IP exploitation; 5. Enforcement. Each category will further be divided into sub-categories, with a total of more than 25 weighted factors accounting for the overall strength of the index.

Two elements are essential for this exercise: First, we need to construct a



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coherent and transparent method of measuring the strength of the national IP environment concerning the IT sector. This method should strive to be as scientific and objective as possible to allow for an accurate measurement of these environments. We will then be able to compare different national environments, as well as to establish the relative strength or weakness of IT IP rights in a given country. The Index is based on previous academic studies, most notably the Ginarte Park Index, aimed at assessing or even measuring the strength of national IP regimes, using quantitative and qualitative methods of analysis.

Second, we need to create a broad template that would essentially allow us to measure national IT-IP policy environments across the board. In other words, while our analysis focuses on the national context, it should not be confined to a specific country, thereby allowing us to expand this analysis to other countries, both developed and developing.

In order to pursue the above in a manner that is both academically viable and operationally achievable, it is therefore recommended that we construct a new scaled index (or what is usually referred to as composite measurement) that measures IP protection for the IT sector: the IP-IT Index. The term index in its simplest form is defined as a "variable that is a summed composite of other variables that are assumed to reflect some underlying construct". Scale construction is defined as "the creation of new variables from multiple items". The proposed new IP-IT index is a hybrid of these two statistical forms.

The index will be launched in March 2005. We welcome comments from readers on how it should be compiled, what categories and sub-categories should be included and how they should be weighted. Please send any suggestions to
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Letter to the Editor

Ken Shadlen¹

If Helen Disney and Meir Pugatch's intent was to be provocative ("Commentary: The Uses and Abuses of Health Related Compulsory Licenses, Know-IP," Issue 9, November 2005), they can credit themselves with a great success.

If their objective was to be persuasive that "it is time to put the CL issue back to rest," however, they have a long way to go. While I have many criticisms of their commentary, in this brief response I will focus principally on their characterization of Brazil's negotiating strategy vis-à-vis brand-name pharmaceutical companies (and the country's position regarding IP, more generally).

After explaining the difference between voluntary and non-voluntary (i.e. compulsory) licenses, the authors distinguish between two varieties of the latter: they approve of CLs used to correct market failures that are manifest in terms of insufficient supply, as contemplated by the US and Canadian governments in the context of the 2001 anthrax scare (and, more recently, with concern over avian flu); they disapprove of CLs used to achieve price reductions, as the Brazilians have done.

The distinction between the two types of CLs is overstretched,² but my main concern here is how they then proceed to characterize Brazil's actions. "According to this logic [that

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²Where marginal production costs are low, high prices could potentially be driven by undersupply.



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threatening a CL is a legitimate tool to attain better prices for the Brazilian health ministry], why grant IPRs for these products in the first place if the government does not intend to respect the right of the IP owners to successfully commercialise their products? If a country is committed to IP protection, it should refrain from constantly threatening to virtually nullify these rights..." (p. 2).

Granting a patent and threatening a compulsory license with compensation is hardly the same as not granting patents and does not amount to nullifying (or threatening to nullify) the patent holders' rights. So the phrasing is misleading. Moreover, characterizing Brazil's actions as illogical is questionable as well. Brazil, like many developing countries that did not previously offer product patents on pharmaceuticals, was brought kicking and screaming into a world where they'd be obliged to do so. It is no secret that developing countries, for a variety of reasons, objected to Article 27.1 of the TRIPS agreement, which requires them to grant product patents on pharmaceuticals. Brazil has, subsequently, attempted to minimize the effects of market exclusivity – not to nullify patents but to minimize some of the well-known adverse effects that patent protection can introduce.

To assert that such measures are inappropriate "if a country is committed to IP protection" implies that Brazil is (or should be) committed to IP protection regardless of the effects on prices and public health. Why?

The unfortunate demonization of Brazil is indicative of a larger – and worrisome – trend in popular commentary on IP and development. Everyone seems to agree, in *principle*, that IPRs should be tools of development, that national IP regimes should be tailored to strike appropriate balances between creating incentives

for innovation and facilitating access to knowledge, and that, subsequently, different national conditions require different national IP regimes and IP practices. It all sounds good when stated in lofty and general terms. But then, when a country attempts to use IP as a development tool (in this case fostering public health), to balance the incentives to brand-name firms with concerns over local access to essential medicines, and in doing so deviates from gold-standard template promoted by some in the IP community (though without violating its TRIPS obligations), it is disparaged for doing so and depicted as a pariah. If Disney and Pugatch believe that protecting IP should not be a tool of development but a goal in and of itself, that IP regimes should not be tailored to strike balances, and that the same rules and practices are appropriate for all countries, they should make their positions explicit. Doing so would make for a more fruitful and productive debate.

After criticizing Brazil's use of CLs (or threatened use of CLs), Disney and Pugatch then proceed to cast doubt on the import of the entire issue, claiming that the 2001 Doha Declaration on TRIPS and Public Health has had little effect on increasing access to medicines and that the entire relationship between IP, TRIPS, and public health has been overblown. I have as many objections to the second half of the essay as I do to the first, though space considerations will require me to save these for another forum. However, I cannot conclude without pointing out a striking contradiction in the authors' argument. Disney and Pugatch claim that there is little evidence that using CL provisions can increase access to affordable medicines just a few paragraphs after criticizing Brazil for using CL provision to do precisely that. It would seem that threatening CLs either can or cannot reduce prices, one or the other.



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If CLs can reduce prices (the first half of the essay), then the authors need to do a better job justifying their strong aversion to the practice. But if CLs cannot reduce prices anyhow, if the whole discussion of IP is a distraction from the bigger issues of poverty and healthcare spending (the second half of the essay), then it is even more puzzling as to why the authors are so bothered by Brazil's actions! Sustaining both arguments simultaneously is difficult, to say the least.