# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>1. Introduction</td>
<td></td>
</tr>
<tr>
<td>1.1 British Brands Group and Anti-Counterfeiting Group</td>
<td>8</td>
</tr>
<tr>
<td>1.2 Our response to the Review</td>
<td>8</td>
</tr>
<tr>
<td>1.3 An introduction to brands</td>
<td>9</td>
</tr>
<tr>
<td>1.4 Brands and the Lisbon Agenda</td>
<td>10</td>
</tr>
<tr>
<td>1.5 The connection between consumers, innovation, brands and IP</td>
<td>10</td>
</tr>
<tr>
<td>2. The IP framework</td>
<td>11</td>
</tr>
<tr>
<td>2.1 Overview of the UK IP Regime</td>
<td>11</td>
</tr>
<tr>
<td>2.2 The significant problem areas</td>
<td>12</td>
</tr>
<tr>
<td>2.3 Alternative models</td>
<td>13</td>
</tr>
<tr>
<td>3. General questions</td>
<td>15</td>
</tr>
<tr>
<td>3.1 How IP is awarded</td>
<td>15</td>
</tr>
<tr>
<td>3.2 How IP is used</td>
<td>24</td>
</tr>
<tr>
<td>3.3 How IP is licensed and exchanged</td>
<td>29</td>
</tr>
<tr>
<td>3.4 How IP is challenged and enforced</td>
<td>32</td>
</tr>
<tr>
<td>4. Specific issues</td>
<td>40</td>
</tr>
<tr>
<td>4.1 Patents – utility models</td>
<td>40</td>
</tr>
<tr>
<td>4.2 Copyright – fair use / fair dealing</td>
<td>40</td>
</tr>
<tr>
<td>4.3 Trade marks – international issues</td>
<td>40</td>
</tr>
<tr>
<td>4.4 Designs – registered designs and unregistered design rights</td>
<td>43</td>
</tr>
<tr>
<td>4.5 Legal sanctions on IP infringement</td>
<td>45</td>
</tr>
<tr>
<td>4.6 Coherence between competition policy and IP policy</td>
<td>46</td>
</tr>
<tr>
<td>4.7 Parallel imports / international exhaustion</td>
<td>50</td>
</tr>
<tr>
<td>5. Conclusion</td>
<td>54</td>
</tr>
</tbody>
</table>

Annex 1  ACG membership  56  
Annex 2  The ingredients of successful brands; The benefits of branding  58  
Annex 3  Costs of trade mark registrations – Gulf States  63  
Annex 4  Brands, innovation and growth (PIMS)  64  
Annex 5  POCA confiscation procedure as a deterrent  68  
Annex 6  Inconsistent compliance with TRIPS  70  
Annex 7  A definition and how copycats work  73  
Annex 8  How copycats mislead consumers  75  
Annex 9  An analysis of remedies for copycats in the UK  80
1  INTRODUCTION

1.1 This submission is made jointly by the Anti-Counterfeiting Group and the British Brands Group. Both organisations represent branded goods manufacturers in the UK.

1.2 Brands are created from a pact between producer and consumer that creates significant value for both sides. The world’s top 100 brands are worth collectively $988,287,000,000.

1.3 Brands can play a vital role in delivering the Lisbon agenda, by commercialising innovation efficiently and successfully. They do this by focusing innovation effort on consumer value and reassuring consumers that new innovations will deliver.

1.4 The branding model requires consumers to be able to differentiate one offer from another. At the same time, producers need to capture the consumer rewards arising from their investment in innovation and reputation. This is the key role for IP which, in the context of brands, is consumer-focused, pro-competitive and an enabling force.

2  THE IP FRAMEWORK

2.1 The criteria for an effective IP regime in the 21st century in the context of brands are:

- a visible, transparent system with easy and inexpensive searching;
- a high level of predictability;
- effective enforcement;
- a high level of harmonisation between national markets.

In addition, society needs to be aware of, and understand, the function of IP, the value it generates and the benefits it delivers.

2.2 The two significant problem areas for the UK are:

<table>
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<tr>
<th>Counterfeits</th>
<th>A vast – and increasing – problem, with the potential solution involving enforcement;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copycats</td>
<td>A particular problem in the UK where laws are ineffective. The solution therefore lies in the structure of the IP regime.</td>
</tr>
</tbody>
</table>
3 GENERAL QUESTIONS

How IP is awarded

3.1 We do not consider the IP system to be unduly complex, and the trend towards closer harmonisation and simplification of the substantive and procedural law will continue to improve the situation.

3.2 Awareness-building of IP needs to start at the most basic level, and include journalists. Educational programmes need to address the role and value of IP and the risks and dangers arising from counterfeit goods.

3.3 The statutory costs involved in the application for and grant of IP are not prohibitive, and are broadly in line with other major economies. Nevertheless the Irish model of a small fee payable on application followed by a larger fee later may well appeal to SMEs.

3.4 PTOs should be self-funded and this should be the primary influence on fee levels.

3.5 Any changes in the IP system should improve the quality of the rights granted and their enforcement. This strikes at the heart of the debate on examination on relative grounds which, if abandoned, may damage SMEs.

3.6 There are inconsistencies between the application of trade mark law between the UK Registry and Courts and OHIM, the European Courts and other legal bodies across Europe, leading to a loss of trust in the system.

3.7 There is some “clutter” in the Register, a problem exacerbated at European level by OHIM’s practice of registering marks in three classes for the same price as one. Applicants should pay for each of the rights they seek and a financial incentive could be offered for the early relinquishing of unused rights. Evidence of use of however should not be sought at renewal.

3.8 There are particular problems with registering non-traditional marks, despite their important role and value in consumer decision making. The UK Registry adopts a very cautious approach, compounded by the courts applying a strict “confusion as to origin” test in passing off cases.

How is IP used?

3.9 The most significant IP rights for brand owners are patents, trade marks, registered and unregistered designs, copyright, passing off, and trade secrets / confidentiality.

3.10 A system of intersecting rights is necessary to protect the many aspects that build and sustain brands, the significant investment that is made, and the ever-present risk of those wishing to copy and free ride.
3.11 Rather than imposing costs on the economy, IP rights provide an incentive for an innovator to put his work in the public domain and spurs others to innovate. Registered rights provide transparency and clarity, reducing costs for those who seek to trade fairly.

**How IP is challenged and enforced**

3.12 There are particular problems in cases involving copycat packaging. The courts are unlikely to find for the brand owner unless satisfied that there is a likelihood of consumer confusion. Such evidence is very hard to obtain, particularly with the courts’ attitude to consumer surveys.

3.13 In the case of counterfeit goods and the enforcement of the criminal law, there are several problems:

- lack of resources and co-ordination of enforcement agencies
- lack of deterrent sentencing / insufficient use of assets recovery under POCA
- continuing restrictions on disclosure of information to rights holders
- pre-litigation costs to industry

The IP Crime Strategy is critical in providing some of the answers to these problems.

3.14 There is scope for negotiation (rather than litigation) in those cases where interlocutory relief, a precedent or a deterrent effect is not required. However it is not easy to bring both parties to the table in a settlement frame of mind. The INTA Pledge has an important role, as does encouragement by the judiciary.

3.15 Internationally, the principal barriers to effective enforcement against counterfeits are inconsistent compliance with TRIPS, lack of harmonised enforcement in the EU, and enforcing judgments in the US.

3.16 In the case of civil sanctions, the lack of harmonisation of substantive and procedural law is the greatest barrier, a strong example being a patent granted under the European Patent Convention which, as well as being in effect several national patents, has no overarching court of appeal.

4 **SPECIFIC QUESTIONS**

**Patents – utility models**

4.1 As a principle, registered proprietary rights should be subject to careful examination (where this is economic and feasible).
Trade marks – international issues

4.2 Lack of consistency of decisions on registrability on absolute grounds is a cause for concern. Secondments of OHIM staff to industry may improve consistency and harmonisation.

4.3 The UK Patent Office’s publication of its Registry Manual and Practice Guidelines is a valuable initiative which could usefully be adopted by OHIM.

4.4 We support the Law Society’s proposal to bring the UK closer in line with Europe by abolishing the statutory provisions for threats actions in the case of trade marks and designs.

Designs – registered designs and unregistered design rights

4.5 Increasingly industry is favouring registered design protection at European level because of its greater affordability.

4.6 Given the difficulties in substantive examination, there is a case for dispensing with this (one instance where practically acts against the principle of certainty of rights).

4.7 The duration of the UK unregistered design right is needlessly complex. A standard term from first recordal of a design seems workable.

Legal sanctions on IP infringement

4.8 Trade on the Internet is no different from a market or car boot sale. Sanctions should be as tough in this environment as elsewhere.

4.9 Policing the Internet is perhaps the greatest challenge facing law enforcement nationally and globally.

Coherence between competition policy and IP policy

4.10 Our members have been subjected to the systematic copying of their distinctive packaging designs for decades. This misleads consumers and is an act of unfair competition as it damages the competitiveness of the original product.

4.11 It is extremely difficult, and in some cases impossible, to deal with copycats in the UK. Most copycats avoid infringing IP rights and a passing off action is very difficult to bring because of the very high threshold of evidence required by the courts.

4.12 Member states, both old and new accession states, have unfair competition laws that address slavish imitation and free riding. Australia’s Trade Practices Act is also more effective in dealing with misleading and parasitic trading than current UK remedies.
Parallel imports / International exhaustion

4.13 Branded goods are targets for grey trade due to the public appeal the brand owner has generated for their products and the added value that brands represent. A wide range of goods are grey traded, from toiletries to car parts.

4.14 Were the trade mark regime to move from regional to international exhaustion, brand manufacturers would be economically punished (due to factors outside their control), would face stronger pressure to move production to cheap economies (eg. India, China), may be forced to exit some overseas markets and would have other exports curtailed. Consumers, while benefiting from some instances of lower prices, would face inconsistent products, reduced quality control, and incomprehensible labels and instructions.

4.15 The current regime favours consumers, brand manufacturers and the diversity of retail outlets. A change in regime to international exhaustion would favour primarily grey traders and counterfeiters, neither of which contribute to innovation or sustained market growth.
Gowers Review of IP

1 Introduction

1.1 BRITISH BRANDS GROUP AND ANTI-COUNTERFEITING GROUP

The British Brands Group and Anti-Counterfeiting Group are delighted to have this opportunity to respond jointly to the Call for Evidence issued by the Gowers Review Team. Both organisations represent brand manufacturers in the UK (see Annex 1 for members).

The branding business model, which is recognised as a key contributor to competitiveness in an increasingly global world, depends on an efficient and effective IP regime in order for it to deliver its benefits successfully to consumers, companies, society and the economy. This review is therefore fundamental to the interests of all brand-focused organisations.

The British Brands Group provides the voice for brand manufacturers on the benefits of branding and on those issues that affect the ability of brands to deliver choice and value to consumers. It focuses particularly on the climate for innovation and vigorous but fair competition. The Anti-Counterfeiting Group (ACG) campaigns on behalf of consumers and legitimate businesses for recognition of the economic and social cost of fakes, and for more resources for IP enforcement, in partnership with government and law enforcement agencies. Both organisations are cross-sectoral and work closely with similar organisations in other Member States and at European level.

1.2 OUR RESPONSE TO THE REVIEW

Any review of the IP regime in the UK is clearly a huge task, for the Review Team let alone anyone else! To focus our response to the questions raised, we have concentrated only on (1) those issues directly relevant to brands (and specifically manufactured / product brands) and (2) the IP regime that we believe would deliver high levels of innovation and competitiveness in the 21st Century.
1.3 AN INTRODUCTION TO BRANDS

To understand the dependence of the brands model on IP, we wish to ensure there is a common understanding of what brands are, how they are built and the benefits they generate.

Brands are created from a pact between producer and consumer that creates significant value for both sides. They are based on a promise (to be “the best a man can get”, or to “kill 99% of all known germs”), delivery against which determines whether or not the consumer will reward the producer with their preference and longer-term loyalty. They make producers directly accountable to consumers for quality, satisfaction and safety, as any failing on these measures will have dire financial consequences. This aspect of brands makes them powerful mechanisms for consumer protection.

What starts as a product – a set of functional / physical qualities – becomes over time enhanced by a wider range of values and develops into a relationship with the consumer. A brand begins to be formed in their mind. However this brand in the mind is shaped by a wide range of influences, many of which lie beyond the performance of a product. How the producer behaves, what competitors bring to market, the advertising and promotions the consumer experiences, the word of mouth they hear will all have an effect. Brands are therefore constantly changing, influenced by changing preferences, lifestyles, and other offers in the marketplace. The arrival of Apple’s Ipod will have changed people’s perceptions of Sony’s Walkman, just as the arrival of Dyson changed people’s perceptions of Hoover.

The power, and therefore the value, of brands lies both in their performance (on a wide range of consumer-relevant measures) and in their effect of getting consumers to act together:

“All economic power lies in the hands of the consumer but it is fragmented and must be accumulated before it can be harnessed. Brand is the only reliable way to gather that power and plug into it. Each of us has a small amount of money to spend, but there are billions of us. Getting us to spend in a concerted way is like herding cats, and can only be achieved by coercion (taxes) or by brands (shopping).” — Simon Anholt

Because brands are formed from a long-term relationship between the individual consumer and the producer, the model works best when the distance between the two is short i.e. one to one. The more intermediaries there are between the producer and the consumer, the more unpredictable the result. The more the producer is unable to control important elements of the brand building experience, the more open it is to sabotage. This has important implications in the context of retail supply chains and parallel trade, both discussed further below.

Further details on the make-up of successful brands, the benefits they deliver to consumers, companies, society and the economy, and the value they create economically are provided in Annex 2. This also includes comment on barriers to market entry.

1 Simon Anholt, “Brands beyond business” (2005), Brands Lecture. Available at www.britishbrandsgroup.org.uk
1.4 BRANDING AND THE LISBON AGENDA

In developing a policy framework to deliver the goals set out in the Lisbon Agenda, economic analysis and public policy has focused excessively on the supply side drivers such as R&D, skills development, knowledge transfer and commercialising new technologies. A greater focus is required on demand side drivers (such as consumer understanding and marketing) to strengthen economic growth and competition. In the modern economy, it is consumers who drive innovation and enterprise growth as can be seen from the following dynamics:

- competition forces companies to change, create new niches and redeploy assets;
- successful innovation is often based on input from consumers;
- changing consumer preference is a critical ingredient in the model that links innovation to enterprise growth and reinvestment;
- branding provides a mechanism for consumers to recognise differentiated offers and facilitates competition on the basis of both quality and price. It also protects innovation and provides the incentive for suppliers to bring new offers to the market, otherwise they will be left behind (e.g. Yardley);
- differences in consumer preferences drive product differentiation. The impact of such competition is not well recognised in economic models as it is hard to measure and quantify;
- brand reputation is a form of customer capital that needs to be recognised as a reward for innovation.

These demand-side aspects of delivering against the Lisbon agenda warrant further economic analysis and policy focus. Patrick Barwise of the London Business School emphasises the point by calling for greater emphasis on routine, consistent innovations that can make people’s lives better, often using existing resources and technologies.

1.5 THE CONNECTION BETWEEN CONSUMERS, INNOVATION, BRANDS AND IP

The branding model requires consumers to be able to differentiate one offer from another, not just on the basis of words, colours or shapes but on the basis of all the information and preferences they hold in their head – the brand. Meanwhile branded products must innovate continuously to stay ahead of the pack and remain the consumer’s preferred choice.

Intellectual property provides the framework by which the model operates and on which it depends. Without an effective legal framework, branded goods would not be able to deliver effectively the benefits we outline in Annex 2.

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2 Lisbon agenda: to make the EU “the most competitive and dynamic knowledge-driven economy by 2010” (2000)
3 “Driving European Innovation: innovation by the silent majority” (2005), Swalbach. Available from British Brands Group.
Branded goods manufacturers require a mechanism to connect consumer purchasing behaviour with their investment not just in their products but in their innovation and reputation over time. They require a mechanism whereby they can extend the commercial potential of their investment efficiently through licensing and franchising, while at the same time preventing copying and counterfeiting, both of which are tantamount to theft. Furthermore, when companies or products are acquired to generate greater value (e.g. Unilever’s purchase of Ben & Jerry’s ice-cream and Cadbury’s purchase of Green & Black chocolate), a means is required to ensure that the brand, which is where the value lies, and all the investment that lies behind it, can be transferred effectively.

In the context of brands, intellectual property is a pro-competitive and enabling force and does not carry costs of limiting competition or imposing high prices (cf. Call for Evidence, Introduction). On the contrary, it facilitates competition, provides an essential tool whereby consumers are able to exercise choice based on quality and price, and enables companies to invest in their reputations to the benefit of society. It creates a dynamic market of colour, diversity and excitement that is focused on and driven by consumers and their needs.

The connection between brands and IP was underlined recently at the conclusion of negotiations on the recent Singapore Treaty on the Law of Trademarks:

*The Treaty recognizes developments in the branded goods industry and marks a new approach to securing investment in product differentiation. Brands are no longer confined to stickers or labels on goods; today, the brand stands for the product's identity. Creativity and investment goes into the development of brands, and it is vital for the industry to be able to secure that investment.*

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2 The IP Framework

2.1 Overview of the UK IP Regime

The current IP regime is effective in covering the key aspects that enable powerful brands to be built in the minds of individuals:

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<th>IP</th>
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<td>The Product</td>
<td>Patents</td>
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<td>Registered and Unregistered Designs</td>
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<td>Trade Marks</td>
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<td>Trade Secrets</td>
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<td>Packaging</td>
<td>Patents</td>
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<td>Trade Marks</td>
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<td>Registered Designs</td>
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<td>Unregistered Designs</td>
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<td>Copyright</td>
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<td>Passing Off</td>
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<td>Advertising and promotions</td>
<td>Trade Marks</td>
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<td></td>
<td>Copyright</td>
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<tr>
<td>Distribution</td>
<td>Trade Marks</td>
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<td></td>
<td>Trade Secrets and Confidentiality</td>
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The system of intersecting rights works well in principle, being sufficiently flexible to permit innovation and variety without imposing an over-restrictive straitjacket. While required under EC law, it also has the significant advantage of being the structure that has been adopted around the world, an important consideration in an increasingly global marketplace.

In guiding our recommendations on an IP regime fit for the 21st Century, we consider the following to be the important criteria that are in the interests of consumers, rights holders and society:

- a visible, transparent system, with easy and inexpensive searching, so it is known where rights do and do not exist;
- a high level of predictability;
- effective enforcement (with the ability of rights holders to take action when speed is of the essence and when public authorities formally decline to do so);
- a high level of harmonisation between national markets.
An appropriate test for the system is whether a reasonably cautious trader is able to launch new products without infringing others’ IP rights unintentionally.

While a system of intersecting rights is a strong system in principle, its practical effectiveness depends on the rights truly intersecting. The system needs to ensure that it is difficult for the unscrupulous to steer around existing rights in order to free ride on the investments of legitimate traders and to mislead consumers. Unfair competition provisions can provide a useful safety net to prevent such an eventuality. In the UK, with the law of passing off, this safety net is flawed and is simply not up to the task, as we will demonstrate below.

Finally, an IP regime does not exist in isolation. Society needs to be aware of the function it performs and the value it generates, so that its importance and relevance are acknowledged and respected. Closely connected with such appreciation of the value of an effective IP system is an understanding in society that copying, and the purchase of unlawful copies, is undesirable and damaging. Creativity, inventiveness and distinctiveness are the values to encourage.

2.2 The significant problem areas

The significant commercial value of brands and the trust and confidence they inspire in people, while on the one hand being the source of economic growth and success, on the other make them targets for criminals, free riders and perpetrators of a range of scams. The two most significant problem areas, each of which is covered in this submission, are:

- **Counterfeits** The sheer scale of counterfeiting today, in terms of the numbers produced and the wide range of products that are counterfeited, from the exclusive to the everyday, makes this a vast problem. It is further complicated by its increasing sophistication, the increasingly global nature of the trade and the difficulty in tracking down perpetrators, particularly those who use the internet. A recent article in The Times (3rd April 2006) highlighted these trends.  

  The potential solution lies not so much in the IP regime as in its effective enforcement.

- **Copycats** This is the practice of competitors using packaging designs for their products that mimic closely the packaging of familiar brands. The aim is to mislead consumers into believing the product has all the qualities and reputation – i.e. has the same ‘brand’ – as the tried and tested original. It

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5 “The growing fake goods trade just got dirtier. Can you tell the difference?”, by Valerie Elliott and Rajeev Syal.  
http://www.timesonline.co.uk/article/0,,2-2115853.html
is a ploy that works, prompting significant numbers of shoppers to buy the wrong product and many more to be misled over the origin of the goods.

The UK is a particular problem market compared to the rest of Europe and to many other countries worldwide because the law of passing off is simply not up to the task of preventing such deception. The problem therefore lies in the structure of the UK IP regime.

While we cover these practices in detail in our submission below, it is also worth mentioning briefly scams that use brand signifiers to dupe citizens. The confidence and trust people have in brands make brands vehicles for a wide range of scams which have grown with the spread of the internet. Phishing\(^6\) is one example and recruitment scams another, whereby people pose as recruitment consultants, obtaining personal information (e.g. passports, bank details, etc) on the promise of jobs with branded companies. Such scams are likely to grow as markets become increasingly global in the 21st century. Consumers are at risk and brand reputations are threatened by such scams, underlining the need for effective enforcement to prevent the public being duped and brands being devalued.

2.3 Alternative models

The alternative model to branding is the commodity model – basic produce with no added value being traded on the global market on the basis of lowest price. We are not aware of alternative models to replace branding that would be acceptable to consumers, society and companies in the UK. One alternative existed in communist states pre 1989, one imposed by the state rather than driven by consumers and which was typified by lack of choice, supply, innovation and accountability. As the Berlin Wall fell, it was to shops in West Berlin and the branded products they stocked that East Germans flocked. In *No Logo*, Naomi Klein may have been critical of the behaviour of some brand-focused companies and the ubiquity of brands in our society, but she didn’t present a viable alternative.

Similarly with the IP model, we are not aware of practical alternatives to the current model of intersecting IP rights.

In the context of developing economies, it has been strongly argued that the brand model may actually be their way out of the poverty trap\(^7\). Rather than relying on the production of highly price-sensitive commodities, developing economies have the potential to grow their economies by developing brands that command a premium, generate loyalty and deliver growth. This is an approach Korea has adopted with high tech goods and Kenya with beans. In this context of brands as tools of economic development, an IP structure that allows brands to develop and succeed is as much in the interests of developing countries as of developed nations.

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6 The act of sending an e-mail to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

7 Simon Anholt, “Brands beyond business” (2005), Brands Lecture. Available at www.britishbrandsgroup.org.uk
3 General questions

3.1 How IP is awarded

(a) Are there barriers to obtaining IP rights due to system complexity? What could be done to improve the situation?

There are clearly some inherent complexities in the IP system, which are to be expected given the subject matter. We do not believe the UK IP system is unduly complex and, for users of the system with access to professional legal advice as required, we do not believe that the complexities present a barrier to obtaining the IP they seek to operate their businesses. Certainly the IP system is infinitely simpler and more transparent than the vast body of regulatory law.

We have seen a trend over recent years of closer harmonisation and simplification of the substantive and procedural law. In the area of patents for example, it is significantly more straightforward to make an application via the Patent Co-operation Treaty than on a state-by-state basis. The same applies for the CTM and Madrid Protocol in the case of trade marks.

However, the cost of obtaining the professional advice required to handle the more complex areas of IP is often prohibitive to small organisations and new market entrants. Rather than reducing the complexity of the system and potentially jeopardising the quality of the way IP is granted and enforced, the focus should be on making quality professional advice available to qualifying SMEs to allow them to obtain IP rights to protect their innovative products and brands.

We believe firmly that the Patent Office should be a self-funding organisation. In the event that, following the current consultation, relative examination for trade mark applications is removed, extra funds would be released which could be diverted to some form of grant system for smaller business/organisations requiring financial assistance to navigate the IP system, at the point at which they are seeking to obtain rights.

Efforts should be concentrated not on reducing necessary complexity in the system but in educating its potential users on the nature of IP, its benefits and how it can be protected and enforced. We refer in particular to education efforts made by the Australian Government through IP Australia. This brings IP to the classrooms, educating people at an early age, and is also a good example of an easy-to-navigate and informative website (www.ipaustralia.gov.au).

Please also see our comments below on how the information provided by the Patent Office could be improved in order to assist inexperienced applicants who are navigating the system without the assistance of professional advisors.
(b) How easy is it to find out about obtaining IP rights? What could be done to improve awareness for businesses and innovators? Is there sufficient awareness of the need to protect IP internationally?

In terms of general awareness, it is necessary to start at a basic level, informing people of the differences between registered company names, domain names and trade marks, for example. The media also has an important role to play, by ensuring that IP rights are portrayed accurately in reporting. Indeed, the poor quality of some reporting strongly suggests that knowledge of IP should form part of the education and professional qualification of journalists operating in business-related fields.

In terms of locating IP rights, this is largely dependent upon finding the Patent Office website (www.patent.gov.uk) or Intellectual Property on the internet (www.intellectual-property.gov.uk).

On these sites, the information on trade marks is generally presented in a formal and rather dull series of dense text screens. For dedicated adults, the offering is poor, while there is no provision at all for educating the young. This contrasts with the section for the young on IP Australia (www.innovated.gov.au/Innovated/html/i01.asp). The aim is to “encourage student creativity and prepare young Australians for a future shaped by ideas”. It is vital to increase the IP awareness of young people to ensure that they benefit from their creativity and to promote an awareness of the real cost of IP piracy. To achieve this, IP deserves a place within the school curriculum and a phased scheme should be introduced so that pupils of all ages can begin to learn what IP is, how it affects and influences their lives, and to inspire their creativity. WIPO’s comics on copyright and trade marks, and Union de Fabricant’s comic on counterfeiting are interesting examples of approaches that have been taken in this area.

In terms of IP counterfeiting and piracy, there is little from official sources that gives a consistent message, communicated via the Patent Office through to Customs & Excise and the Police. It is not only the so-called big brand owners who suffer from this. Individuals and SMEs all face their own battles with piracy, including the Lance Armstrong cancer charity yellow wristbands which were counterfeited. The US policy of STOP! Strategy Targeting Organised Piracy provides a good insight as to how this could be co-ordinated at a high level (see www.stopfakes.gov), as does the DG TAXUD site⁸. Greater co-ordination and tuition is needed to prevent tacit acceptance of piracy and to nurture talent and creativity.

Locating the search engines for the IP rights themselves is unnecessarily difficult. For example, entering “IP Rights” into Google leads to the top site at www.intellectual-

property.gov.uk/resources/other_ip_rights/facts. However it requires some navigation to find the search pages. Similarly on the Patent Office site, each search is buried within its own IP segment, making IP rights hard to locate. Ideally there should be a direct link to the search databases from both the pages of the Patent Office site and the Government sponsored IP site.

While the UK Patent Office used to be the world leader in terms of its database and the information it made available to the public free of charge, it has since slipped markedly down the order of merit, particularly in relation to some EU accession countries. While the UK trade marks site allows a search by number, mark (provided there are 3 letters or more with or without the classes), or owner, it is not possible to search for a character string, 2 letter mark, a prefix search or a device mark. This contrasts with the US site which has a wide range of search tools to suit different levels of ability (http://tess2.uspto.gov/bin/gate.exe?f=tess&state=v70vc8.1.1). The Czech site also has flexible search options (http://isdvapl.upv.cz/pls/portal30/oz.OZFRM).

The higher the quality of searching tools that are freely available then the lower will be number of needless conflicts that result from either the lack of flexibility in the free search tools or the high cost of searching. While larger companies will always rely on their usual advisers, it would be worthwhile to encourage, even incentivise, SMEs to conduct searches of prior rights before use / filing. While the Patent Office’s OPTICS and TRIMS systems may be too sophisticated for use by the general public, it may be possible to design a public interface which would allow greater access and give more accurate searching. Online assistance for search systems using multimedia tools would be valuable, along with a children’s search facility, perhaps to help find marks that are included in the everyday items they buy (such as the Ipod and Nobby’s Nuts).

(c) Are there barriers to obtaining UK IP rights on grounds of cost? What drives these costs?

We do not believe that the statutory costs involved in the application for and grant of UK and Community trade marks, registered designs and patents are prohibitive, particularly bearing in mind the specialist skills involved. However, as we mention in 3(a), where professional advice is required, costs can quickly escalate beyond the budgets of SMEs seeking to enter the market with new products.

We highlight the current system used for trade mark applications in Ireland as an alternative to the current UK fee structure. Here, a small fee (€70 per class) is payable upon application and then, if the application is successful, a further fee of €177 is payable. This reduces the up front costs and may make the system more attractive to SMEs who would only have to pay the full costs were a registered trade mark granted.

An alternative to the UK patent structure exists in Japan which has a deferred examination system whereby an applicant need not request examination of his patent
application until 3 years from the date of filing and on payment of a special fee. Third parties may also request examination and pay the fee. Deferral could be helpful to SMEs in relation to cash flow but may not be helpful to the public generally as it would mean unexamined patent applications would survive for longer and may inhibit other SMEs from introducing innovation, particularly if the claims were unduly broadly framed.

(d) How do these costs compare internationally in your organisation’s experience?

In the case of trade mark costs, the current level of official fees seems reasonable and is certainly comparable with other countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>France</th>
<th>Germany</th>
<th>Ireland</th>
<th>UK</th>
<th>USA</th>
</tr>
</thead>
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<td>£200</td>
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<tr>
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<td>£122</td>
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<tr>
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<td>£520</td>
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<td>£200</td>
<td>£225</td>
</tr>
<tr>
<td>Extra class</td>
<td>£26</td>
<td>£180</td>
<td>£86</td>
<td>£50</td>
<td>£225</td>
</tr>
</tbody>
</table>

Source: Lewis Silkin

The UK Patent Office (along with OHIM) has made significant strides to remove some of the bureaucracy surrounding trade mark filings, including the introduction of e-filing.

As we have said, we strongly support the model of PTOs being self-funded, as this keeps fees affordable for all and avoids distortions in the awarding of IP that would favour wealthier rights holders. This approach should be adopted internationally, with the requirement to be self-funding then being the main determinant of fee levels. Our members have experience of jurisdictions where revenue generation is a PTO objective, resulting in excessively high fees (see Annex 3 for fees in Gulf States). It also tends to be the case that very high official fees tend to drive very high professional fees. We appreciate that there may be some difficulty in trying to gauge the volume of new applications and renewals, and also that continuous investment is required to ensure any PTO provides world class service. In any year, were there to be a surplus, any excess income should go into IP education and helping SMEs obtain IP rights. A self-funded system is the best way of providing high-quality and high-value IP services at a fair price to all users.

In the case of patents, the high costs of applying for an international patent are due to the requirement to translate the specification and claim. We believe this could be addressed in Europe were it possible to reach agreement that translations be limited to one of three main official languages (English, French or German), with the abstract and main claim available in each recognised European language to allow for infringement searches. The rights holder however would not be entitled to recover damages for
infringement in a particular country unless a translation in that country’s language had either been published or made available to the person infringing.

(e) Do you have any comments on the UK Patent Office fees structure for obtaining and renewing IP protection?

Please see our comments above on the need for the Patent Office to be self-funding and the merits of the Irish system that reduces up front costs. The Patent Office could also investigate the scope to reduce fees for e-filing in comparison with other methods, as OHIM has done.

We consider the fee structure for patents to be very effective, with the costs of the system being borne primarily by renewal fees. This means that initial costs are low, encouraging new filings, and ongoing costs deterring those who are not using their patents.

(f) Is lack of trust in the system a barrier? To what extent do you rely on other tools to bring innovation to the marketplace, such as being first to market, maintaining trade secrets, or using an open innovation model to generate value through reputation or network effects?

A key issue for large branded goods manufacturers and SMEs alike is to ensure that any changes in the IP regime go towards improving the quality of the rights granted and the enforcement of those rights. Certainty in the rights granted is vital, something that goes hand in hand with trust in the system.

The question of certainty in rights lies at the heart of the current debate on examination on relative grounds. We appreciate that the cost of maintaining the service is high and that abandoning such examination will bring the UK closer in line with Europe but there is a real risk to the quality of registrations. While larger companies may remain relatively unaffected, SMEs are likely to be adversely affected, incurring charges of approximately £38 per mark per year to maintain a watch of the UK trade marks register and may be increasingly concerned about the quality of, and risks to, their registrations. Were the UK to withdraw from the citation of prior rights, some kind of free notification service to owners of similar / identical marks in the same classes would be valuable, as per the OHIM model.

The UK generally has a good reputation for granting strong trade marks (due in large part to its examination on relative grounds which is currently under review). However, there are inconsistencies in the application of European laws between the UK Trade Mark Registry and Courts and the Community Trade Mark Office, the European Courts and the other legal and administrative bodies across Europe. For example, the UK Registry (which examines on relative grounds) will refuse registration if there is an identical or confusingly similar prior CTM registration even though such registration has
not been examined by OHIM on relative grounds. These inconsistencies make it difficult to give meaningful legal advice on whether to launch a new product and can divide the position in Europe as to what can be marketed where. The result is a lack of trust in the system and, in the case of SMEs where budget is at a premium, may result in a failure to attempt to navigate the system at all. Greater harmonisation and consistency in the application of these laws can only lead to a more transparent system with greater certainty of the strength of the rights granted.

Recent examples of inconsistencies at a national and European level include:

Applications for the slogan YOU CAN DO IT by B&Q were not accepted in the UK, despite significant evidence of use and over 45% public recognition of the slogan in a survey. In contrast, OHIM accepted prima facie without the need to show acquired distinctiveness.

In CRIMINAL (device) v CRIMINAL DAMAGE (device), opposition was accepted in UK and upheld by the UK Court on appeal whereas the opposition was dismissed by OHIM and their decision upheld by the Board of Appeal.

The conflicting decision on whether infringement requires use of a sign as a trade mark use (e.g. compare the Johnstone and Arsenal cases).

In launching new products in the UK, our members rely heavily on registered IP rights to protect their brands and innovations, including the visual appearance of the product and packaging. For consumer goods in particular, the value of the brand makes them prime targets for copying by competitors who do not invest in their own innovation but take advantage of the development work, category creation, advertising and appeal created by the branded products. Consumer goods can often be readily copied by competitors and may be placed on the market within weeks of the original being launched. In the case of retailers’ own label versions, these may be launched in a matter of days of – or even before – an original’s launch, as the retailer will have required samples of the new product and its packaging 6-9 months ahead of the launch. This underlines the need for strong, effective protection.

There is no proven alternative system for protecting consumer branded goods to the current IP regime in the UK. As discussed more fully under “Coherence between IP Policy and Competition Policy”, branded goods manufacturers are often unable to rely on the law of passing off to prevent competitors copying their innovative products and packaging. A more effective but focused tort of unfair competition, based on product imitation, is badly needed.
(g) Are there specific barriers to obtaining IP rights in your sector?

In the case of trade marks, there is some clutter in certain classes of the register (i.e. a large number of registered rights which are not being used). This can be a barrier for companies wishing to establish new trade marks.

At European level this problem is exacerbated by OHIM’s practice of encouraging applicants to register their marks in three classes for the same cost as registering in one. This is indicated by the number of single registrations made at OHIM which account for around 30% of registrations, compared to the picture in the UK where around 50% of applications are for single registrations. On the one hand OHIM’s approach can be helpful as some rights holders will require a broader range of class coverage than others, but on the other hand it risks unnecessary proliferation of registrations, particularly as OHIM classes are already relatively broad. As a point of principle, in order to avoid distortions, applicants should pay for the rights they seek.

A remedy to unnecessary cluttering of the register already exists in the requirement to use registered trade marks in five years. The problem may be further eased were there to be a financial incentive for organisations that relinquish early any marks they do not intend to use. One remedy which should not be considered is the imposition of the requirement to show evidence of use when renewing trade marks. This will be enormously onerous on those organisations that own a large number of trade marks and would create a much bigger problem (in terms of administrative cost) than the problem of clutter that it set out to solve.

There are particular issues with registering non-traditional marks:

In the case of fast moving consumer goods (fmcg) stocked in supermarkets, consumers are faced with many choices and are unlikely to spend more than a few seconds choosing between products. In these circumstances, consumers shop by scanning shelves and packs without examining every product in detail. Thus they rely more on first impressions of the overall look and feel of a pack than on details.

Colour plays a key part in this first impression as it is processed by the human brain before other information such as name. Packs which create a similar impression through similar colours and graphic imagery to familiar branded products are therefore much more likely to affect consumer behaviour than might be assumed on a clinical legal comparison of the layout of the packs. In addition to increasing the likelihood of mistaken purchase, similar colours and imagery bring to mind the qualities of the familiar brand. It is this that enables copycats to benefit unfairly from the brand’s reputation, while eroding its visual distinctiveness.
Packaging is a vital part of a brand, fulfilling a much greater purpose than containing the product and protecting it from decay and contamination. It communicates all the brand’s values at the critical moment when a shopper makes their choice in front of the supermarket shelf. This is the point where research indicates that 75% of purchasing decisions are made (source: Trendwatching.com).

“First, package designers are ‘ahead of the curve’ in marshalling design in support of marketing strategies and strategic brand objectives. They can show the way to other designers who must master this skill to fully make their power felt in the broader business community. Second, package designers uniquely face two critical challenges that all communicators must grapple with: piercing through the clutter of an information-sated age and creating a message that is relevant in an increasingly global marketplace. Third, package design plays a vital role in an economy where point-of-purchase is more and more critical – informing, educating, selling, directing, decorating.”

Gordon D. Kaye, Editor and Publisher, Graphic Design: USA Magazine

A major function of packaging is to aid recognition by indicating to the consumer that they have located the correct brand on shelf. Marketers frequently seek to enhance this function by establishing a close link between packaging design and the product’s advertising:

Advertising and packaging have always been related. Television, radio, print and web-page ads create the knowledge of and desire for products. Spend a few minutes watching television ads or looking through print ads – it’s rare that the packaged product is not shown. The packaged product, on the supermarket shelf, reminds the buyer of the ad and offers the potential customer more. A package can be picked up, examined, labels can be read, and price considered – all in the space of a few seconds. And, if the advertising and packaging are successful, the consumer won’t even need to consider the purchase, he or she will pick up the package and head straight to the checkout counter.”

Renée Phillips, Packaging Graphics

Because packaging is almost always viewed on shelf in the context of competing products, a major function of packaging is to stand out as being very different from the competition. Shape, colour and added graphics are all important tools in creating this difference.

While these principles are obvious to marketing experts with their understanding of consumer behaviour, European law has been slow to accept that aspects of pack designs such as colours, shapes and graphic imagery are an important part of the
dialogue between branded manufacturers and the consumer. Securing registration of trade mark rights in such elements is extremely difficult and costly.

Notwithstanding clarification from the European Court of Justice that such elements are registrable, subject to being adequately described and on proof of acquired distinctiveness, the UK Registry applies a very cautious approach to the registration of these types of trade mark. Finding ways of satisfying it that colours, shapes or very simple graphic elements have met the test for acquired distinctiveness usually involves high cost, takes considerable time, and is met with extreme scepticism.

This difficulty in securing registration for "non traditional trade marks" is compounded by the current reluctance of the UK courts to apply anything other than a strict "confusion as to origin" approach when applying the doctrine of passing off (see section 4.5 below). In practice, this means that branded goods manufacturers enjoy much less protection against copycats than is the case in many other parts of Europe where unfair competition laws are available to prevent parasitic trading.

(h) *Are there specific barriers to obtaining IP rights for small businesses or individuals?*

We will leave this question for small businesses and individuals to answer.

(i) **How well does the national system for awarding IP, administered by the Patent Office perform? How well do the international and European systems work?**

Overall we believe that the UK system works well, subject to the specific issues we raise in this submission.

However our members have experienced a lack of consistency between individual examiners at OHIM and in the UK which introduces uncertainty and frustration. Of particular concern is the lack of consistency on examination of applications on absolute grounds. This is covered further in 4.2.

We have some concerns about the lack of commercial experience of some officers in the Patent Office. A practical solution to address this would be to introduce a programme of secondments for junior officers to Trade Mark Agent practices or in house with branded goods manufacturers. This would give them practical commercial experience and a greater understanding of the importance of these IP rights for the applicants.
3.2 How IP is used

(a) What types of IP does your organisation use and why?

The most important IP rights for branded goods manufacturers are:

**Patents**

Patents are essential to protect inventive aspects of differentiated products and are particularly important in technical areas. Examples of branded goods that depend on patent protection include **Gillette** razors, **Oral B** toothbrushes and **Dulux** paint.

**Trade marks**

These are the rights normally most strongly associated with branded goods and are strong rights, being registered and, in the case of word marks, relatively easy to search.

In the case of brands, trade marks – whether word (e.g. **OXO**), shape (e.g. **Toblerone** pyramid), colour (e.g. **Cadbury** purple), or sound marks (e.g. **Hamlet** cigars, **Air on a G String**) – take on a depth of meaning that far transcends the literal meaning of the mark itself. They become a shorthand for all the values, reputation and experience an individual may hold for a particular product i.e. they become a shorthand or signpost to the brand.

In the context of brands, a trade mark’s function goes well beyond signifying the source of a product’s origin. Certainly it communicates the source of the consumer’s guarantee, should the product not meet expectations, but it also helps communicate, succinctly, the many complex factors, both rational and emotional, which are used by individuals to select or not select products. It is therefore a sign of trust and a consumer weapon.

As a shorthand and signpost to the brand, trade marks are therefore of immense value to the companies that own them. Trade marks allow them to extend a brand’s reach through licensing and franchising, and allows the brand to be traded.

As long as there is investment in the brand over time, a brand can grow in value and even undergo changes in meaning, yet trade marks are flexible and adapt to such changes. The **Mini** brand is different under BMW’s ownership than it was under British Leyland’s and Rover, but its trade marks have adapted in meaning accordingly.

The fact that the term of a trade mark is potentially indefinite encourages companies to invest in the long term, both in terms of innovation and product quality but also in the way companies behave. The brands, and therefore the trade marks, of **Guinness**, **Bourneville**, and **Kellogg’s** for example still in part represent the altruistic values
and purpose of their respective founders, each a century or more ago.

That direct copying of a trade mark is a criminal offence also makes trade marks inordinately important in the fight against counterfeit goods.

The vital role of trade marks was underlined at the conclusion of the recent trade mark treaty negotiations in Singapore:

"The Singapore Treaty reaffirms the importance of trademarks, one of the major forms of intellectual property, in promoting domestic and international trade and in enhancing enterprise development and consumer confidence." Dr Kamil Idris, WIPO Director General, April 2006.

<table>
<thead>
<tr>
<th>Registered and unregistered designs</th>
<th>These are important rights for protecting the distinctiveness of a product or its packaging.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The two systems (registered and unregistered) take different approaches. To be valid, a registered design must create a different overall impression from that which went before. It may be helpful to think of this in terms of a “step change” in design. The “reward” for such a level of innovation is a time-limited exclusive right to use that design and prevent others from using it or a design which does not create a different overall impression from that innovative design.</td>
</tr>
<tr>
<td>Copyright</td>
<td>Although there is co-terminous unregistered protection for such “step change” designs (which is important if they have not been registered), unregistered design protects a lesser level of innovation – something above the “commonplace”. Given a potentially lesser degree of innovation, the protection is much more limited – essentially freedom from copying (much like copyright). Indeed the rationale of the right is to give copyright-like protection in an industrial context without the very long term of copyright (author’s life plus 70 years) which applies in “artistic” copyright situations. The unregistered right is further limited by statutory exclusions relating to surface decorations or in the context of accessories / spare parts where one article must “fit” or “match” another article.</td>
</tr>
<tr>
<td></td>
<td>Thus one can see registered design rights being particularly apt to protect revolutionary designs such as Gillette’s Mach 3 razors, Apple’s Ipod and Dyson’s vacuum cleaners, and a lesser degree of protection – freedom from copying – for less revolutionary designs.</td>
</tr>
<tr>
<td></td>
<td>This provides important protection for packaging, advertising, promotional material and instruction booklets, preventing others from copying and free riding off these important consumer communications.</td>
</tr>
</tbody>
</table>
Passing Off  In principle this would be an important measure to catch any unscrupulous trader that may otherwise have found a way to confuse consumers while steering around the registered and unregistered rights above. In reality however, the excessively high level of proof required to bring a successful passing off action makes this an infrequently litigated and extremely expensive cause of action. Furthermore it is unpredictable in new and developing areas of commerce, with judges reluctant to push the boundaries of passing off to address new problems created by ever more imaginative copiers.

Trade secrets / confidentiality These are important rights in trade negotiations, to ensure that marketing and new product development plans are not shared with competitors.
This works well in most cases. However it does not work well when a retail customer is also a major competitor with an own label range. Often the retail buyer who decides whether to stock new branded products will be the same person who specifies the competing own label version, when the temptation to produce a close copy may prove irresistible. In such circumstances, ethical barriers are needed in practice.

(b) To what extent do you seek multiple overlapping forms of IP protection?

We would make the point that our members do not seek overlapping rights, in the sense that one set of rights duplicates another. They do however seek intersecting rights in order to obtain effective protection.

The cost of bringing new products to market (Gillette’s Mach 3 razor cost over $700 million of up-front investment), the commercial risks involved and the ever-present risk of free-riding and copying means that branded goods manufacturers would be negligent were they not to seek the greatest level of protection for their products.

It is of course impossible to predict what aspect of a product, its packaging or marketing a competitor will chose to copy, making it important to seek as wide a range of protection for as many aspects as possible.

A further factor encouraging intersecting IP protection is the uncertainty that exists on how courts will judge any particular case. With intersecting rights, branded goods manufacturers are not risking all or nothing by putting their eggs in only one basket (e.g. relying solely on trade marks rather than copyright and design rights as well).
(c) To what extent are these decisions influenced by sector-specific considerations?

The British Brands Group and Anti-Counterfeiting Group are both cross-sectoral organisations so others will be better placed to answer this question. However many of our members typically operate in the fmcg market, within which there is a wide range of sectors and our comments apply to all these. As a general principle, the nature of the products themselves and their sectors may determine the choice of which IP rights are sought and how they intersect. For example, innovations on laundry detergent or shampoo may be protected by patents as well as trade marks (on packs), copyright (in advertising) and designs (in packaging). In the case of bar soap or margarine, patents may be less appropriate but designs and trade marks (in the sense of colour and packaging) may have more relevance.

(d) How does your company value its IP? Are there problems with raising finance against intangible assets based on IP? What improvements could be made in this area?

We are leaving this question for companies to address individually. There are a number of ways of valuing IP and we have a paper outlining these, should this be of interest.

(e) To what extent does the term of IP rights at the margin affect investment decisions?

Our members have not notified of us of any inhibitions or restrictions that are imposed as a result of the current term of the IP rights they use. Issues may arise however were those terms to change.

(f) How well does the UK IP system promote innovation?

The IP system provides the legal means for organisations to “own” what they create, without which there would not be the incentive to innovate. Furthermore, the launch on the market of innovative, IP-protected products spurs others to out-innovate them, rather than simply free riding off the original.

We consider that on the whole the IP system in the UK and Europe works well to protect the investment and risk in bringing innovation to market. Certainly we are not aware of an alternative model or system which would operate more effectively.

However, as we have highlighted elsewhere, greater certainty and clarity in the grant and enforcement of IP rights will lead to greater confidence in the system. This is particularly important to SMEs where expenditure on IP can represent a much larger proportion of the company’s outgoings than for larger more established organisations. For them, the success or failure of the protection afforded by IP may be the single most important factor that will determine whether the company succeeds and expands.
(g) To what extent does your organisation make use of other methods used by Government to encourage innovation, such as public funding?

Tax exemptions for research and public funding aimed at seeding innovation are helpful to innovators, the DTI Technology Programme being an example. The Programme helps not only by providing funding but also by putting together consortia to tackle specific problems in circumstances where the individual participants might not have thought to collaborate. It also distributes information resulting from the collaborative research quite widely for the benefit of UK Plc.

R&D tax credits are obviously helpful but could be made more effective in stimulating R&D innovation if they were more directly targeted towards R&D specifically. Otherwise, there is a risk that the money returned by the R&D tax credit would become absorbed within the overall funding of the company. Such credits might be targeted somewhat differently from the DTI Technology Programme, for example, by being offsettable against employers’ National Insurance contributions on salaries paid to R&D scientists newly employed in the UK or to the sponsoring by industry of students following degree courses in the so called “hard sciences” such as chemistry, physics, electronics, engineering and bio-technology.

(h) Are data on the use of patents and other forms of IP useful as a means of measuring innovation?

While patents may be a means of measuring inventions, they are a poor measure of innovation in terms of economic growth and competitiveness, as few are commercialised successfully.

New trade mark and design registrations for example show a greater correlation between rights and the exploitation of innovation.

(i) Do you have any evidence as to the static or dynamic costs that IP rights (as statutory monopolies) impose on the economy?

Copyright and unregistered designs are not monopolies but merely give a degree of protection against copying (see 4.3(a) below). We have seen no evidence to suggest that patent or other IP rights impose costs on the economy. On the contrary, by granting a proprietary right to innovation, IP rights provide an incentive for an innovator to put his work into the public domain to act as a catalyst to spur others to further innovation, which thus encourages competition that reduces costs for the economy. Registered rights additionally provide transparency and clarity, which reduce costs for those who endeavour to trade fairly without infringing prior rights.
(j) Have you encountered patents or other IP rights being used defensively, i.e. obtained not to develop products, but only to prevent others from doing so? Under what circumstances do you consider this acceptable?

The fees for securing patent protection escalate over time so any company that might seek to use patents defensively as suggested would find the costs prohibitive.

Innovators developing new products may frequently file a range of patents whilst the precise innovation is being finalised and evaluated but, having focussed on the key innovations, surplus patents will be allowed to lapse or will be withdrawn to reduce costs.

In the case of complex innovations, the work may require several patent applications to separately identify and protect the inventive elements concerned. Such multiple patent applications should not be considered defensive since their purpose is not to prevent others but merely to protect appropriately the innovation under development in a way that provides clarity as to the scope of the patent for all interested parties.

We do not believe that the defensive use of trade marks is a widespread problem. Certainly applicants may seek to register several options as prospective trade marks whilst undergoing research on the suitability of the names, logos, labels etc in the market and trade mark clearance searches on an international basis. Once the final trade mark is selected, unused trade marks will be abandoned or, if left unused by the owner for 5 years, will become vulnerable to cancellation. Trade marks registered for a wider range of goods than needed can also be cancelled in relation to the unused goods after 5 years. Since it can take several years to develop a brand, secure distribution and, as appropriate, secure licensees, this 5-year period provides a fair and reasonable period of protection to encourage home-grown innovation to develop sufficiently strong brands and to have an opportunity to expand to new markets abroad.

3.3 How IP is licensed and exchanged

(a) How easy is it to negotiate licences to use others’ IP for commercial or non-profit purposes?

With a willing licensor and a willing licensee, the grant of a licence should be a fairly straightforward procedure. Difficulties arise when one or both parties have unrealistic expectations or when the parties are unevenly matched financially so that one party cannot afford the same quality of legal advice as the other. The importance of good drafting cannot be overstated and the legal costs relating to the negotiation of a licence in the UK are too expensive for most SMEs with the result that the smaller of the parties is at a disadvantage. Weak intellectual property rights in strong hands can be more valuable than strong rights in weak hands.
When licensing to non-profit organisations, educational institutions or charities for example, it is essential that a licence be in place even if no royalties are being charged. The use of the licensor’s IP should only be royalty-free if used for promotional purposes. If the educational institution or charity sells on products or services using the IP of the licensor, a market-based royalty should be charged. This is particularly relevant to government departments and quangos or to charities that co-brand with companies or celebrities.

(b) *What mechanisms do you use for finding potential licensing partners?*

If a licensor has a successful brand, people will beat a path to their door to seek a licence for their trade mark(s). There are numerous trade shows and publications that enable licensors, licensees, wholesalers and retailers to get together. It is much more difficult for the owner of a less well known brand to find licensees and he will not be able to command the minimum guarantees or royalties that a well established brand owner can. Some licensors choose to appoint a master licensee who will then choose and manage the sub-licensees. This is a popular business model in Continental Europe and Japan.

Licensees should be chosen carefully and their credentials thoroughly checked, particularly their credit ratings and relationships with retailers.

Franchising is the most successful way to set up a new business in the UK. Most franchises will involve the payment of a royalty for the use of the trade mark. Many UK companies have successfully expanded abroad through a combination of franchising and licensing (e.g. Burberry and Karen Millen).

We will leave it to others to comment on the licensing of patents.

(c) *How easy is it to use others’ IP for research purposes? Have you experienced difficulty around research exemptions?*

Our members have not encountered difficulties in this regard.

(d) *Are there specific barriers to licensing in the main forms of IP currently used: patents, copyright, trade marks, and designs?*

There are no specific legal barriers to licensing patents, copyrights, trade marks and designs. In an open market the licensor will try to get the highest royalty possible on a non-exclusive basis and the licensee will try to pay the lowest royalty possible for an exclusive licence.
(e) Are there barriers to licensing IP on grounds of cost? What drives these costs?

The barriers to licensing on the grounds of costs are almost totally related to the legal costs involved in the drafting of licence agreements in the UK. Because the costs of professional representation in the UK are high, negotiating a licence agreement can also be extremely high.

(f) Are there specific barriers to licensing IP in your sector?

Only cost.

(g) Does your organisation use methods to facilitate exchange of IP - such as crosslicensing or pooling IP rights with other firms or organisations?

One consideration that represents a potential barrier to the exchange of IP is the potential risk of contravening competition law. As regards technology, there are very significant barriers to the pooling of technology, particularly for any company with a high market share. As a consequence, many organisations will shy away from any pooling even if this could contribute to innovation.

(h) Are there specific barriers to licensing IP rights for small businesses or individuals – for example barriers to entry to patent pools?

We will leave this question for small businesses and individuals to answer.

(i) Are there barriers to trade and exchange of IP internationally?

Global registration of IP rights is extremely expensive and protecting IP rights in a global context is beyond the reach of all but the largest organisations. That in itself is a barrier. There are numerous individuals and companies who take advantage of this situation and file trade mark applications in numerous jurisdictions often to hold the owner of the original mark hostage (similar to cybersquatting). The logical and fair solution is for the original owner of the trade mark to license someone in these territories and negotiate for the licensee to pay for the registrations and assign them to the licensor

(j) Does your organisation consider renewing patents using “licence of right” provisions in patent law (which entitle any person to a licence under your patent and reduce your renewal fees by half)?

N/A

(k) What could be done to improve “licence of right” provisions and business awareness of them?

N/A
Do you have any experience of the compulsory licence provisions within current patent law? Are they effective? How could they be improved?  

N/A

3.4 How IP is challenged and enforced

(a) Are there specific problems with enforcing the main different forms of IP: patents, copyright, trade marks, and designs?

Civil sanctions

Enforcing IP rights in the UK is disproportionately costly by comparison with the rest of Europe. While contributing factors include our disclosure-based system, the tradition of oral cross examination of witnesses and the nature of the split profession, high costs apply across all UK litigation, not just in the field of IP.

In addition to these factors which are inherent in our current civil litigation system, there are particular problems with cases involving copycats (see 4.5), whether based on passing off or on a mix of trade mark and passing off rights. The courts are unlikely to find for the brand owner unless they are satisfied that there is a likelihood of consumer confusion. In practice, such evidence rarely comes to light spontaneously, making it necessary to conduct expensive surveys. Once surveys are done, the courts then approach the survey results with extreme scepticism, criticising them as being leading, artificial, inviting speculation from the respondents or going to the wrong issue. This is despite the fact that in the real world companies regularly carry out consumer research and make significant investment decisions based on their findings.

This approach of the English courts compares unfavourably with courts in other EU jurisdictions, where the courts are more willing to accept survey evidence and to draw conclusions as to misleadingness or unfair practices based on their own analysis of the degree of unnecessary similarity between the packs.

Criminal sanctions

In the case of counterfeit goods, the focus is on practical enforcement of the criminal law relating to trade marks. There are several problem areas:

Lack of resources and co-ordination for enforcement agencies

Trading standards (TS) : One issue is how to re-focus Local Authority (LA) priorities to provide TS departments with the manpower and funding to support all the many statutory powers and duties they perform. With the current reorganisation of some LAs, and the outcome of the review of Trading Standards/Better Regulatory Services not yet known, there is serious risk of the main enforcement agency in the UK being even less able to
deliver on IP enforcement in the future. The training of TS officers to become accredited financial investigators under the Proceeds of Crime Act 2002 and to become entitled to a share of the confiscated funds by way of contribution to the cost of their prosecutions is however a positive development. If the goal is to produce a self-funding IP enforcement service, which is a goal we would fully support, this is unlikely to be achieved in the foreseeable future.

**Customs**: The full impact of the merger of HM Revenue with HM Customs and Excise is yet to be seen. Already brand owners have seen a reduction in the detection teams for counterfeit interceptions at several seizure seats. Nonetheless, as an example of what will result from sufficient resources and prioritising, the integration of UK Customs actions with the rest of Europe received a welcome boost with **Operation Fake** last spring, when over a thousand counterfeit Viagra tablets, tonnes of counterfeit clothing, millions of counterfeit branded cigarettes and 29,000 counterfeit batteries were netted in the UK by HM Revenue and Customs (HMRC) as part of the Europe-wide Operation Fake. This joint operation by all 25 European Union Member States (EU) led by DG TAXUD was the first to be co-ordinated in the new European Anti-Fraud Office (OLAF) and ran for two weeks in May 2005. In that short time, at Heathrow and Felixstowe alone, there were 14 seizures of counterfeit products, including fake Gucci belts, scarves and shoes, Sony CD Walkmans, Nike trainers, Disney goods, 1,600 JVC cameras, and 7,000 Birkenstock sandals. Across Europe, Operation FAKE was a resounding success with co-ordinated operation responses resulting in the seizure or detention of 140 air traffic consignments and 60 sea containers containing counterfeit goods; nearly 500,000 kg of goods and 26 million items of textiles, footwear, electronic equipment, medicines, cigarettes and other articles; and the detection of counterfeit products in nearly a quarter of the containers selected for a physical or "scanner" check. This compares with detections of between 1% and 4% in routine checks. Enforcement by customs would be enhanced were there a direct link between customs registration and the Trade Mark Registry.

**Police**: The police are not the primary IP enforcement agency but they have an important role to play. One example of co-ordination which could provide a model for future actions (e.g. under the Proceeds of Crime Act (POCA)) is **Operation Payback**, a joint initiative in 2004 by the Metropolitan Police, City of London Police and HM Customs and Excise (should it continue). This provided a comprehensive recovery response for proceeds of crime in the capital, including the seizure of millions of pounds in cash over the last 12 months. There have also been several high-value POCA / counterfeiting cases in which the police participated by assisting with the financial investigations/tracing of assets abroad.

There is certainly a need for police support for tracking and arresting major criminal players in the counterfeiting world. The police are increasingly aware of the links
between counterfeiting and other serious organised crime. However we recognise that more needs to be done politically to bring IP crime into the National Policing Plan via the annual Threat Assessment carried out by the National Criminal Intelligence Service (NCIS - now absorbed into the new Serious Organised Crime Agency). The other alternative, public-private partnerships, at present seem to be viable only for single-sector organisations and are very costly. For example, the Metropolitan Police have set up a Film Piracy Unit funded by the relevant rights owners but with each officer costing £100K pa, well beyond the budgets of many companies. It would not be possible for brand owners covering many sectors to fund such a unit since their goods would not all appear at the same places and times, and some would be bound to benefit more than others.

Lack of deterrent sentencing

The support of the Department of Constitutional Affairs is required in order to educate the judiciary on the seriousness of IP crime and the need to impose heavier sentencing. IP offences under existing legislation carry a sentence of up to 10 years but the heaviest sentence we can find Europe-wide is 36 months. At present, prosecutors often bring cases under the common law conspiracy to defraud, instead of the IP legislation itself, because of the heavier sentences courts will impose. More use of POCA confiscation proceedings must also be encouraged to deter criminals - hitting them where it really hurts (see Annex 5 for an example).

Continuing restrictions on disclosure of information to rights holders:

The civil information gateway, closed when the Enterprise Act Part 9 came into force, will re-open in due course via an amendment which is being prepared. We wonder however whether this will also address the problems with non-disclosure resulting from Article 12 of the new EU Customs Regulation, and the resulting national provisions. This prevents Customs from releasing basic information about suspects and shipments to rights-holders to enable them to take their own action, unless national law otherwise permits disclosure.

Pre-litigation costs to industry

Since the new Customs Regulation came into force, there has been no administration charge to brand owners for the customs service, as such. However, instead, Customs has started to charge for storage and disposal costs they, and sometimes TS, incur (plus overtime pay when requested by brand owners to continue raids or other actions in mid-procedure). We would be happy to submit further detail on this, although these matters are currently under active discussion between brand owners (via ACG) and the relevant senior officials at Customs HQ and TS.
IP Crime Group - Patent Office

Since the launch of this welcome initiative in August 2004 (by which time industry, law enforcement and government had already met several times to lay the foundations), a great deal of work has gone into a new intelligence database, the creation and briefing of working groups (to take forward various aspects of the trade in counterfeits and how to create effective enforcement practices), strategic high-level meetings of all stakeholders, and a new model of best practice for multi-agency operations. This last occurred in December, codenamed Operation Dawn. It was the first ever to be led by the Patent Office. Trading Standards, Immigration, the Department of Work & Pensions and police targeted Wembley Market in London over four weekends to raid and arrest those dealing in fake goods. They found illegal immigrants, benefit fraudsters, underage workers and useful information on computer hard drives which led to further arrests higher up the chain. The value of the fakes seized over just four weekends was £1.5million (at the 'fake' market price). Were that figure to be multiplied by the number of permanent licensed markets in the UK (around 1200), an estimated value of £1.8 billion can be placed on the market for fakes, providing a 'snapshot' of the scale of the problem over a limited amount of time. At least half of that would be pure profit in the hands of the fakers. This takes no account of the many 'occasional' Sunday markets and car boot sales for which there is no firm information.

We see the work of the IP Crime Group to be of critical importance in providing - over time - answers and remedies to many of the issues which brand owners currently face while trying to protect their IP rights.

(b) Are there barriers to challenging infringement and enforcing your IP rights on grounds of cost? What drives these costs?

These are covered in our response to 3.4(a).

(c) To what extent does your organisation make use of other methods than litigation to resolve IP infringement cases, for example the Patent Office opinion service, mediation services, Alternative Dispute Resolution (ADR), or the Copyright Tribunal?

Most companies will consider that their “tool box” for addressing IP issues contains litigation and other methods and will pick as appropriate. The extent to which other methods are used will depend on the company culture and resource. Most will prefer to find a solution which is speedy and certain and a negotiated settlement (whether negotiated or not) can provide this. Lack of exposure and education about ADR amongst the legal profession (although this is growing considerably) and more widely amongst the commercial decision-makers within companies restricts the use of the approach. Awareness is rising and further support from the media and the judiciary will encourage this further.
(d) To what extent do you use IP litigation insurance? How effective is it?

We are not aware of any of our members using litigation insurance. Such insurance tends to be prohibitive in cost once one claim has been made.

(e) Are there barriers to using such methods to settle IP disputes without recourse to litigation? How might they be removed?

In the IP arena, it is possible to classify disputes into one of two broad categories:

1. those where a judicial decision is needed and no other outcome will do, and
2. those where an outcome is needed which could be judicial but equally, and even preferably, could be arrived at through negotiation (assisted or otherwise).

Cases in Category 1 are those where interlocutory relief, a precedent, or a deterrent effect is required, or where one party (for whatever reason) would not trust the other with a negotiated settlement.

Category 2 comprises the majority of cases where generally the IP rights owners merely want an outcome, with as little cost and in as little time as possible. For them, disputes mean risk, and often lost opportunity as well as cost. On the other hand, the counterparties often want to string out the proceedings for whatever reason (e.g. to distract, dilute the rights owner, buy time, increase uncertainty, etc).

Bringing parties to a negotiating table in a settlement frame of mind is not easy. If one party proposes settlement talks, the counter-party will often misinterpret this signal as an expression of weakness. There are ways to mitigate this aspect, for example by signing the INTA Pledge. Some companies go further and have a formal policy statement to the same effect.

It takes two to tango. It is insufficient that just one party to a dispute is willing to negotiate. Where one party is unwilling to negotiate, they need to be encouraged. The best form of encouragement is the judiciary (including Tribunals and, the Patent Office) and we support the Patent Office Mediation Scheme (announced on 3rd April 2006) partly for this reason.

This Patent Office Scheme also helps parties identify suitable neutrals to mediate. Mediation is fast, inexpensive, non-binding and has a success rate of between 80% and 90%. This is much higher, and faster, than conventional bilateral negotiations which tend to be inhibited by posturing and positioning. It is a tribute to the Patent Office that it is the first national PTO to introduce a Mediation Scheme. However we do doubt that the fee rate of suitable neutrals would be justified in the many cases where the sums at stake are not significant.

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9 http://www.inta.org/index.php?option=com_content&task=view&id=1384&Itemid=227&getcontent=4
We also support the preliminary indication practice offered by the Patent Office as a means to reduce spurious claims and deal with simpler cases.

Branding is about market opportunity. Modern consumerism is based on trends, fads, fast-changing technology and increasingly fickle loyalties. Using IP disputes and procedures to interfere with business entrepreneurialism inhibits consumer choice and distorts competition. Resolving these Category 2 disputes quickly and efficiently through mediation and other short form, pragmatic approaches will be important in the 21st Century.

(f) Are there specific barriers to challenging and enforcement of IP rights for small businesses or individuals?

We will leave this question for small businesses and individuals to answer.

(g) To what extent is the risk of litigation a factor in your organisation’s investment in innovation?

The effect of the risk of litigation is not so much to restrict investment in innovation but to ensure all the necessary preparatory work is undertaken ahead of launch to ensure that a new product does not infringe others’ rights. This is an important reason behind our call for transparency in the system, whereby it should be relatively easy to find out what rights are owned and by whom.

(h) What are the principal barriers to efficient and successful challenge and enforcement internationally?

Criminal sanctions

In Annex 6 we provide a list of suggested action points for joint EU-US IP enforcement in certain countries, recently submitted to DG Enterprise by AIM\(^\text{10}\), which illustrates just how much remains to be done. The countries highlighted include China, Russia and India.

In addition, particularly in such countries, there is too much emphasis on administrative enforcement and not enough resources for police actions nor provisions in Criminal Codes to ensure that police do act.

Although less of a problem in the UK, internationally fines imposed by courts, police, customs and other administrative bodies often remain uncollected and are therefore not imposed. Maximum fines may be adequate but there exists a lack of standards and a

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\(^{10}\) AIM - Association des Industries de Marques - the European Brands Association
predictable calculation of minimum fines. Calculation methods need to be developed by Governments that lead to fines commensurate to the harm caused and an imposition of sanctions against those that fail to pay, such as contempt of court.

In the US, the International Anti-Counterfeiting Coalition (the US equivalent of ACG) publishes an annual review of problem countries worldwide, known as the Special 301, which is submitted to government. We are considering a similar international survey with our own members and with our European colleagues to encourage more government awareness of the problems, and to illustrate the example which the UK / EU could set to the rest of the world.

With thanks to colleagues in other anti-counterfeiting organisations, we can if requested provide further information, for example on Russia and other Eastern European countries, and on China and its current steps to transfer administrative cases to the police.

Briefly, many of the problem countries have code law and in the case of Eastern Europe they mainly have post-Soviet code law. The traditions of these legal systems are rather different (from common law) both in practice (detail) and in theory (concept).

Trade mark interests are agreed that administrative enforcement should not be regarded as a substitute for TRIPS Article 61 obligations to provide criminal enforcement in cases of counterfeiting and piracy on a "commercial scale".

We are aware of other recommendations - proposed last year by the Board of the International Trademark Association - for the introduction internationally of "best practices", which don't appear in TRIPS, summarised below:

- Deterrent fines with sanctions for non-payment;
- Prohibitions against exports of counterfeits e.g. eliminate bond requirements for trade mark owners; compulsory destruction of fake goods;
- Courts to award significant statutory (or “pre-established”) damages were it is difficult for the trade mark owners to prove their measurable monetary damage;
- Establish specialised IP crimes investigation and prosecution units, and train judges and law enforcement; allocate cases to specialist judges;
- Permit access by trade mark owners to relevant documents / information held by governments on counterfeiters, for the trade mark owners' legitimate use e.g. in conducting private investigations;
- For customs seizures, extend the time period to allow rights-holders to commence action before counterfeits are released.
The UK is not taking the opportunity offered by the implementation of the EU Enforcement Directive to consider making certain improvements to UK law and practice. With our UK lobbying partners in the Alliance against IP Theft, we have already provided detailed reasoning to support the case for representative actions (Article 4), witness protection (anonymity) (Article 7), and additional damages (Article 13).

Please note: The UK Government has just published a Statutory Instrument (Footnote: 2006 No 1028 The Intellectual Property (Enforcement etc) Regulations 2006) which seeks to give effect to Article 13 of the Enforcement Directive. However, given the terms of the Statutory Instrument, it is unclear as to whether this Instrument of itself will provide any meaningful reform to current damages rules in intellectual property cases. It is also unclear as to how this Statutory Instrument will be affected by the anticipated Department of Constitutional Affairs inquiry into damages.

There are also many examples of ways in which Member States vary in efficacy, which we could detail for you additionally if required.

ENFORCING JUDGMENTS IN THE US

There is no equivalent treaty in the US for enforcing judgments as there is between EU countries.

Civil sanctions

The lack of harmonisation of substantive and procedural law is the greatest barrier to effective challenge and enforcement. A good example in Europe is a patent granted under the European Patent Convention which is not a single patent but a collection of national patents, with no overarching court of appeal. This creates significant scope for differences in interpretation and outcome. The situation would be helped were it possible to appeal national patent decisions to the European Court of Justice.

Civil damages awards in counterfeit cases are often insufficient to adequately cover the costs and harm to rights holders, often due to the lack of evidence of prior production and sales records. The establishment of significant or "pre-established" damages based upon the retail price or domestic resale value and, for willful counterfeiting, the introduction of the concept of triple damages (c.f. Civil patent prosecutions in the USA) coupled with effective help in recovery of such damages, might act as sufficient deterrent.
4 Specific questions

4.1 Patents – utility models

Our members believe that all registered proprietary rights should be subject to careful examination as a point of principle where this is economic and feasible. If this does not occur, there is a risk that the system becomes an obstacle to routine improvements to existing technologies. As an example, were there no examination for novelty and inventiveness, the patents register would become cluttered with patents granted for inventions having little or no merit and with excessively broad claims, forcing innovators to divert precious resource into carrying out validity and infringement studies on patents of doubtful validity.

4.2 Copyright exceptions – fair use / fair dealing

(a) What are your views on the current exceptions in copyright law?

As an unregistered right, copyright protected works like unregistered designs bring about different problems for the IP owner or would be user or licensee.

It is difficult to establish what rights are held and many works have multiple copyrights and different owners (such as TV ads or packaging). With the exception of the music industry which has a centralised licensing system, it is often very difficult to track down the owner of copyright to seek clearance to use or obtain a licence. Further, the length of term of copyright (70 years plus life) means that companies of individuals holding copyrights, many of which change hands frequently, find it a challenge to keep a record of who currently has ownership. Whilst we can think of no obvious solution, we believe that with the increase in activity of modern technology more copyright works will be created and a way needs to be found to help record and trace ownership and obtain clearance. Other jurisdictions (eg USA, Pakistan) have a system of copyright registration but this is burdensome, adds additional cost and currently there is a trend to move away from such systems. We therefore do not see registration of copyright as a solution.

4.3 Trade marks – international issues

(a) To what extent does your organisation register its trade marks at the European rather than national level?

(b) Could the UK trade mark system be improved to work better alongside the European system?

For maximum efficiency and effectiveness in providing benefits for consumers, brand owners and prospective new entrants, the trade mark system needs to provide consistency, clarity, certainty and transparency and needs to be able to adapt to anticipate and respond to rapid developments in technology and business practices.
The current UK system of examination on relative grounds provides overall a reasonably high degree of clarity, certainty and transparency, and provides a valuable alternative to CTM protection, particularly for smaller businesses which may need trade mark protection only in the UK market.

There is some concern regarding consistency of decisions determining registrability on absolute grounds between the UK and the CTM. Examples include:

The simple laudatory word “perfection” has been accepted for registration as a CTM, although rightly considered unregistrable in the UK since 1909 (cf. UK Court of Appeal RPC 1909 page 862).

Unilever’s application to register CARB OPTIONS was refused on absolute grounds in the UK but accepted before OHIM where the same absolute grounds test is the law.

An application for the word POT (used on POT NOODLE products) was accepted for registration as a CTM but rejected by the UK registry for lack of inherent distinctiveness.

Such inconsistency can only lead to uncertainty and additional cost for applicants as they may resort to forum shopping between the two systems or duplication of applications before the national and European offices, both of which provide protection for the UK.

Our suggestion in 3.1(i) for short-term secondments for staff would be as appropriate for OHIM staff as those from the UK Patent Office and would, we believe, improve consistency and harmonisation between the two offices.

The UK Patent Office’s publication of its Registry Manual and its Practice Guidelines are useful tools for practitioners and applicants alike, providing guidance on registrability, increasing consistency of decisions and increasing predictability for users. We would encourage OHIM to adopt a similar initiative and to make such documents publicly available. Greater understanding of the guidelines followed by examiners in deciding absolute grounds of registrability and on past practice can help companies (particularly SMEs) decide on pursuing a more protectable mark than a weaker one. It also allows practice on trends and fashion fad marks to be communicated quickly. For example the UK Patent Office issued practice guidelines on 2000 (at the time of the Millennium) and on marks ending in .com during the internet boom.

The breadth of CTM specifications also causes concerns for new entrants, especially given the inherent difficulties and cost of investigating use in 25 countries of the EU and seeking cancellation of unused marks.
Whilst the introduction of the opportunity to file multi-class trade mark applications, as now applies in the UK, is a positive move and one to be encouraged in all registries world-wide, the pricing system of the CTM allowing 3 classes for the same price as a single class tends to encourage the filing of excessively broad specifications which can “clutter” the registers.

The split fee system as applies for the CTM and in Ireland, whereby a portion of the fee is payable on application and the balance on registration would be a welcome re-introduction in the UK to encourage new entrants and to reduce the costs incurred when trade mark applications are necessarily rejected (See 3.1(c)).

Word marks, although important, may not be the prime communicators with consumers who in developed markets are heavily influenced by other brand features, such as shape, colour and design. Whilst the need to prove distinctiveness of such features is acknowledged, the current barriers to securing trade mark protection for such non-traditional trade marks are too high to provide protection for innovators and to protect consumers from being misled. Having invested significant costs to develop innovation and distinctive packaging, frequently in response to sustained systematic copying by others of previous packaging, brand owners find themselves unable to secure trade mark protection before being overwhelmed by a new onslaught of copying. The problem is exacerbated by advances in packaging technology which enable copies to be produced within weeks of the brand’s launch.

We support the Law Society’s proposal to bring the UK closer into line with the rest of Europe by abolishing the statutory provisions for threats actions in the case of trade marks and designs. It is inconsistent for threats actions to apply to some IP rights but not others (e.g. copyright and passing off), they discourage constructive dialogue prior to litigation and may actually inhibit legitimate rights being actively asserted. The current statutory exceptions of drawing the existence of a right to a potential infringer (without formally and expressly threatening litigation) are artificial in the extreme. A formal letter out of the blue from the rights holder or its professional representative purporting merely to draw attention to the right would be perceived by most prudent business persons as a threat.

Finally, expansion of the Madrid Protocol to Latin America, standardised filing forms and goods classifications, and electronic filing direct by the trade mark owner to national PTOs for applications and renewals would represent further improvements.
4.4 Designs – registered designs and unregistered design rights

(a) To what extent does your organisation rely on registered designs? And on unregistered design rights?

Given the ease, speed and low cost at which registered design protection can be obtained, industry is increasingly coming to rely upon registered designs as important protection for its intellectual property.

It is worth noting that the “Call for Evidence” uses the term “monopoly” in a colloquial and legally incorrect way. In considering the various IP law rights, it is important to bear in mind those which grant rights that are in the true nature of a monopoly and those which merely afford some degree of protection from copying. Registered and unregistered design rights illustrate this important difference.

The right given by a registered design is the exclusive right to use the design and any design which does not produce on the informed user a different overall impression, taking into account the degree of freedom of the designer in developing his design. Importantly, there is no requirement for copying. By contrast, both the European and UK regimes for unregistered designs require copying for there to be infringement. It is therefore a misnomer to describe unregistered design right as a monopoly.

As registered designs afford broader and stronger protection, it is unsurprising that registered designs have found favour with industry.

(b) To what extent does your organisation register its design at the European rather than national level?

Increasingly industry is favouring registered design protection at European level. The official fees for a UK registered design are £60. The official OHIM fees for a registered design are €350, which works out at a cost of €14 per Member State in which protection is given. Typically, there is little difference in the fees charged by professional advisers between national and European filings. There is little to choose between the two systems in terms of speed of registration procedure. OHIM does not conduct a substantive examination on relative grounds. The UK Registry purports to do so but examination is relatively cursory. Given the difficulties of substantive examination, it can at best be considered non-exhaustive. There is therefore a case for dispensing with substantive examination of design rights.
(c) To what extent does your organisation rely on the European unregistered design right rather than the national UK unregistered design right?

European and national unregistered design rights are, subject to the qualification criteria, automatic. Thus industry relies on both. The two rights differ in one important respect, namely duration.

The European unregistered design right lasts only 3 years from first marketing in the EU. Such a short term has led industry to believe that this is a right which has more relevance to temporary “fads and fashions” rather than substantial design innovations capable of longer term industrial exploitation.

The duration of the UK unregistered design right is needlessly complex and can range from 10 to 15 years. A standard term from the first recordal of a design in a design document seems workable.

(d) Could the UK registered design be improved to work better alongside the European system?

The UK national design registration system could be improved and become more consistent with the European system if substantive examination were abolished. At present it is neither one thing nor the other. As the UK Patent Office has noted, whilst applications are subject to substantive examination, the Registrar has opted not to examine each application to determine if it is new or has individual character. The UK Patent Office further notes that, in practice, this means that the Registrar only raises objections to design applications which are “self evidently” lacking in novelty or original character. Such a system gives the applicant very little comfort in terms of validity.

(e) Could the UK unregistered design right be simplified to work better alongside the European unregistered design right?

Yes. As noted above, the key discrepancy is the term of protection. The duration of protection under the European system needs to be longer if it is to have wider application than “fads and fashions”. However, if the duration of protection is to be of appropriate length, e.g. 10 years plus, it is appropriate that the criterion of copying be retained.

(f) Do you see a useful role for the UK unregistered design right alongside the European design right?

Given the costs considerations set out above, the result of which is that industry increasingly relies upon the European system, there is doubt as to the viability of parallel national systems within the Single Market. On this basis it may well be that there is no useful role for national systems.
4.5 Legal sanctions on IP infringement

(a) Are you aware of any inconsistencies or inadequacies in the way the law applies legal sanctions to infringement of different forms of IP or to different circumstances?

(b) For example, should criminal sanctions on online infringement be the same as those relating to physical infringement?

Criminal sanctions

Trade on the Internet may be regarded as no different from a market or car boot sale, except that the transaction is 'virtual'. However, the seller is more difficult to trace if the items are fake, and the goods might never turn up. Websites can appear and disappear in minutes. Often the site is located in another country and the access to it is 'bounced' round the world, making it impossible to locate for action.

Companies openly sell fakes on auction sites (e.g. all the major watch brands) and in turn have their own websites which link into the auction site and can be easily accessed for more fake goods. The Internet is encouraging and creating a new brand of counterfeiter, the web-based trader in fakes operating from a back bedroom. It removes the previous difficulties of finding middlemen to handle and ship counterfeits, as goods can be posted direct to the buyer from anywhere in the world. It increases profitability for the counterfeiter. More numerous smaller shipments sent direct to customers are more difficult to trace. In one example, a well-known software house has taken down (removed) 43,159 auctions dealing in fake product from a single (also well-known) auction site in the 8 months from August 2005 to March 2006.

The situation poses various questions which remain unanswered at present: should some types of auctions be prohibited? Should it be legal to trade in trade marked ‘parts’ such as hologram tags and branded boxes? (On this latter point, the US has just introduced amendments to Title 18, United States Code, to provide criminal penalties for “trafficking in counterfeit marks”. We suggest that this might offer a suitable model for more specific sanctions under UK law to address the problem of this relatively new phenomenon. More detail can be provided if required.)

We respectfully submit that sanctions should be equally tough in this environment. In a real market for example, the site owners / organisers can be held liable for the trade in fakes conducted by their traders. Should consideration be given to placing a similar legal responsibility upon ISPs and auction sites in certain circumstances? For example, might they be obliged to verify their customers’ identities and / or to reveal them if a crime is suspected? Might they be held liable for aiding and abetting IP theft if they fail to act when alerted?

Should it be compulsory for internet auction sites hosted from the UK to alert brand owners who register with them when a branded item is put up for sale? This reverses the
current position adopted by auction sites that IP rights owners have to police and search the sites themselves even if they have registered their rights. So should Internet auction sites be subject to some of the more stringent rules that apply to ordinary auction sites? The procedures in place at a minority of sites do offer some recourse for the rights-owner but we have a great deal of evidence we could offer to show that more needs to be done.

Policing the Internet is perhaps the greatest challenge for law enforcement nationally and globally. It will require new, urgent and coherent strategies for the future. Consider the threat posed by the online trade in fake pharmaceuticals, which is beginning to breach the defences of our regulatory systems in Europe. It has been estimated that there are over 80 million websites worldwide doing nothing but illegal trade of various kinds. The FBI has an enforcement model which the UK might consider.

PLEASE NOTE: We do not represent the interests of other rights-holders such as copyright owners in the music and film sectors who are making separate submissions and whose views of Internet enforcement may differ e.g. in relation to the E-Commerce Directive.

4.6 Coherence between competition policy and IP policy

(a) *Has your organisation experienced any activity linked to IP rights that you regarded as unfair competition?*

Our members have been subjected to the systematic copying of their distinctive packaging designs for well over a decade. The problem has persisted and it has been extremely difficult to address in the UK, in stark contrast to other Member States.

Look-alike (or “copycat”) packaging adopts distinctive features of familiar brands in order to mislead shoppers. They attract purchasers by suggesting, through the similar packaging, that their product has all the same heritage, reputation and qualities (i.e. the same “brand”) as the original when it does not. Furthermore the similar packaging increases the likelihood of shoppers buying the wrong product. Their ability to mislead consumers in this way has meant the practice continues year after year. A fuller account of how copycats work is provided in Annex 7.

Evidence of the consumer impact of similar packaging is included in Annex 8.
An example of the original brand, *Gordon*’s gin, and a copycat currently on the UK market.

In addition to the impact on consumers, this is an act of unfair competition as it also damages the competitiveness of the original product, in the following ways:

- The copycat incurs none of the years of investment that the brand has spent to build its reputation, reputation that is communicated through its packaging. This is a clear case of free riding;

- the original brand must bear the cost of trying to prize the copycat off the market. This is expensive in terms of financial and management resources. To illustrate the costs of taking legal action alone, the Law Society gave £500,000 as the estimated cost of bringing a passing off action\(^\text{11}\).

- the original brand runs the risk of its distinctive features becoming generic in the marketplace;

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Sainsbury’s copycat of Coca-Cola and the cola category within one year of Sainsbury’s launch, demonstrating the dilution of Coca-Cola’s packaging over time.

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- Innovative products suffer reduced returns (the impact of sales will vary product by product but a decline of at least 20% can be expected);

- The brand manufacturers’ costs are increased as they are forced to adopt new packaging to distance themselves from copies (only to then have the new designs copied).

- Some brand manufacturers increase marketing spend to counter copycats. In 1996 Kellogg’s spent an incremental £1,100,000 on a national advertising campaign stating that it did not make cereals for anyone else.

(b) How did you deal with this problem?

It is extremely difficult, and in some cases impossible, to deal effectively with copycats in the UK.

- most copycats are designed in such a way that they avoid direct infringement of intellectual property rights. For example, in the Penguin v Puffin case, despite evidence in court that the designer of the Puffin copycat had been instructed to emulate the original, the judge ruled that the two trade marks were sufficiently different not to infringe trade mark rights;

- a Passing Off action is very difficult to bring because of the very high threshold of evidence required by the courts. It is difficult to prove deception when there is a different name on the packaging than the original. It is also very difficult to prove consumer confusion as consumers tend not to complain about such relatively low value items (if indeed they are ever aware they have been duped into thinking the copycat has similar qualities as the brand). Any consumer sufficiently aggrieved to raise a complaint will normally address that complaint to the retailer, who will of course never alert the manufacturer of the copied brand to such evidence of confusion. Survey evidence is very hard to gather as, in the case of retailer copycats, they will not allow such surveys to take place in their stores. If evidence is obtained through surveys, the courts tend to dismiss them as artificial (see 3.4(a) above).

While, in the Penguin v Puffin case, Penguin won its action for passing off, this did not set any kind of precedent and did not result in the Puffin name, one of the areas of closest similarity, being withdrawn from the market. Puffin biscuits remain on sale in Asda to this day (see Annex 9).

- The UK’s self-regulatory marketing mechanism, the CAP Code, contains provisions against imitation and misleading consumers, but packaging falls outside its scope.

Annex 9 contains further information on the difficulties in bringing an action against copycats in the UK. We would be happy to supply a comparison of the situation in other countries, should this be of interest.
(c) **Was competition law effective at controlling this behaviour?**

We see a clear distinction between competition law (which protects competition) and IP rights (which protect rights owners). The two have very different aims. Unfair competition law (despite its name) we perceive as an adjunct of IP law as it protects businesses (though these may not hold any formal IP rights).

The exercise of IP rights must not entail a breach of the competition laws. In most cases, the relevant branch of competition law will be Article 82 (or national equivalents, such as Chapter II of the UK Competition Act), relating to abuse of dominant position. However this will only apply to dominant companies.

In the case of copycats, we are not aware of any that have been produced by dominant companies, so competition law remains untried in this area.

In so far as unfair competition law is concerned, while such laws are well-developed in many EU countries, the nearest equivalent in UK law is passing off which is far more limited in scope and far more difficult to enforce (see above and Annex 9).

(d) **Should competition law have a greater role to play in regulating IP?**

Because competition law is only likely to be relevant in the case of dominant companies or cartel-like behaviour, we see no role for it in addressing the problem of copycat packaging.

We see a far greater role for unfair competition law in addressing copycats, as long as this is tightly focused on the problem and is not too broad. The advantage of this approach is that it does not confer any monopoly rights and allows each individual case to be considered on its merits. We also believe that civil sanctions rather than criminal should apply.

(e) **How would you see the system working?**

There are a number of potential models of unfair competition law. For example both old and new Member States have provisions in their unfair competition laws against slavish imitation and free riding (France, Germany, Poland and Hungary being examples), which discourage companies trading on the reputations of others.

The German Unfair Competition Act (UWG) protects against copycats both on the basis of a likelihood of confusion as to origin (Sec 4.9a) and / or dishonest exploitation of the reputation of the branded product. The basic test under Art. 4b is that:

a) the copycat exploits the reputation of the original product by referring to the qualities associated with the original product and

b) the imitation of the product is deemed to be inappropriate.
A strong solution from a common law jurisdiction is Section 52 of Australia’s Trade Practices Act:

TRADE PRACTICES ACT 1974 - SECT 52
Misleading or deceptive conduct

(1) A corporation shall not, in trade or commerce, engage in conduct that is misleading or deceptive or is likely to mislead or deceive.

In practice these provisions are all regularly relied upon in preventing sale of copycats. Brand owners see them as far more effective in dealing with this form of misleading and parasitic trading than the remedies currently available in the United Kingdom.

4.7 Parallel imports / International exhaustion

(a) Has your company been affected by parallel trade?

Brand manufacturers tend to have their products both parallel traded (i.e. redistributed within the European market) and grey traded (i.e. imported into Europe from other countries without the consent of the trade mark owner). This is due to the investment brand manufacturers have made in making their products relevant to and valued by consumers which ensures that both parallel and grey traded goods can tap into a ready market demand. Branded goods also tend to have added value so are also attractive to parallel and grey traders for the premium prices they command.

It should be noted that both parallel and grey traders face no barrier in importing cheap generic products but they choose not to do so.

A wide range of goods are grey traded, including soap, cola, toothpaste, alcoholic drinks, batteries, razor blades, sunglasses, engine oil, car tyres, motorcycles, shoes, CDs, nappies, clothes, accessories, car parts, toiletries and many more.

Some brand manufactures distribute their goods through selective distribution systems (i.e. retailers that are required to meet certain standards) as a means of differentiating themselves from competitors and ensuring control over consumers’ brand experience. These are consistent with European competition law as long as the company does not have a dominant position and agreements do not set retail prices. Indeed such distribution systems are pro-competitive and increase consumer choice. Companies that adopt such systems are vulnerable to both parallel and grey trade.

(b) What would be the impact on your organisation of a change in the current rules?

We do not advocate any restriction of existing rules governing parallel trade within the single market. This is an increasingly harmonised market with free movement of goods
and we therefore consider parallel trade within this market as legitimate (with the exception of goods which are not subject to usual market forces such as pharmaceuticals).

We also believe it would be inconsistent to argue for a different exhaustion regime for one set of IP rights (e.g. trade marks) to the regime for another set of rights (e.g. copyright or patents).

Were the trade mark regime to move from regional to international exhaustion there would be the following implications:

- where arbitrage is fuelled by exchange rate fluctuations or on high costs in specific markets, brand manufacturers (innovators) would be punished in those markets where currencies or costs were high, suffering a corresponding loss of revenue, damaging returns on investment and reducing resources for innovation.

  In the UK, as in many European markets, society has chosen for these to be high cost economies, so grey trade would be particularly damaging to these.

- Manufacturers would be under increased pressure to move operations, including manufacturing, to the lowest cost countries in the world. This would be a net loss to the UK and Europe in terms of jobs and fuel the competitiveness of India and China. Evidence for this can be seen in the shift in production by a number of companies to Eastern Europe after enlargement of the EU.

- It may no longer be economic to serve those countries where retail prices were lowest (as these would be the source of the grey trade). Any decision to withdraw would reduce economies of scale and be price inflationary. It will also reduce consumer choice and competition in those markets.

- It would no longer be possible to develop new overseas markets on the basis of low introductory prices as this would create a source of grey trade. This would limit UK companies’ ability to export.

- It will be harder to compete in overseas markets on the basis of price, and to respond in the event of price wars, as this will create an opportunity for grey trade. It may also inhibit manufacturers’ willingness to invest in overseas markets. The competitiveness of UK – and European – exports will therefore be constrained.

- There will be a shift in focus away from inter-brand competition, where competition is on the basis of innovation and quality as well as price, towards intra-brand competition, where competition is concentrated predominantly on price.

- Reduced control over the supply chain will make it much harder for manufacturers to effect product recalls. This inability to track and trace in the parallel supply chain has important implications for both consumers and brand management.
A change in regime will be economically inefficient and damaging to the UK in terms of innovation, jobs and economic growth. Consumers will be worse off. In most instances, grey imports are sold at the same prices as the regular products because the grey traders and sellers of grey goods maximise their own profits, but where there are incidences of lower prices, these are offset by:

- lack of consistency of product - products are often formulated differently for different market tastes and climate conditions; products may be last season's stock but sold as current season; products may be salvage;
- reduced quality control (as grey traded goods circulate outside the quality control chain);
- incomprehensible labels and instructions.

(c) What evidence is there of the costs and benefits, both for consumers and firms of the current rules?

Under current rules, consumers enjoy products of consistent quality, designed for their tastes, with labels and instructions in their native language and promotions from which they can benefit. They also enjoy competitive prices, with goods sourced from within the largest market in the world, the EU.

We can identify few if any consumer costs from the current rules. There may be some lower prices for grey goods but only on individual goods for odd periods of time, when those in the grey trade supply chain choose to pass the benefit of any arbitrage on to the consumer.

For specialist retailers, the current regime allows them to invest in and differentiate their retail offer on the basis of quality in the knowledge that they are unlikely to be undercut by other retailers who have made no such investments, sourcing the same brand of goods on the grey market.

Retailers generally are free to source very low priced commodities on the world market as well as branded goods, as long as this does not act against the wishes of the specific brand owner.

Parallel traders are free to operate in the current regime. Grey traders have the world market foreclosed to them only in those cases where the IP rights holder objects to the grey trade. One justification for the difference in approach relates to the efforts that continue to be made to make the EU a single market where employment, health & safety and other laws are converging and costs to businesses are more similar. The rest of the world is not a level playing field. A change in regime would encourage the export of jobs from countries where there are high levels of employment and health & safety protection to countries where there are lower standards.
Counterfeiters are more able to infiltrate unofficial supply chains, mixing counterfeit goods with grey traded goods. Nike for example has discovered counterfeit goods in batches of grey traded sportswear and GlaxoSmithKline has found a UK wholesaler selling grey traded toothpaste from South Africa alongside purportedly grey traded, but in fact counterfeit, toothpaste from the Middle East. Customs officers can only check a small percentage of shipments; if the numbers of shipments from unauthorised channels were increased, more counterfeits would pass undetected.

The role of internet traders coupled with the growth of Free Trade Zones (FTZs) and the increasing incidence of trans-shipment of goods through such zones where controls are limited, is fostering an environment where criminal activities and illicit trade can flourish. In addition, recent court decisions at ECJ level concerning goods in transit at major ports and their apparent jurisdictional immunity are making it easier for organised international criminal syndicates to operate. A balance needs to be struck between free trade, an environment where legitimate trade can flourish and illicit trade can be hindered. International exhaustion of rights does not strike such a balance.

For the innovators – branded goods manufacturers – there will be only costs from a change in regime. Some cheap national markets would be foreclosed to them, production would need to move to cheaper economies with the consequent write-off of sunk costs, and pricing models would no longer be driven solely by conditions in local markets (the most efficient pricing model) but would have to reflect grey trading risks, damaging flexibility and returns on investment.
5 Conclusion

The IP regime in the UK is, broadly speaking, in good shape structurally to take on the competitive challenges of the 21st century. However there are some important areas which warrant attention, the most important being to maintain (and improve where possible) the quality of rights granted, closer harmonisation, greater consistency nationally and internationally, and raising society’s awareness of the value and benefits delivered by IP.

We are convinced that branding has a key role to play in the future competitiveness of the UK economy and the delivery of the Lisbon agenda. However, in order to drive innovation and deliver consumer value, brands rely on an effective IP regime. For brands in the UK there are two areas of significant shortcomings: counterfeits and copycat packaging.

In the case of counterfeits, the challenge lies in delivering an effective enforcement regime.

In particular, there is a need for joined-up government, particularly with the number of ministries interested in IP (e.g. Home Office, DCMS, DCA, DTi, ODPM, HMR&C).

There is also a need for joined-up enforcement, in which the IP Crime Strategy presents an important opportunity to develop a coherent strategy and powerful intelligence resource. The success of Operation Dawn illustrates just what can be done with adequate resources and cross-agency co-operation.

Finally, keener awareness is needed both within government and outside. Counterfeiting must be more widely recognised as a serious organised crime, with major criminal players whose profits from the trade in fakes are used to fund other serious organised crime on a global scale. There is a need for deterrent sentencing, more use of POCA, and adequate funding and priority at local level.

We recognise and support the crucial role the Patent Office is playing nationally and internationally in the fight against counterfeits. In particular, we support its lead on the IP Crime Group, the awareness and understanding it is generating in government, industry and society, the improvements it is seeking in enforcement and its work in creating a policy framework “fit for the increasingly global challenges of the 21st century”\(^\text{12}\).

In the case of copycat packaging, the challenge lies in the structure of the IP regime itself. It is too easy for competitors to design around existing IP rights in order to mislead consumers and divert sales from the original brand. The problem is compounded by the difficulty in registering non-traditional marks, the inherent difficulties in demonstrating consumer confusion in court and the high levels of evidence required in order to bring a successful passing off action. We believe the solution lies in a focused unfair competition provision which will prevent consumers from being misled and competitors from free riding on others’ reputation. Such an approach targets the problem without extending monopolies. It also

\(^{12}\) Lord Sainsbury’s speech to the Social Market Foundation, February 2006
safeguards consumer choice and competition, with products in copycat packaging not barred from the market but simply required to be packaged distinctively.

THE ALLIANCE AGAINST IP THEFT

ACG and the British Brands Group are both active members of the Alliance against IP Theft. ACG's Director-General is one of its Vice-Chairs. We have contributed to the Alliance's response to this Review and would like to take this opportunity to support and endorse its additional areas of interest, concern and recommendation.
ANNEX 1

Membership

ANTI-COUNTERFEITING GROUP
(Brand owner members)

Adidas          Kodak            
Aquascutum      La Chemise Lacoste
BatMark         Levi Strauss    
BBC Worldwide   Louis Vuitton Malletier
Ben Sherman     LVMH Watch & Jewellery
BIC             Manchester United
BP              Mars            
Breitling       MCPS - PRS Alliance
Burberry        Microsoft       
Cadbury Schweppes Mulberry Group
Cartier         New Era        
Celtic F.C.     Nike            
Chorion         Nokia Corporation
Coca-Cola Great Britain Oasis Stores
Diageo          O’Neill Sportswear
eBay            Panasonic      
Elizabeth Arden Paul Mitchell Luxury Haircare, Salon Success
ELSPA           Pentland Brands
EMI             Pernod Ricard  
Estee Lauder    Philip Morris International Management
Fashoff T/A Moschino Procter & Gamble
Ford Motor Company Puma 
Four Marketing  Rangers Football Club
Gallaher        Reebok         
Gant            Richemont      
GlaxoSmithKline Rolex           
Gucci           Sixty          
Harley-Davidson Spirits International
Hasbro          Ted Baker      
Henri-Lloyd     Tesco Stores 
Hugo Boss       The Football Association
Imperial Tobacco The Timberland Company
J Choo          Tommy Hilfiger Europe
Umbro International
Unilever
Vauxhall Motors
Vodafone Group
Warner Bros
William Grant & Sons
YKK Europe

Other categories of ACG members e.g. law firms and product security specialists, are available on request.
The ingredients of successful brands

While every product will forge its relationship with consumers in different ways (and this diversity represents one of the strengths of branding), there are some important elements which most successful brands have in common:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer insight</td>
<td>Understanding the nature and trends of consumer wants / needs and people’s changing lifestyles forms the bedrock of successful branded goods, informing future innovation (e.g. Mars' Selections).</td>
</tr>
<tr>
<td>Superior consistent performance</td>
<td>Performance lies at the heart of the brand promise and can take on many manifestations, including ‘exclusive’ (e.g. Dunhill), ‘delivery of results’ (e.g. Cillit Bang), ‘sustainable’ (e.g. Body Shop) and ‘low price’ (e.g. Dell). Whatever the promise, it must be delivered time after time, consistently, to earn trust.</td>
</tr>
<tr>
<td>Constant innovation</td>
<td>As lifestyles, technology and competitors’ offers change and improve, branded goods must innovate constantly in order to remain consumers’ preferred choice (e.g. Finish Quantum dishwasher tablets).</td>
</tr>
<tr>
<td>A rational and emotional</td>
<td>The products that command greatest loyalty are those that connect with individuals at an emotional as well as a rational level. This has contributed to the success of brands such as Andrex, Marmite and Fairy.</td>
</tr>
<tr>
<td>relationship</td>
<td></td>
</tr>
<tr>
<td>Different</td>
<td>Brands exist by being different from other offers in the marketplace. Producers will go to significant lengths to put clear water between their and others’ offers, with important implications for consumer choice and competition.</td>
</tr>
<tr>
<td>Value for money</td>
<td>In a competitive marketplace, branded goods must compete on the basis of both quality and price. Many manufacturers achieve price competitiveness through mass production and wide distribution. Others compete on prestige and more exclusive distribution e.g. Burberry and Chanel.</td>
</tr>
<tr>
<td>Responsibility</td>
<td>In today's market, consumers are becoming increasingly concerned about how the products are produced, as well as how they perform. This has driven the Fairtrade movement and underpinned the Body Shop business model.</td>
</tr>
</tbody>
</table>
The brand model is versatile, being as relevant to small companies as to big (e.g. Barr’s Irn Bru drink, Fisherman’s Friends lozenges), to products as well as services (e.g. Direct Line, Google), and to standalone products as well as ingredients (e.g. Lycra, Intel). It performs in business to consumer sectors (e.g. Dove, Galaxy) as well as business to business sectors (e.g. FT, IBM).

The brand model applies to small companies and new market entrants as well as to larger companies.

**The benefits delivered by branding**

Brands bind together the interests of consumers and companies and as a result deliver a win-win-win-win for consumers, society, companies and the economy:

**Consumer benefits**

- Products that perform better;
- Diversity and choice, suiting different occasions for the same consumer (e.g. Walkers crisps and Kettle chips) and differing tastes of different consumers (e.g. Nescafe and Maxwell House);
- An ever-improving offer through constant innovation (e.g. Gillette razors and Finish dishwasher tablets);
- Reassurance through safe products, consistent and predictable performance and low risk.

**Societal benefits**

- High levels of consumer protection (companies concerned about their reputations don’t want things to go wrong and will fix them quickly when they do e.g. Perrier);
- A society of choice and diversity where differing needs are catered for;
Responsible, accountable businesses motivated to address society’s concerns (e.g. Nike over third world labour; Walkers over salt / fat in crisps);

Socially beneficial innovation (e.g. P&G’s Pur, Volvo and Sudafed).

### Company benefits

- More loyal consumers;
- Ability to attract and maintain talented employees;
- More sustainable and predictable growth (when well managed);
- Greater opportunities to license and franchise;

Shareholder value. Interbrand has calculated that the brand accounts for 38% of the total value of the companies that own them (2002). The value of Bacardi is comfortably greater than the gross national product of the country from which it originates. The combined value of the world’s 100 top brands (i.e. the intangible value) amounts to $988,287,000,000, equivalent to the annual output of 63 countries.

![Graph showing businesses with strong brands command higher share prices](image)

Strongly branded companies outperform weakly branded companies in terms of share price. Source: Futurebrand

### Economic benefits

Through innovation, brands add value to existing markets and create new categories in response to latent consumer needs (e.g. P&G’s Kandoo opened a new category in the wipes market, Unilever’s “I Can’t Believe It’s Not Butter” created a new category in the spreads market). This process drives economic growth.
Branded goods manufacturers invest more, and invest more efficiently, in areas such as innovation that drive economic growth, productivity and employment (see PIMS benchmarking analysis, Annex 4).

An earlier benchmarking study by PIMS found that brand-focused companies innovate twice as much as non-branded companies\textsuperscript{13};

The same study identified that brand-focused companies generate more economic value added than non-branded companies.

A study by Arthur D Little shows that companies in fmcg markets invest more efficiently in innovation than those in other sectors.

Branding’s emphasis on differentiation provides the very basis for competition, enabling consumers to distinguish quickly one offer from another and to evaluate their relative values. Importantly, brands spur both price and non-price competition. PIMS shows that branding in fmcg businesses creates a competitive stimulus that is positive for innovation, productivity and growth (Annex 4).

Brands create wealth around themselves. US research suggests that where brand name companies are based, they tend to generate between 2½ - 3 times as many jobs as appear on the payroll\textsuperscript{14}.

\textsuperscript{13} Of brands and Growth (1998), PIMS, available from British Brands Group
\textsuperscript{14} Simon Anholt, “Brands beyond business” (2005), Brands Lecture. Available at www.britishbrandsgroup.org.uk
Brands contribute to the UK’s balance of payments and help our international competitiveness. In many overseas markets Britain is best known for its brands such as Johnnie Walker, Twinings, Land Rover and Wedgwood.

The brand model puts consumers in the driving seat. If a branded goods manufacturer misreads the consumer, under-invests or is slow to respond to competitors, punishment tends to be brutal. Yardley failed to attract young consumers while Smiths crisps, one-time UK market leader, was unable to respond to competitive pressure from Walkers crisps.

Some economists have argued that branding, by creating consumer loyalty, may create a barrier to market entry as consumers may be reluctant to switch to a competitor. Such an analysis is over-simplistic as creating products that consumers value does not inhibit competition. The success of new products such as Nobby’s Nuts (and Dyson before them) suggests that incumbent brands do not pose a barrier to new entrants, even in mature markets. Customer loyalty arising from a good product delivering strong value from a reliable manufacturer is part of healthy competition, not anti-competitive behaviour.
## Costs of trade mark registrations – Gulf States

<table>
<thead>
<tr>
<th>Territory</th>
<th>Item</th>
<th>Costs (US$)</th>
<th>Converted fees (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>QATAR</strong></td>
<td>Filing a trade mark in single class of goods</td>
<td>$276</td>
<td>£155</td>
</tr>
<tr>
<td></td>
<td>For each subsequent class for the same mark</td>
<td>$276</td>
<td>£155</td>
</tr>
<tr>
<td></td>
<td>Publication in the Official Gazette</td>
<td>$90</td>
<td>£50</td>
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<tr>
<td></td>
<td>Registration Fee</td>
<td>$552</td>
<td>£309</td>
</tr>
<tr>
<td><strong>Disbursements</strong></td>
<td>Stamp Duty/local authentication of Power of Attorney</td>
<td>$45</td>
<td>£25</td>
</tr>
<tr>
<td></td>
<td>Preparation of prints/printing blocks</td>
<td>$45</td>
<td>£25</td>
</tr>
<tr>
<td></td>
<td>Arabic translation - supporting documents (per page)</td>
<td>$20</td>
<td>£11</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>$1,304</strong></td>
<td><strong>£730</strong></td>
</tr>
</tbody>
</table>

| **SAUDI** | Filing a trade mark in single class of goods                         | $286        | £160               |
|           | For each subsequent class for the same mark                          | $286        | £160               |
|           | Publication in the Official Gazette                                  | $300        | £168               |
|           | Registration Fee                                                     | $857        | £480               |
| **Disbursements** | Stamp Duty/local authentication of Power of Attorney | $60         | £33                |
|           | Preparation of prints/printing blocks                                | $45         | £25                |
|           | Arabic translation - supporting documents (per page)                 | $20         | £11                |
| **TOTAL** |                                                                      | **$1,854**  | **£1,037**         |

| **UAE**   | Filing a trade mark in single class of goods                         | $139        | £78                |
|           | For each subsequent class for the same mark                          | $139        | £78                |
|           | Publication in the Official Gazette                                  | $139        | £78                |
|           | Registration Fee                                                     | $1,350      | £757               |
| **Disbursements** | Stamp Duty/local authentication of Power of Attorney | $150        | £84                |
|           | Super legalisation (if necessary)                                     | $300        | £168               |
|           | Preparation of prints/printing blocks                                | $50         | £28                |
|           | Arabic translation - supporting documents (per page)                 | $20         | £11                |
| **TOTAL** |                                                                      | **$2,887**  | **£1,618**         |

Source: Lewis Silkin
ANNEX 4

*This article originally appeared in* British Brands, the publication of the British Brands Group, *issue 20.*

**Brands, innovation and growth**

James Amos, PIMS Associates

The case for branding, in consumer products as in other sectors, rests on its role in:

- helping consumers to exercise choice and recognise products in a crowded market place; and
- enabling producers to communicate with end users, and to gain recognition for innovative approaches that meet consumer needs.

The PIMS Competitive Strategy Research Database contains data on 500+ strategic variables measured over a minimum of three years for more than 400 fmcg\(^{15}\) businesses.

Analysis of the PIMS database shows that wider economic benefits are likely to arise when product branding exists. Branded goods manufacturers invest larger sums, and invest more efficiently, in areas such as innovation that create economic growth, employment and productivity. This is the result of competitive stimulus and the role branding plays in enabling fmcg businesses to reap the rewards of investment. These findings are explained below.

**Innovation effort**

PIMS’ key measure of successful innovation is the proportion of new products in the sales mix. This measure concentrates on the main area of innovation in this sector - product innovation. The PIMS Database shows a strong association between the proportion of new products and the level of real market growth.

**Successful innovation and market growth**

Figure 1

![Successful innovation and market growth](source: FMCG sample of PIMS Database)

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\(^{15}\) Fast moving consumer goods
It is generally accepted that innovation is at least desirable, at most essential, for the ongoing health of an economy. But, relating innovation to macroeconomic measurements is about more than just the innovation relationships depicted above. The overall level of innovation, and hence its impact on economic productivity and growth, is affected by the specific characteristics of the economy and the markets within it. These characteristics address not only the ability and incentives to create new ideas and processes, but also the systems in place to ensure the effective distribution of these innovations.

The notion that intangibles can play a significant role in boosting economies is recognised, but academic work is yet to approach the specific questions we are raising here; about the effect of marketing communication and knowledge transfer to end users on innovative capabilities. The question is certainly intriguing.

So, as yet we are unable to assert the extent to which the ability to brand products, via increased innovation effort, can alter the productivity and growth of economies.

However the known links between innovation and the macro economy do allow us to assert the direction. And the PIMS Database shows that branding in fmcg businesses creates a competitive stimulus that is positive for innovation, and therefore positive for productivity and positive for economic growth.

Efficiency of innovation investment

A key criticism of British economic progress is that productivity is still insufficient for prosperity. One of the reasons productivity is still too low is that investment is inadequate, especially in research and innovation.

Value added is the basis for measuring total growth in an economy and requires businesses to maximise the returns to capital and employment. This not only needs firms to focus on the battle for consumer preference, but also demands efficiency in supply to minimise external costs.

The PIMS Database proves that R&D expenditure is a key investment for branded fmcg businesses to compete in their markets. Further investigation of the impact of R&D reveals an interesting relationship. It shows that the value added per employee in branded fmcg businesses is higher than the average of all other businesses in the PIMS Database (see figure 4 below).

The additional productivity gain from R&D investment in the branded fmcg businesses may be due to the importance of differentiation and quality in achieving competitive advantage in this sector. Supporting their brands through advertising and promotion enables businesses to:

- Communicate differentiation to end users more effectively;
- Raise awareness of product developments; and
- Persuade consumers to try new or improved products.
This ability to connect with end users improves the chances of turning development ideas into successful products that meet the needs and expectations of consumers. The evidence certainly suggests a complementary relationship between R&D investment and branding in creating additional returns on each unit of investment.

So, the case for branding

Supporting their products’ brands enables fmcg businesses to communicate more effectively with end users, and as a result these businesses:

- **Grow better in response to innovation advantage;**

Figure 2

![Figure 2: Change in Relative % Revenue from New Products](source: Branded FMCG sample of PIMS Database)

- **Gain a greater private return on innovation; and**

Figure 3 (Source: FMCG sample of PIMS Database)
Show a better productivity return for investing in innovation.

This creates the:

- Incentive to increase the overall level of innovation; and in time
- Additional funds for further innovation.

The end result is that branding drives a move to the right of figure 1, where fmcg markets, and the economy, benefit from superior productivity and growth.
Press release

AGENCY EXPERTISE HELPS WALTHAM FOREST TRADING STANDARDS CONFISCATE £335,000 FROM COUNTERFEITER

Assets Recovery Agency Financial Investigators were praised yesterday by a Crown Court judge when he made a confiscation order for £334,793.61. ARA used its expertise to help Waltham Forest Council’s Trading Standards secure the order against a counterfeiter who was fined just £200. Failure to pay will result in a 5 year prison term. This sends a clear message to criminals who think counterfeiting is high reward and low risk that crime doesn’t pay.

Victor Tin Yau Cheng pleaded guilty on 23 June 2003 to three counts of unauthorised use of trademarks and one count of selling goods bearing an unauthorised trade mark. All four counts concerned mobile phone covers bearing the mark of well known companies - Manchester United, Mercedes Benz, Porsche and Nike.

A detailed investigation into his financial affairs revealed significant financial benefits from crime and yesterday at Snaresbrook Crown Court, His Honour Judge Platt granted a confiscation order of £334,793.61 and commended the ARA investigators for their diligence and professionalism in investigating a complex and difficult case.

Adrian Brenton, Assistant Director of Operations at the Assets Recovery Agency said “This is an excellent example of inter-agency co-operation. We were able to assist Waltham Forest Trading Standards in taking money out of the criminal economy. Counterfeiting is often viewed as a high reward but low risk crime with small fines and short prison sentences. Confiscating assets hits criminals where it hurts – in their pockets, with lengthy prison terms if they fail to pay.”

Cllr Barry Smith, Waltham Forest cabinet member for community safety said “One thing is for sure, the goods might be fake but the consequences of this crime are real. Working with the Asset Recovery Agency the Council has shown counterfeiters how seriously we take this type of crime. I hope this serves as a warning to others that using new legislation we can and will take action to ensure they do not profit from their illegal activities.”

The Agency is currently assisting partner law enforcement and prosecuting agencies in another 19 cases with and has restrained assets of over £4m.
Mr Cheng was sentenced yesterday and fined £50 for each offence. He has until 31 December to pay the £334,793.61. If he defaults, he will serve five years and still owe the money at the end of the term.

Notes for editors:

1. The Proceeds of Crime Act 2002 created the Assets Recovery Agency and provided completely new powers to allow ARA to seek civil recovery of the proceeds of unlawful activity by an action in the High Court. The Agency can also issue tax assessments where there are reasonable grounds to suspect that there is income, gain or profit from criminal conduct.

2. In addition to these unique powers, the Agency is committed to building capacity for effective financial investigation throughout the law enforcement community and it offers its expertise to other agencies to assist them in confiscating criminal assets.

3. For further information about ARA please contact Julie Davis, Communications Manager, Assets Recovery Agency on 020 7029 5795, julie.davis@ara.gsi.gov.uk

4. For further information about this specific case please contact Emma Joy at the London Borough of Waltham Forest on 020 8496 4726, emma.joy@lbwf.gov.uk
Inconsistent compliance with TRIPS

China

The manufacture of counterfeit products should be declared a crime, regardless of the size of counterfeit seizures.

The high threshold for criminal actions, including all numerical thresholds on counterfeiting, should be eliminated or reduced. Rights holders face the problem that there is inconsistency as to how the value of the counterfeit goods is calculated.

While sometimes the value of the genuine product is used, often it is the value of the counterfeit product, which in the case of most products will make it impossible to cross the threshold. In the absence of documentary evidence, average genuine retail pricing should be used to determine the severity of the IP crime. Also, there is a different threshold for companies compared with individuals, which has the practical effect of encouraging the small time counterfeiter to enter larger scale production.

Product components (e.g. an empty shampoo bottle) should be counted as finished products when determining the severity of the IP crime.

There should be mandatory seizure and destruction of counterfeit production equipment, not just moulds, and vehicles used to transport counterfeits.

Enhanced co-operation between different IP enforcement agencies (AIC, TSB, Customs, PSB etc) is needed. There are a number of administrative units in China with the powers to seize counterfeits but the only agency with true powers of search and arrest is the Public Security Bureau. When the PSB accepts cases directly, the rate of criminal prosecution is higher. Dedicated PSB units tasked solely with counterfeit investigations and raids in each of the major cities impacted by counterfeit would be a specific way to increase prosecutions. A good place to start would be direct acceptance by PSB for all counterfeit manufacturing cases.

We need to improve the situation for a rights holder who wishes to enforce a judgment. At the moment it is practically impossible.

We need the imposition of more severe penalties / fines for IP violations.

Encourage the Government to implement the Optical Disk Act.

We would support the establishment of a central database of convicted individuals/companies for counterfeiting, and public access to this to help potential buyers.

Put a list of certified/approved plants on a "creditable" directory for business reference (IRMA publishes its list but if the Chinese Government or related agency does likewise, there will be a tremendous catalyst to get more plants certified).
The EU should support the US on possible WTO action for China’s shortcomings in IP enforcement.

The EU should ensure China introduces full public performance and broadcasting rights for local and foreign phonogram producers and allows for private sector run collecting societies to be established and operate.

The EU should obtain full market access for European recording companies in China, allowing them to engage, through wholly-owned subsidiaries, in all aspects of the recording business.

For most companies, Guangdong is the manufacturing capital of China. While it is easy to seize counterfeits in Guangdong, most companies are having little to no success with criminal prosecutions against factory owners there. To begin to truly address the counterfeit situation in China is to first come up with a solution to prosecute the factories in Guangdong which source of most of the counterfeits.

Russia

Impress need to maintain TRIPS standard IP legislation if Russia is to become a WTO member. In particular, the EU should urge Russia to refrain from transposing its intellectual property laws, including the Copyright Law, into the Civil Code if this means a lowering of IP protection.

Russia’s current role as G8 chairman should be used as an opportunity for dialogue on the Gleneagles June Declaration about counterfeiting.

We would appreciate the establishment of a central co-ordinating body for law enforcement authorities with wide powers, derived directly from the President.

The EU should insist Russia takes aggressive and swift action against the numerous illegal optical disc plants operating on its territory and closes down those found to be involved in large-scale pirate CD and DVD production. We would like the authorities to inspect each of the 47 known OD plants, and immediately close and seize the machinery used to produce pirate product (some of these steps may require additional legislative or regulatory measures).

More effective control of OD plant and telecine facility licensing is needed.

The Supreme Court should adopt a decree setting forth deterrent sentencing guidelines for judges.

We believe that Article 146 of the Copyright Law should be amended to provide for a penalty of six years, not the current penalty of five years (since only penalties of six or more years are treated as "serious" crimes).

The EU should ensure Russia instructs its General Prosecutor to take down and initiate criminal procedures against the infringing Internet sites such as alofmp3.com (music),
www.threedollardvd.com (films/music) and www.fictionbook.ru (books), as well as against a 
host of other blatantly infringing Russian sites offering infringing materials. Criminal 
prosecution should include unauthorised collecting societies (such as ROMS) that purport to 
grant licenses for rights that they do not possess.

Improve border enforcement, including the import of machinery used to produce illegal 
product and the export of large shipments of that product abroad.

Initiate investigations into and criminal prosecutions of organised criminal syndicates that 
control counterfeiting and piracy operations in Russia (including operations that export fake 
material to markets outside Russia). The high involvement of organised crime in Russian 
counterfeiting makes it difficult for rights holders to act without official assistance.

Encourage the Economic Police (including the Anti-Fraud Department) to substantially 
increase the number of anti-piracy raids.

India

Despite being specialised in the production of counterfeit pharmaceuticals and textiles India 
has continuously refused to improve its enforcement to, or beyond, TRIPS standards. Political 
pressure for high-level engagement is requested.

There is a high the level of corruption which affects rights holders’ attempts to protect their IP. 
Again, political pressure is requested.

We would appreciate the creation of a national anti-counterfeiting and piracy task force.

We would appreciate an increased number of ex officio raids.

Optical disc legislation is much needed as are Copyright Law Amendments consistent with 
WCT and WPPT.

Customs should be empowered to seize and destroy fake goods.
A definition and how copycats work

A product’s packaging acts as a clear, distinctive shorthand for its reputation or brand values, providing a signpost that helps consumers select the goods they wish to buy quickly and easily amongst the thousands stocked in store.

Copycat packaging ‘reverses the signposts’. The similar packaging misleads shoppers, who believe there to be a connection with the brand where none exists. They are prevented from making an informed purchasing decision. Research shows that consumers’ willingness to try retailers’ own label products increases materially where the pack is similar to the brand leader. This is especially true of the (many) consumers who are aware that some brand leaders make retail own label products.\(^{16}\)

The copycat, by misleading consumers and changing their purchasing, distorts competition:

- **in the retail market.** It does this by causing consumers to favour those retailers which stock/sell copycat products over those that do not. This disadvantages the reputable and smaller retailers who either do not copy and/or only stock branded goods.\(^{17}\)

- **in the supply market.** The copycat diverts sales from the copied brand. Furthermore, it diverts sales from other products in the category, as shoppers switch to the copycat in the belief they are buying leading brand quality. Other brands in the category of course have no legal redress against such diversion.

![Diagram showing the potential effect of a copycat on consumer behavior](image)

A copycat is most effective in a retail environment where the shopper self-selects products from a range of competing offers presented on shelf and where the retailer can dictate the positioning on shelf of both the branded product and the copycat. Supermarkets and other self-service stores are therefore the environments in which copycats thrive.

A copycat may be launched by either a competing manufacturer or a retailer as part of its own label strategy. In the UK however, the retailer own label copycat is by far the most prevalent.

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\(^{17}\) The Competition Effects of Look-alike Products Paul Dobson, University of Nottingham, 1998.
2006 examples of copycats

Original

Copycat

Original

Copycat

Original

Copycat
**How copycats mislead consumers**

Copycat packaging relies on provoking a consumer reaction that differs from the reaction to normal distinctive packaging. If it were not successful in provoking this, the practice would have died out very quickly.

Consumer deception takes a number of forms and each is explained in more detail below:

- outright confusion – the consumer buys the copycat in mistake for the brand;
- deception over origin – the consumer recognises the copycat is different but believes, due to the similar packaging, that it is made by the same manufacturer; and
- deception over equivalence/quality – again, the consumer recognises the copycat is different but believes, due to the similar packaging, that the quality is the same or closer than they would assume if the packaging were more different.

**Outright confusion**

A range of research evidence clearly shows that consumers purchase copycats by mistake:

<table>
<thead>
<tr>
<th>Date</th>
<th>Research</th>
<th>Base</th>
<th>% buying by mistake</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1994</td>
<td>NOP, for Mars</td>
<td>1,008</td>
<td>21%</td>
</tr>
<tr>
<td>March 1995</td>
<td>BMRB for Consumers’ Assn</td>
<td>-</td>
<td>13% had purchased a copycat by mistake in the previous six months.</td>
</tr>
<tr>
<td>February 1997</td>
<td>NOP, for Marketing</td>
<td>996</td>
<td>17%</td>
</tr>
<tr>
<td>April 1998</td>
<td>RSL, for Consumers’ Assn</td>
<td>2,000</td>
<td>6% bought the copycat instead of the brand in the previous six months.</td>
</tr>
</tbody>
</table>

These separate research studies consistently and clearly show that consumers buy the wrong product because of similar packaging. Between 17% and 21% state that they have purchased by mistake at some time. This equates to around 4 - 5 million UK consumers buying products they did not intend to buy, purely as a result of misleading packaging.

In considering these high percentages, it is important to bear in mind that consumers are faced with a vast array of choice in large retail environments. When buying items on a regular basis, they do not spend much time considering their purchases and their attention to any given product line will be brief, typically 4 seconds or less.
Deception over origin

Similar packaging suggests to consumers that the products in the packaging are made by the same manufacturer. A range of different research studies consistently bears this out:

<table>
<thead>
<tr>
<th>Date</th>
<th>Research</th>
<th>Base</th>
<th>% buying by mistake</th>
</tr>
</thead>
<tbody>
<tr>
<td>December</td>
<td>Street interviews undertaken for a brand</td>
<td>747</td>
<td>34% believed a copycat product was made by the brand manufacturer.</td>
</tr>
<tr>
<td>February</td>
<td>Interviews undertaken for a brand</td>
<td>305</td>
<td>41% believed that Nescafé made Sainsbury’s coffee, with 73% attributing this to similar packaging.</td>
</tr>
<tr>
<td>February</td>
<td>NOP, for Marketing Magazine</td>
<td>996</td>
<td>41% believe brand manufacturers make an own label product if the pack design is similar to the brand.</td>
</tr>
</tbody>
</table>

The Consumers’ Association researched this question in April 1998 when they asked 2,000 consumers whether the following four copycats were made by the brand manufacturer:

- Definitely made by the same company: 6%
- Probably made by the same company: 36%

- Definitely made by the same company: 5%
- Probably made by the same company: 45%
RSGB undertook extensive research for the British Brands Group amongst 3,994 individuals also in 1998. The sample was systematically divided into two groups, one group being shown only the packaging of a pair of products, the other group being shown only a written description. The same questions were then put to each group. In this way, the specific impact of packaging could be assessed.

For the similar pair, 13% of those shown the word description believed both were made by the same company. This figure rises to 32% for those who were shown the packaging.

For the distinctive pair, 21% of those shown the word description believed they were both made by the same company. This figure declines to 17% for those shown the packaging.

This research indicates there is an underlying belief amongst consumers that retailers’ own label goods are made by a brand manufacturer. Packaging design is capable of increasing this inherent confusion through similarity or decreasing it by being distinctive. This is explored further below and at the end of this Annex.

Business Insights in 2005 in its report “Fighting Private Label” drew on extensive consumer research by Europanel amongst nearly 20,000 respondents internationally. It stated that “private label success is facilitated when consumers cannot tell a private label from a manufacturer brand due to similarity in packaging” and showed that, across all categories analysed, similar packaging resulted in a significant 55% increase in own label share compared to own labels in dissimilar packaging.

Europanel analysed this data further to explore any correlation between consumers’ belief that brand manufactures make own label products and similar packaging. This was undertaken for 95 categories with 50 respondents per category (i.e. 4,750 respondents in total). The aggregated responses were as follows:
Belief that own label looks similar
(5 = strongly agree, 1 = strongly disagree)

Belief that own label is made by brand manufacturer (5 = strongly agree, 1 = strongly disagree)

<table>
<thead>
<tr>
<th></th>
<th>Definitely or probably made by same company</th>
<th>As good as the original (perception only, not trial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Martini / Fortini</td>
<td>61%</td>
<td>50%</td>
</tr>
<tr>
<td>Amora / Mama</td>
<td>67%</td>
<td>44%</td>
</tr>
<tr>
<td>Panzani / Padori</td>
<td>80%</td>
<td>77%</td>
</tr>
<tr>
<td>Ricoré / Incoré</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td>Ricoré / Calicoré</td>
<td>42%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Europanel concluded that there is a common belief that own label is made by brand manufacturers but packaging similarity significantly heightens this perception.

In conclusion, research evidence clearly shows that similar packaging suggests to many consumers that the product is definitely or probably made by the same company. At the lowest level in the research studies above (32%, RSGB), the practice equates to some 7½ million shoppers being misled.

Deception over quality/nature

The similar packaging suggests to consumers that the quality or nature of the copycat product is comparable to the quality or nature of the brand or at least is more comparable than that they might otherwise assume. This suggests to consumers that price is the key basis for their purchasing decision, rather than a combination of price and quality (that is, value).

A French academic, Kapferer, Professor at HEC Graduate School of Management, explored this subject in May 1995, using a sample size of 127 women. He found a direct correlation between perceptions of manufacture and perceptions of quality:

The Consumers’ Association research (1998) provides further insight into the connection between similar packaging and consumers’ assumptions about products.

The research tested four copycat pairs of products against a benchmark pair, with respondents being asked whether one of the pairs of products was much better, a little better, or the same as the other in terms of (1) quality and (2) value.

By averaging the results for the four copycat pairs, the ratings were as follows:

<table>
<thead>
<tr>
<th>Supermarket product same or better for</th>
<th>Quality</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copycats (av.)</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>30%</td>
<td>46%</td>
</tr>
</tbody>
</table>
The findings for value for money are particularly interesting, with the rating for the copycat pairs being 24% higher than for the benchmark pair. As shoppers buy for value for money, sales of a product can be reasonably expected to increase by 24% as a result of adopting copycat packaging.

**Perceived manufacturers of own label**

The research above indicates there is an inherent level of confusion in the market about the manufacture of own label products, irrespective of the packaging. The RSGB research puts this at between 13 - 21% (that is, those who believed, without seeing the packaging, that the products came from the same manufacture). This is explained by consumers understanding that supermarkets are retailers not manufacturers and that others make the products for them.

The Business Insights analysis of 2005 described above is also consistent with these findings. The significant point to note, however, is that distinctive packaging reduces this level of inherent confusion while very similar packaging reinforces and increases it.
An analysis of remedies for copycats in the UK

Trade Mark legislation

Registered trade marks are not designed to address copycat packaging and are ineffective in doing so. As Patrick McLaughlin MP stated in the House of Commons at the time of the Trade Marks Bill (1994), “the main characteristic of a look-alike product is that it does not copy a trade mark”.

Typically a copycat borrows small but qualitatively important aspects of the original product. It might reproduce part of the surface decoration, part of the shape, part of the colour and part of the brand name without reproducing any of these elements completely. In doing so, the copycat avoids infringing any single intellectual property right but captures sufficient of the look and feel of the original to mislead shoppers and to trade on the reputation of the brand owner. It therefore is able to avoid any trade mark infringement.

Trade marks are valuable of course in protecting against the use by a competitor of identical marks on identical goods, but many packaging features are simply not capable of registration if they are not deemed sufficiently distinctive. It would therefore be impossible (let alone enormously expensive) to register the full range of packaging features that might be used by a copycat.

To bring an infringement case against similar marks being used on identical or similar goods, it is necessary to prove likelihood of consumer confusion. In the case of copycats, similar marks are not often used and, even if they are, on a “global appreciation” (the test set by the European Court of Justice in cases such as Sabel v Puma 1997) confusion may not arise.

A further limitation concerns the thorough registration process, which takes an impractical length of time in the context of fighting copycats. Where acquired distinctiveness has to be proved, as is the norm for non-traditional mark such as colour and shape, typically 3 - 5 years’ sales are required by the Registry, whilst a copycat can be (and often is) launched in a few months and could itself reduce the distinctiveness of the original.

The limitation of trade marks in fighting copycats is illustrated by the Penguin v Puffin case in 1997. The survey evidence that sought to show consumer confusion was dismissed and the judge found no case of trade mark infringement, recognising that Puffins and Penguins are very different birds being, literally, poles apart.

Registered Designs

Registered designs (both UK and Community) can provide strong protection against counterfeits and provide a valuable means of protecting the shape of a product’s packaging. Design registrations protect against substantial reproduction of a design, which in the context of packaging is defined as the shape, configuration, pattern or ornament applied to an article.
As a means of tackling copycats however, registered designs have their shortcomings. The whole of the copy must not be substantially different from the whole of the registered design and an infringer must produce an article “not substantially different” in order for a legal challenge to be successful. While copycats tend to borrow the essence of the original design, they tend not to use aspects which are subject to a registration or not use substantial reproduction of these aspects. Furthermore, the rights cover the surface pattern but exclude “printed matter primarily of ….artistic character, including…. Trade advertisements and similar articles”.

A registration-based system, as in the case of trade marks, has shortcomings in tackling copycats. These include the necessary time required to register, the difficulty in ascertaining what to register and the cost of registration (particularly of multiple registrations). Product packaging of fast-moving consumer goods changes frequently, compounding these shortcomings. Indeed, as designs must be new to be registrable, it is unlikely that later iterations of a pack’s design will be eligible for this protection.

Unregistered Designs (Design Right)

Unregistered design protection has an advantage over registered designs in that it is an automatic right. However protection under the UK right is afforded only to the shape or configuration of a pack, not to its surface decoration (which would be covered by copyright). While substantial reproduction of any aspect of a design constitutes infringement, recent decisions suggest that the whole of an article must be considered, even if only a part has been copied.

A significant shortcoming in the context of copycats is the need to show copying. This is defined narrowly by the courts and tends to be avoided by the producers of copycats.

Copyright

While copyright has the advantage of being an automatic right rather than a registration-based system and protects the surface decoration of products, it provides no protection against those that copy the shape of articles. It is also necessary to show that the copying has been “substantial”, something that copycats avoid when designing surface decoration.

While unregistered designs protect the shape of the pack and copyright its surface decoration, these are independent rights and the courts therefore do not look at them together. Instead, the court will consider whether the shape of a pack has been substantially reproduced and will then consider, separately, whether the surface decoration has been substantially reproduced. A copycat can clear both these tests individually while still achieving the look and feel of the original product.

Passing Off

As the common law of passing off is intended to prevent traders passing off themselves or their goods as those of another trader, to the effect that it causes them damage, it could be deemed to be well-suited to address copycats. However it has some significant disadvantages:
obtaining factual evidence that consumers are being misled is very difficult. As copycats tend to be low value goods, consumers rarely complain. Some will blame themselves for their error or put it down to experience, while others will remain unaware that their assumptions about a product, induced by its packaging, are wrong. Furthermore, it is not practical to research in-store whether consumers are being misled as this would not be allowed by the retailer selling the copycat;

- proving that there is a risk of consumers being misled using evidence such as surveys (e.g. in the street or in mocked-up stores) is also fraught with difficulty as these must meet the artificially high standards set by UK courts.

- Obtaining interlocutory relief under passing off is extremely risky and time consuming. It is necessary to show in affidavit evidence that there is an arguable case and evidence of irreparable harm. This is difficult to achieve quickly in the case of copycats. Furthermore, if the decision is reversed at full trial, the claimant may (rightly) face punitive damages for the defendant’s lost sales.

The *Penguin v Puffin* case referred to above illustrates the potential but also the problems with passing off. The judge found in favour of Penguin under passing off and Asda was forced to change the packaging but this outcome was uncertain and could not have been reasonably predicted (as the survey evidence was withdrawn, the judge relied on the persuasiveness of a few witnesses – see 3.4(a) above ). Furthermore he did not specify how close to Penguin’s packaging Puffin could go. As a result Puffin biscuits remain on the shelf today.
SELF REGULATION

The CAP\textsuperscript{18} Code
That the copying and deception of consumers exemplified by copycat packaging is undesirable is recognised and addressed in The British Code of Advertising, Sales Promotion and Direct Marketing, administered by the Advertising Standards Authority.

Article 20.2, a provision against unfair advantage\textsuperscript{19}, and Article 21.1, a provision against imitation\textsuperscript{20}, would under normal circumstances provide some help in addressing copycats. However, while the code covers advertising, sales promotion and direct marketing, it does not cover packaging.

Packaging is arguably the most powerful of marketing tools, exerting its influence at point of sale where around 70\% of shoppers’ purchasing decisions are made. However we are advised that packaging will remain outside the scope of the CAP Code as there is no enforcement mechanism that can be applied by the self-regulatory authority.

The IGD\textsuperscript{21} Dispute Resolution Procedure
As the name suggests, this is more a dispute resolution procedure than a self-regulatory mechanism although it calls on signatories not to use similar features to those of another product\textsuperscript{22}.

Any such procedure is only as strong as its signatories and relies on the ability of the parties to agree. In this case, while some of the major supermarkets are signatories, most retailers (including Asda) are not and it is limited to the grocery sector.

The procedure is shrouded in secrecy so it is impossible to know how often the procedure has been invoked. It is understood however that it is rarely used.

\textsuperscript{18} Committee of Advertising Practice.
\textsuperscript{19} Marketers should not take unfair advantage of the reputation of trade marks, trade names or other distinguishing marks of organisations or of the designation of origin of competing products.
\textsuperscript{20} No marketing communication should so closely resemble any other that it misleads, is likely to mislead or causes confusion.
\textsuperscript{21} Institute for Grocery Distribution.
\textsuperscript{22} “For the purpose of avoiding or resolving disputes, it is accepted that a product sold in the United Kingdom should avoid using any combination of the same or similar name, colour scheme, shape, typeface, design layout or portrayed images so as to convey significant visual features which are essentially similar to the those of another product. Exceptionally, a single feature may be sufficiently significant.” IGD Dispute Resolution Procedure