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To:
Shri D.V. Prasad
Joint Secretary
Department of Industrial Policy & Promotion (DIPP)
Ministry of Commerce and Industry
Udyog Bhawan, New Delhi 110011

Subject: Comments on the Discussion Paper on the topic "Utility Models"

Dear Mr. Prasad,

Under the scheme of Intellectual Property Education, Research and Public Outreach (IPERPO), Union Ministry of Human Resource and Development (MHRD) has established the Chair on Intellectual Property Rights at National Law University, Jodhpur. A number of IPR research and learning initiatives, IPR awareness programs, formulating and conducting various undergraduate and postgraduate IPR Courses, focused legal and policy research on IPRs and IP reforms are the core functional areas of the MHRD IPR Chair.

This letter is in reply to comments sought by the DIPP on the discussion paper titled "Utility Models" published in May 2011. At the outset, I wish to congratulate the Department for having released the discussion paper on such a pertinent issue. Engaging in policy deliberations with the academia, experts and the civil society will go a long way in framing optimal policies aligned towards maximizing national interest and welfare of Indian inventors and consumers.

I thank the DIPP and Ministry of Commerce and Industry for allowing me with an opportunity to place my views on the subject. Since I wish to fundamentally disagree (for the reasons mentioned below) on the very idea of introducing Utility Model legislation in India, I shall restrict my comments accordingly without delving into the nuances of the nature of regime warranted, if we were to have one.

Let me place on record my observations pertaining to the discussion paper:

Availability of common law trade secret protection: The discussion paper is based on a general premise that second tier inventions are left fully unprotected under the current IP regime in India. However, this is not quite the case. Even considering that the Indian patent regime is designed to protect inventions that involve a higher degree of inventive step, common law trade

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secret protection is still available for non-patented inventions. In fact, this is also true of patented inventions where disclosure by the patent applicant does not reveal several aspects of the invention, which are usually kept in secrecy. One might question the adequacy of trade secret protection since only those aspects of the invention that are kept in secrecy are ensured of required protection. However, considering the nature of SME innovation, their short shelf-life and the costs involved in seeking formal IP protection, it is quite possible that the first mover advantage for such inventions may be well adequate. There are obvious advantages of trade secret form of IP protection from a competitive market perspective since it allows independent innovation as a defence. The feasibility and viability of trade secret protection for SME innovation should be explored through further empirical studies.

- 2) **Lack of empirical evidence:** There is no conclusive empirical evidence that higher level of IP protection leads to higher socio-economic welfare. To the contrary, there are great numbers of instances throughout history where countries at various levels of development have calibrated their IP system to allow competitive and healthy imitation to further their industrial objectives in a market based framework. Thus it is questionable if the proposed legal framework for Utility Model is based on a premise that some form of formal IP protection is a prerequisite for innovation in SMEs. If it were to be so, the discussion paper should have come out with concrete empirical evidence in support of such claims. The relationship between R&D and innovation undertaken by such SMEs remains unclear. Hence we know not what market structure that is most conducive to innovation should guide the policy of creating a formal incentive structure. Absence of Utility Model regime in many foreign jurisdictions also points to an important paradigm that Utility Model protection might have little effect on the way the innovation cycles operate in the SMEs space.
- 3) **Differential foreign protection available:** Even without Utility Model protection being made available in India, any inventor can use the PCT route to file an application abroad. If the invention has chances of clearing the criteria of inventiveness required by Utility Models/ patentability criteria, there is no legal bar for such Indian inventors to seek protection abroad, if they deem fit. Since the PCT allows conversion of Utility Model application into a standard patent for invention application, it can still benefit those inventors who wish to seek higher protection abroad. In any case, even without any patent or Utility Model protection for inventions on the domestic front, such inventions may always be part of the protection in foreign jurisdictions. In fact, if Utility Model legislation were to be enacted, it is quite possible that the beneficiaries might be foreign inventors. There is no evidentiary logic in the assertion that domestic inventors are always the greatest beneficiaries of the Utility Model regime, although statistical evidence from comparative jurisdictions may seem to suggest so. In fact, it would actually depend on domestic capacities to invent in that space and not because of any inherent attractiveness of the Utility Model regime for domestic inventors as such.
- 4) **Lack of proper boundaries:** Recent empirical evidence has affirmed that property rights fail when the boundaries of a patent are unclear. It thereby causes harm to innovation. This is irrespective of the fact the patent law requires adequate disclosure and declaration of claims. Due to the variance in claim construction and lack of standard language for drafting claims, including the possibility of such claims being interpreted differently at different adjudicatory and judicial forums, there is no absolute certainty about the boundaries of a patent unless conclusively decided by a court of law. Lack of legal predictability causes harm to competitors

and to those involved in inventing around the patented invention. It is not difficult to assume that any Utility Model legislation will have to face the same set of problems, in fact in a much intense sense. This is because of the very nature of the property rights regime underlying the Utility Model framework which grants exclusive rights without looking (generally) into issues of non-obviousness for want of protecting all novel [absolute/relative] inventions that possess significant inventiveness. Hence there is high possibility of overlap of claims, which may only be resolved by way of litigation.

- 5) **Dilution of inventiveness criteria:** The discussion paper could have thrown some light on the level of inventiveness that the Utility Model regime would seek to address. It is true that no legislation or case law jurisprudence has put to rest the enduring debate on what an 'invention' is. However, it is quite possible to state that not all inventions (in the general sense) should form part of IP protection for a variety of legal and policy reasons, which has rightly been legislated through the Patents Act, 1970. The judiciary and legislatures across the globe are reinvigorating the standard of inventiveness concerning patent law. Certain recent decisions of the US Supreme Court and European Courts are testimonial to the general trend of tightening the non-obviousness criteria to keep the patent system focused towards addressing the right set of incentives. The concerns underlying the Indian Patents Act, 1970 in requiring the so called "higher level of inventive step" criteria through various amendments has also been to avoid a grant of legal monopoly on inventions that do not deserve incentives in the form of patents. The question essentially hinges on the issue if the letter and spirit of the patent system and the policy intent underlying the Patents Act, 1970 will be respected if a second tier patent system is introduced in the guise of Utility Models.
- 6) **Exclusive property right or compensatory liability rules:** Legal and policy commentators have been trying to resolve the dilemma of whether the rights in 'intangibles' should continue to be based on the concept of exclusive property rights (where the IP holder has the power to refuse license and conditional refusal). They are of the considered view that a right to an incentive may be important, but must be based on compensatory liability norms that allow a 'take' and 'pay' system. The advantage of a compensatory liability regime of protection is its ability to curtail the exclusive nature of the IP holders' property right, which includes the power to refuse license. This is to resolve the question of IP holders refusing to license downstream inventors or manufacturers which can inhibit further innovation and local production. Commentators see great advantages of such a system in case of patents in biotechnology (to resolve the problem of blocking patents or problems of restricted access) and in case of test data protection. In a situation where some rethinking is currently underway concerning issues raised by the patent system, it would be absurd to evolve another "patent like" system based on notions of exclusive private property rights.
- 7) **Chances of proliferation to different technological fields:** Our understanding of the patent system has improved considerably over the years. Many commentators and experts agree that the patent system has increasingly become technology specific. Hence different countries have had the policy of differential treatment of inventions for the purposes of patent law. Pharmaceutical, biotechnology, software and business methods are classic examples of how the patent regime has evolved over a period of time to cater to technology specificity. The discussion paper suggests that Utility Model protection can be limited to certain technological fields to avoid the problems one might encounter by extending protection in all fields of

technology. However, it is not difficult to envision why a demand for Utility Model protection in all fields of technology, whether products or processes, may not be demanded in the near future. Evolution of patent law in the US and the EU shows that the patent system has considerably expanded in an adversarial setup through case law developments rather than through legislative mechanism. This is bound to have definitive and unintended consequences for any technology specific styled Utility Model regime. Furthermore, the cost of maintaining a Utility Model regime meant to cater to mechanical products only might involve higher administrative burden.

- 8) **Difficulty in using safeguards:** An important question is if safeguards available in the Patents Act, 1970 (viz., limitations and exceptions, use without authorization of the right holder etc...) should form part of the scheme of Utility Models, too, and could that be of any help? The Indian experience with the administration of the Patents Act, 1970 suggests that provisions concerning safeguards are not being invoked. Although there are myriad reasons for under use of compulsory licensing provisions, the primary reason appears to be the possibility of protracted litigation that might ensue due to lack of any time bound scheme and the availability of certain defences (based on the four factor test for injunctions) in certain cases of alleged infringement. Since there is no system of "License of rights" (automatic licensing) within the framework of patent law, a compulsory licensing mechanism can only be a second best safeguard to protect public interest. In case of Utility Models, it may become quite difficult to effectively use the compulsory licensing mechanism at the advantage of the applicant since the period for which such protection is usually provided is quite limited. How public interest would be taken care of in such a situation is an important question.
- 9) **Cost of protection:** Although the cost of acquiring Utility Model protection is much less than a standard patent for invention, it is not fully cost free. Informal means of protecting inventions (where registration, examination and grant are not involved) should actually be advantageous for SMEs since it is automatic and cost effective. Even if the costs involved in domestic application were to be kept to the minimal, there may be further costs involved in acquiring Utility Model protection abroad.
- 10) **Litigious waste:** Since there is immense possibility of overlapping claims being made by applicants under a utility model regime and the possibility that such a regime may forgo the inventive step criteria, it can pose substantial problems not only for competitors but also to the existing patent holders. If the utility model regime does not envisage an elaborate opposition procedure at the patent offices, there can be substantial increase in the number of cases that the Indian courts will have to address. If an opposition system is put in place, then the process of grant may become lengthier. By introducing a Utility model regime there is a huge possibility of allowing frivolous inventors to harass the the genuine inventors and big businesses by engaging in protracted litigation. The reverse is also quite possible. In any case, it can only lead to litigious waste!

In the light of the above, it is suggested that the DIPP should drop the idea of enacting Utility Model legislation. Should the DIPP feel the necessity of enacting it in future, it should come out with strong empirical studies that highlight the relationship between SME innovation in India and the need for a specific instrument to provide incentives for fostering innovation. Other conceptual and practical issues

raised in this note may also help the DIPP in formulating balanced views on the issue. It is submitted that anecdotal evidence discussed in the DIPP paper should not be considered as conclusive and binding to rush through Utility Model legislation at this moment. Definitely, there is a higher level of burden on those advocating the need for Utility Model legislation, which is a drastic policy measure that can unsettle the balance that the Patents Act, 1970 is trying hard to achieve!

Sincere Regards,



Yogesh Pai