

THE INTERNATIONAL LEGAL FRAMEWORK FOR THE PROTECTION OF UTILITY MODELS

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I. Introduction

International IP treaties cover various IP rights in varying degrees of detail and comprehensiveness. Hence the treaty obligations the contracting parties must adhere to equally vary.² For utility models, international IP law so far contains relatively few provisions and consequently few relevant treaty obligations the contracting states must comply with. In essence, this means that the policy space countries enjoy in designing their national systems of utility model protection is quite broad.³

More recent tendencies to include comprehensive additional obligations on the protection and enforcement of IP beyond those in the TRIPS Agreement (TRIPS-plus) in Free Trade Agreements (FTAs) however may change this to some extent. Although additional protection for utility models is certainly not at the core of TRIPS-plus obligations in FTAs, some recent examples exist which will be discussed briefly below. They of course only bind those countries which have agreed to the bilateral or plurilateral FTA. Beyond FTAs, International Investment Agreements (IIAs) or investment chapters in FTAs may further limit the policy space on the multilateral level.

1. The Paris Convention

¹ This paper is based on a report the author has recently completed for WIPO on Utility Model Protection as an Option to Incentivize Minor and Incremental Innovation. The paper however solely represents the views of the author.

² The WTO TRIPS Agreement for example contains obligations concerning the protection of copyrights, trademarks, industrial designs, geographical indications, patents, semiconductors and undisclosed information and includes the core obligations of the two main pre-existing IP substantive treaties, the Berne Convention on Literary and Artistic Works (Berne Convention) and the Paris Convention on the Protection of Industrial Property (Paris Convention), via reference. TRIPS provisions on copyright have more of a gap-filling character, since the provisions of the Berne Convention, incorporated via Art.9:1 TRIPS, already contain a significant degree of harmonised minimum standards on copyright protection. TRIPS provisions on trademarks (Art.15-21 TRIPS) and patents (Art.27-34 TRIPS) on the other hand are much more comprehensive and detailed since the Paris Convention does not contain a comparable degree of harmonised minimum standards.

³ A recent WIPO study on flexibilities in the international patent system comes to the same result; see *WIPO – CDIP*, Patent related Flexibilities in the Multilateral Legal Framework and their Legislative Implementation at the National and Regional Level – Document prepared by the Secretariat (CDIP/5/4, 1st March 2010), at 26.

The definition of industrial property under the Paris Convention covers amongst other forms of IP, utility models.⁴ The main consequence for the contracting states, is that they are bound to the national treatment obligation under Art.2 of the Paris Convention in relation to any system of utility model protection provided in the national law. Art.2 states:

(1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

(2) However, no requirement as to domicile or establishment in the country where protection is claimed may be imposed upon nationals of countries of the Union for the enjoyment of any industrial property rights.

(3) The provisions of the laws of each of the countries of the Union relating to judicial and administrative procedure and to jurisdiction, and to the designation of an address for service or the appointment of an agent, which may be required by the laws on industrial property are expressly reserved.

Art.2:1 requires all contracting states to grant nationals of other contracting states the same protection and same remedies against infringement as available to their own nationals – in relation to industrial property defined in Art.1:2. Therefore, any national system of utility model protection may not discriminate against foreign right holders in terms of protection and enforcement.⁵

This national treatment obligation however does not create an obligation for Paris Union countries to introduce utility model protection in their national laws; nor does it require any specific minimum scope or substance of protection if such a system is established. *Contracting parties remain free not introduce such a system.* If they decide to foresee utility model protection in their national law, they can freely determine the conditions for; as well as the scope, substance, limitations and duration of utility model protection. This absence of any substantive minimum standards is one of the main reasons for the diversity in the design of national utility model systems around the world.

Beyond the national treatment obligation described above, the Paris Convention contains a right of priority under Art.4 which applies also to utility models.⁶ Therefore, Paris Union countries which foresee a system of utility model protection have to allow a grace period of 12 months from the date of the first filing of a utility model registration in one of the Union countries within which the right holder may register the utility model in other Union countries.

Furthermore, it is permissible to file a utility model in a Union country with such a system by virtue of a right of priority based on the filing of a patent application, and vice versa.⁷ Finally, Art.4 allows that an industrial design is filed in a Union country by virtue of a right of priority based on the filing of a utility model – however with the shorter priority period of 6 months for industrial designs.⁸

⁴ Art.1:2 of the Paris Convention states: “The protection of industrial property has as its object patents, utility models, industrial designs, trademarks, service marks, trade names, indications of source or appellations of origin, and the repression of unfair competition.”

⁵ See *Bodenhausen*, Guide to the Paris Convention (1968), p.29.

⁶ See Art.4 A:1, B & C:1 of the Paris Convention.

⁷ See Art.4 E:2 of the Paris Convention.

⁸ See Art.4 E:1 of the Paris Convention.

In terms of substantive obligations, Art.5 A of the Paris Convention – although primarily addressing national limitations to patent protection – applies with the necessary modifications (*mutatis mutandis*) also to utility models.⁹ Art 5 A provides:

- (1) Importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail forfeiture of the patent.
- (2) Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.
- (3) Forfeiture of the patent shall not be provided for except in cases where the grant of compulsory licenses would not have been sufficient to prevent the said abuses. No proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license.
- (4) A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory license shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license.
- (5) The foregoing provisions shall be applicable, *mutatis mutandis*, to utility models.

Therefore, by virtue of Art.5 A (5) of the Paris Convention, the limits imposed in sections 1-4 on the ability of Paris Union Countries to forfeit or revoke patents or to introduce compulsory licenses, especially for failure to work,¹⁰ apply also to utility models. These provisions are primarily relevant in the context of importing protected products and their local working, whereas utility model protection is primarily utilised by local residents.¹¹ The obligations contained in Art.5 A hence will likely not play an important role in the practice of utility model protection.¹²

Nevertheless, allowing some form of compulsory licensing may be an issue to consider for any country with a system of utility model protection. In this context, Art.5 A (2) explicitly allows “the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent.” While failure to work is mentioned as example, this is not exhaustive and other forms of abuse can also be addressed by compulsory licensing, and if that has not proven to be sufficient to tackle the abuse, by forfeiture in accordance with Art.5 A (3).¹³ Art.5 A (4) then contains further relevant obligations for the compulsory licenses issued to tackle “failure to work or insufficient working”. As mentioned above, the issue of local working will usually not be relevant for utility models. For all other cases of abuse, Art.5 A (4) does not apply.

More importantly, the obligations in Art.5 A (2)-(4) do not apply to measures other than those whose purpose is to prevent abuses.¹⁴ That means that a country is free to introduce

⁹ See Art.5 A (5) of the Paris Convention.

¹⁰ The concept of failure to work refers to the situation that a patent (or in our case utility model) holder has obtained an exclusive right but refrains to work the invention (or innovation) locally – usually by manufacture of the protected product or industrial application of the protected process – see *Bodenhausen*, Guide to the Paris Convention (1968), p.71

¹¹ For statistics on the registration of utility models see *WIPO*, World Intellectual Property Indicators (2011), at 95-96 – indicating that non-resident applications (and subsequent grants) represent only a tiny fraction of the overall utility model applications (and grants). See also the further empirical evidence in part 3) of this study discussing examples of utility model protection in different jurisdictions: In almost all cases, domestic filings represent the very large majority of all applications for utility model protection.

¹² See also *Bodenhausen*, Guide to the Paris Convention (1968), p.73.

¹³ See *Bodenhausen*, Guide to the Paris Convention (1968), p.70.

¹⁴ *Bodenhausen*, Guide to the Paris Convention (1968), p.70.

compulsory licenses (or other limitations to utility model protection) for other reasons – such as to promote public interest or to allow the utilisation of utility models necessary for follow-on innovation.¹⁵ In essence, Art.5 A of the Paris Convention thus does leave significant flexibility to design exceptions and limitations to utility model protection. It will primarily be relevant for compulsory licenses addressing failure to work – a scenario which does not seem to have practical significance for utility models.

The Paris Convention further addresses utility models in Art.5 D and 11.¹⁶ In essence, its core obligation in relation to utility models is that of national treatment which prohibits to treat nationals of other Union countries any less favourable in terms of protection and enforcement of utility models rights. The Paris Convention nevertheless does not contain any obligations on how a system of protection and enforcement of utility models must look like and hence leaves all freedom in its design to the domestic lawmaker.

2. The WTO TRIPS Agreement

The Agreement establishing the World Trade Organisation (WTO) contains in as Annex 1 C the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The substantive scope of TRIPS is defined in its Art.1:2 whereby “the term ‘intellectual property’ refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II” of the Agreement. As the subject of these sections in TRIPS do not in any way refer to utility models, TRIPS does not contain any *independent* obligations on the protection and enforcement of utility models.

In Art.2:1 however, WTO Members are obliged to “comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967)”.¹⁷ That means that the substantive obligations of the Paris Convention, including those on utility models described above, are made part of TRIPS and hence are obligations under the WTO Agreements.¹⁸ Compliance with these provisions of the Paris Convention therefore can be tested under the WTO dispute settlement system.¹⁹ For the protection and enforcement of utility models, this arguably means that compliance with the core national treatment obligation in Art.2:1 of the Paris Convention can be challenged by a WTO Member in front of a dispute settlement panel established under the DSU.²⁰ In case the national laws of a WTO Member are found to be inconsistent with this

¹⁵ Compare the discussion of the international flexibilities related to exceptions and limitations from utility model protection in section 4 below.

¹⁶ Art.5 D prohibits national requirements to indicate or mention the utility model as a condition for recognising the right to protection. Finally under Art.11, “the countries of the Union shall, in conformity with their domestic legislation, grant temporary protection to patentable inventions, utility models, industrial designs, and trademarks, in respect of goods exhibited at official or officially recognized international exhibitions held in the territory of any of them.”

¹⁷ To be exact, this obligation is limited to the TRIPS provisions contained “Parts II, III and IV of this Agreement”. These parts however address all relevant questions of protection, enforcement and acquisition and maintenance of IP rights under TRIPS.

¹⁸ See *US – Sec 211 Omnibus Appropriations Act of 1998*, Appellate Body Report (WT/DS/176/AB/R), para.124-125.

¹⁹ The System for settling disputes over the compliance with WTO treaty obligations is primarily set out in the WTO Dispute Settlement Understanding (DSU).

²⁰ A similar debate concerning the scope of WTO/TRIPS obligations in relation to trade names has been subject to the ‘Havana Club’ dispute in the WTO. Here, the Appellate Body overruled the Panel’s decision that due to the limitation in Art.2:1 to parts II, III and IV of TRIPS, the Paris Convention obligations in relation to trade names are not part of WTO law; see *US – Sec 211 Omnibus Appropriations Act of 1998*, Appellate Body Report (WT/DS/176/AB/R), para.333-338. Whether the exact same reasoning would apply to Paris Convention obligations concerning utility models is however not completely clear. Nevertheless, good arguments speak in favour of such an understanding of Art.2:1 TRIPS: The qualification in Art.2:1 (which limits compliance with

obligation, and the Member fails to correct this inconsistency, the DSU allows the complaining Member, as a last resort, to suspend equivalent obligations vis-à-vis the defendant.²¹

In sum, the TRIPS Agreement does not add to the international treaty obligations a Paris Union Member State has in relation to utility models. The main non-discrimination (national treatment) obligation flowing from the Paris Convention in case a country decides to introduce a system for protecting utility models however would be enforceable via the WTO dispute settlement system.

As noted in a recent WIPO publication, also the other multilateral treaties which refer to utility models, such as the International Patent Classification (IPC)²² and the Patent Cooperation Treaty (PCT),²³ do not contain any substantive minimum standard of protection.²⁴ The resulting flexibility in designing a utility model system is almost unique in comparison to other IP rights. Section 4 below highlights some of the key aspects of this policy space – in particular vis-à-vis the now ‘highly regulated’ patent system.

3. Free Trade-, Economic Partnership-, and International Investment Agreements

Beyond the multilateral treaties described above, relevant international obligations pertaining to utility models may increasingly result from bilateral, plurilateral or regional agreements which increasingly contain additional obligations concerning the protection and enforcement of IP. Most of these obligations go beyond the multilateral standards as enshrined in the TRIPS Agreement and hence are frequently referred to as ‘TRIPS-plus’. Although additional protection for utility models is certainly not at the core of TRIPS-plus obligations in FTAs, it may nevertheless affect the policy space available under the multilateral IP system. In the following, some examples for IP provisions in FTAs relating to utility models are provided. They indicate how even areas of IP so far unregulated on the international plane are increasingly subject to international treaty obligations.

In 2008, the European Union has concluded the first so called Economic Partnership Agreement (EPA)²⁵ with a group of Caribbean states. This EU – CARIFORUM EPA contains a comprehensive chapter on IP which in turn has one provision on utility models:

ARTICLE 148 - Utility models

Art.1-12, 19 of the Paris Convention to parts II, III and IV of TRIPS) is better to be understood as limitation to issues of availability, scope and use (part II), enforcement (part III), acquisition and maintenance (part IV) of IP – rather than conditioning compliance with the Paris Convention to the fields of IP covered in part II (which would exclude utility models). Hence the obligation to comply with Art.1-12, 19 of the Paris Convention is limited to the issues addressed in parts II, III and IV of TRIPS – but not to the fields of IP covered in part II.

²¹ See Art.22:3 DSU.

²² The IPC covers not only patents for invention, but also inventors’ certificates, utility models and utility certificates.

²³ In the framework of the PCT, references to an application for the protection of an invention shall be construed as covering applications for patents for inventions, inventors’ certificates of addition, and utility certificates of addition.

²⁴ *WIPO – CDIP*, Patent related Flexibilities in the Multilateral Legal Framework and their Legislative Implementation at the National and Regional Level – Document prepared by the Secretariat (CDIP/5/4, 1st March 2010), at 26.

²⁵ The EPAs the EU is currently negotiating are the continuation of the trade relations Europe has with the Group of African, Caribbean and Pacific (ACP) states. Other recent FTAs the EU has concluded (for example with South Korea, Columbia and Peru, as well as a group of Central American States) do not contain any provisions on utility models.

A. Requirements for protection

1. The EC Party and the Signatory CARIFORUM States may provide protection for any products or processes in any fields of technology, provided they are new, involve some degree of non-obviousness and are capable of industrial application.
2. The EC Party and the Signatory CARIFORUM States may exclude from protection all those products and processes the prevention within their territory of the commercial exploitation of which is necessary to protect ordre public or morality, human, animal or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law.
3. The EC Party and the Signatory CARIFORUM States may also exclude from protection: (a) diagnostic, therapeutic and surgical methods for the treatment of humans or animals; (b) subject to Article 150, plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes.
4. The provisions of this Article shall be without prejudice to existing legislation in the EC Party or the Signatory CARIFORUM States.

B. Term of protection

The term of protection available shall not end before five years, nor exceed ten years, counted from the filing date, or where priority is claimed, from the priority date.

C. Relationship to patents

1. All other conditions and flexibilities provided for patents in Section 5 of the TRIPS Agreement shall apply mutatis mutandis to Utility Models, in particular any that might be required to ensure public health.
2. An application for the grant of a patent may be converted into an application for utility model protection provided the request for conversion is made before the patent has been granted.

While the general question whether to introduce a system of utility model protection remains optional under Art.148:1 of the EPA, the provision then contains several requirements on how such a system has to be designed if a contracting party decides to introduce utility model protection in its domestic law in the future²⁶:

- (1) Such as system must be available for “any products or processes in any fields of technology” (Art.148 A:1);²⁷
- (2) Requirements of protection are novelty, “some degree of non-obviousness” and industrial application (Art.148 A:1);
- (3) The grounds for excluding certain subject matter from protection are equivalent to those recognised in Art.27:2 and 3 of the TRIPS Agreement (Art.148 A:2, 3)
- (4) The term of protection must be minimum five and maximum ten years (Art.148 B);
- (5) The conditions and (only) those flexibilities provided for patent rights in Art.27-34 TRIPS apply also to utility model protection (Art.148 C).

These are significant constraints of the existing flexibilities for designing a utility model system under the multilateral framework. The ‘grandfathering clause’ in Art.148 A:4 of the EPA operates in a way that these constraints are only relevant for those contracting parties aiming to introduce utility model protection – while those with “existing legislation” on the matter are exempted from any obligations under Art.148. If confronted with such a provision

²⁶ Since Art.148 A:4 makes the obligations contained in Art.148 subject to „existing legislation in the EC Party or the Signatory CARIFORUM States”, contracting states which already have a system of utility model protection are not affected.

²⁷ It remains unclear from the ordinary meaning of the text whether, once a country introduces utility model protection that must be available for ‘any fields of technology’, or if it is to be understood as a flexibility that allows a implementing country to limit protection to ‘any fields of technology’ as it deems fit.

in future FTA negotiations, a country should carefully analyse the impact such a provision may have on the policy space it currently enjoys under the multilateral system.²⁸

Also the trade agreements concluded by Japan – which are usually also referred to as ‘Economic Partnership Agreements’ – sometimes contain provisions on utility model protection. For example, the Japan – Indonesia EPA addresses utility models in Art.109 (concerning the efficient administration of IP),²⁹ in Art.110 (concerning transparency)³⁰ and Art.121 (on criminal enforcement). Especially the latter provision may have significant implications. It states:

Each Party shall provide for criminal procedures and penalties to be applied in cases of the infringement of patent rights, rights relating to utility models, industrial designs, trademarks or layout-designs of integrated circuits, copyrights or related rights, or plant breeder’s rights, committed wilfully and on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity.

This obligation to foresee criminal sanctions for wilful infringements of utility models on a commercial scale arguably does not imply an obligation to introduce a system of utility model protection. However, if a contracting party has such a system in place or chooses to introduce one, it must provide criminal sanctions for the type of utility model infringements described above. This is quite a significant step – especially for a developing country whose scarce law enforcement resources (police, public prosecution, criminal courts) may be better utilised elsewhere. Even more important, the criminal law enforcement agencies may not be well equipped to deal with the highly complex and technical questions of utility model infringements. Especially in such an environment, the threat of criminal liability may function as a significant disincentive for companies to develop, produce and market products which may potentially infringe other’s utility model rights. Given that utility models are usually registered without prior substantive examination, this threat may be even graver. In the information technology (IT) sector and other IP-intensive industries, one product is often covered by several – if not hundreds – of technology-related IP rights such as patents, industrial designs or utility models. Imposing criminal liability (even if limited to wilful and commercial scale infringements) may seriously affect the incentive for companies to introduce new, value added products into the market which are based on improving existing products. A country should therefore proceed very cautiously before accepting such an obligation in an international agreement.

²⁸ On this point see further section iv. below.

²⁹ Art.109:2 provides that “neither Party may require the authentication of signatures or other means of self-identification on documents to be submitted to the competent authority of the Party, including applications, translations into a language accepted by such authority of any earlier application whose priority is claimed, powers of attorney and certifications of assignment, in the course of application procedure or other administrative procedures on patents, utility models, industrial designs, or trademarks.” Further, under Art.109:5, “each Party shall introduce and implement a system in which a power of attorney for application procedures or other administrative procedures on patents, utility models, industrial designs, or trademarks before the competent authority of the Party may relate to one or more applications and/or registrations identified in the power of attorney or, subject to any exception indicated by the appointing person, to all existing and future applications and/or registrations of that person.

³⁰ Art.110 provides in its relevant part that “for the purposes of further promoting transparency in administration of intellectual property protection system, each Party shall, in accordance with its laws and regulations, take appropriate measures to: (a) publish information on at least the applications for and the grants of patents, the registrations of utility models and industrial designs, and the applications for registration of, and the registrations of, trademarks and new varieties of plants, and make available to the public information contained in the dossiers thereof”. An equivalent provision contains Art.117 of the Japan – Malaysia EPA.

Finally and beyond IP provisions in FTAs, International Investment Agreements (IIAs) or investment chapters in FTAs may further limit the policy space for designing a utility model system according to the domestic development needs. To the extent that utility models are considered as an investment under IIAs or investment chapters of FTAs, the obligations to protect investments made by foreign investors have to be taken into account: Under international investment treaties, two countries or more enter into reciprocal obligations concerning the investments made by investors of one contracting state in the territory of the another contracting state (the so called host state). These obligations are substantive standards of treatment owed in relation to foreign investments – such as regulating the expropriation of investments or demanding fair and equitable treatment for investments.³¹ Often, these IIAs provide for a direct right for investors to sue the host state in front of an international tribunal (investor - state arbitration). In these proceedings investors can claim damages or even the revocation of host state measures which infringe the investor's rights – usually without the need to exhaust local remedies in the host state's domestic legal system.³²

Most investment treaties contain a general reference to 'intellectual property rights' or 'industrial property rights' as a form of investment covered by the respective IIA.³³ For example, the 2009 Germany – Pakistan IIA includes in its definition of investment "intellectual property rights, in particular (...) utility model patents (...) technical processes, know how, and good will".³⁴ This certainly does not result in any obligation to introduce a specific form of IP rights – such as utility models – if this form of IP right does not exist in the domestic system of the host state.³⁵ However, in case a country bound by such an IIA chooses to establish a system of utility models, any rights registered under the national system by foreign investors arguably would fall under the definition of investment and enjoy the substantive standards of protecting foreign investments under the IIA.³⁶ In essence that means that state measures limiting the protection of a utility model registered by a foreign investor in the host state can be tested against these standards of protection – such as those concerning

³¹ For details on such standards see *Campell McLachlan, Laurence Shore & Matthew Weiniger*, International Investment Arbitration, 2007, Part III; *Rudolf Dolzer & Christoph Schreuer*, Principles of International Investment Law, 2008, chapters VI, VII.

³² For details on investor - state arbitration see *Campell McLachlan, Laurence Shore & Matthew Weiniger*, International Investment Arbitration, 2007, Part I chapter 3; *Rudolf Dolzer & Christoph Schreuer*, Principles of International Investment Law, 2008, chapter X.

³³ See for example Art.1:1 d) of the Japan – Pakistan IIA, Art.1:1 a) iv) of the Australia – Pakistan IIA, Art.I a) iv) of the China – Pakistan IIA and Art.1:3 d) of the South Korea – Pakistan IIA. All IIAs can be accessed at <http://www.unctadxi.org/templates/DocSearch.aspx?id=779>.

³⁴ See Art.1 (1) (d) of the Germany – Pakistan IIA. The full text of the agreement is available at <http://www.pakemb.de/index.php?id=198>.

³⁵ Even if utility models are explicitly mentioned in the definition of investments (see also Art.74 (e) (vi) of the Indonesia – Japan EPA), this entails no obligation to introduce utility model protection. IIAs and Investment chapters of FTAs do not create individual (intellectual) property rights, but merely protect (intellectual) property rights as far as they exist in domestic law. This insight has important implications for the scope of IPR protection under IIAs. Since they do not create IPRs, the protection offered under IIAs and FTA Investment Chapters depends on the existence of the relevant type of IP right in the domestic law of the host state. If the latter does not recognise an IP right or only in a limited way, international investment law cannot introduce or expand these IPRs as protected investments – even in cases where the relevant definition of investment includes those IP rights. For further details on the effect of including IP rights in the definition of investment in IIAs see *Hennig Grosse Ruse - Khan*, Investment Law and Intellectual Property Rights, in *Bungenberg, Griebel, Hobe & Reinisch* (editors), INTERNATIONAL INVESTMENT LAW, Hart Publishing, (forthcoming, 2012).

³⁶ For a comprehensive study on how IIAs cover IP rights as protected investment see *Rachel Lavery*, Coverage of Intellectual Property Rights in International Investment Agreements: An Empirical Analysis of Definitions in a Sample of Bilateral Investment Treaties and Free Trade Agreements; TDM 2009, Vol. 6. Issue 2, at 4-7 and Annex 1. One can observe that although few IIAs do explicitly address all IP rights, this does not necessarily mean that IP rights not mentioned are not covered IP since IIAs generally provide that the lists of covered investments are not exhaustive.

expropriation or fair and equitable treatment.³⁷ On the other hand, the practical implications may be less severe since utility models are – generally speaking – registered primarily by domestic applicants so that claims by foreign investors relating to the treatment of registered utility models may be seldom.³⁸

Overall, the examples given above provide some anecdotal evidence on how the existing policy space under the multilateral framework may be eroded under bilateral, plurilateral or regional agreements concerning IP or investment protection. This is not to be understood as a normative judgement against such agreements which may contain important benefits for the negotiating countries. However, countries engaging in such negotiations should carefully assess the often not so clear implications of the IP and investment protection obligations on their ability to tailor their domestic law to the local development needs.

4. Key Aspects of Policy Space for Designing Domestic Protection

The previous sections have shown that

- (1) On the multilateral level, the main international obligation which WTO Members and Paris Union countries owe to another is to grant national treatment to nationals of other contracting parties. Beyond this duty to abstain from discrimination for foreign right holders when designing a domestic utility models system, the multilateral framework does not contain any practically relevant³⁹ obligations as to how this system must look like.
- (2) On the bilateral, plurilateral or regional level however, individual agreements such as FTAs, EPAs or IIAs contain additional obligations concerning the protection of utility models. These generally do not require introducing utility model protection – but in case a country bound by those obligations decides to do so, those will impose conditions how such a system of utility model protection must look like.
- (3) Or, in case of the protection of foreign investments via IIAs, countries have to consider the implications of protecting utility models registered by a foreign investor under the substantive standards of treatment usually available in IIAs. The obligations flowing from international investment law however may be less relevant in practice since utility model systems tend to be used primarily by domestic applicants. In any case, countries bound by such additional obligations will have less policy space to design a system of utility model protection in line with its domestic (economic) development needs.

³⁷ Especially exceptions and limitations applicable to utility models, or the issuance of compulsory licenses, or the effectiveness of enforcement of utility model protection may be challenged under these standards. For details see *Henning Grosse Ruse - Khan*, Investment Law and Intellectual Property Rights, in *Bungenberg, Griebel, Hobe & Reinisch* (editors), INTERNATIONAL INVESTMENT LAW, Hart Publishing, (forthcoming, 2012) and *Simon Klopschinski*, Der Schutz geistigen Eigentums durch völkerrechtliche Investitionsschutzverträge, (2011).

³⁸ For statistics on the registration of utility models see *WIPO*, World Intellectual Property Indicators (2011), at 95-96 – indicating that non-resident applications (and subsequent grants) represent only a tiny fraction of the overall utility model applications (and grants). However, under international investment law, not only the non-residents may be eligible for protection since also company shares and other assets hold in the host country may be a protected investment.

³⁹ The obligations resulting from Art.5 A (1)-(5) of the Paris Convention, in particular relating to compulsory licenses addressing failure to work the utility model protected innovation locally, are not of real practical significance for a system which tends to be used by local residents for their small and incremental innovations; see section i above.

In the following, the key flexibilities which the absence of international treaty obligations (aside national treatment) on the multilateral level brings about will be highlighted. This is best conducted in comparison to the rather dense regulation of patent protection on the multilateral level. Patent rights are the primary means within the IP system to protect technological innovations and utility models in turn are – despite significant disparity in national approaches – generally perceived as a second-tier patent system offering a cheaper and quicker alternative protection regime for minor and incremental innovations which may not meet the requirements for patent protection.⁴⁰ Emphasising some important flexibilities vis-à-vis the obligations in the multilateral patent protection system offers good examples of what countries can freely determine in designing a utility model system in accordance with their domestic needs.

This policy space can best be presented along the lines of the main elements for a national IP system:

- (1) the protected subject matter
- (2) the requirements for protection
- (3) the rights granted to the right holder
- (4) exceptions and limitations to the exclusive rights, including compulsory licensing
- (5) duration of protection
- (6) enforcement mechanisms

(1) With regard to the protected subject matter, the TRIPS Agreement obliges WTO members to make patents “available for any inventions, whether products or processes, in all fields of technology” (Art.27:1 TRIPS). In particular, Art.27:1 TRIPS further demands that “patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.” This specific non-discrimination provision has to be distinguished from the general national treatment obligation under Art.3 TRIPS and Art.2:1 of the Paris Convention – the latter of which also applies to utility models.⁴¹ The TRIPS obligation to protect patents in the same manner regardless the place of invention, field of technology and place of production is a crucial aspect in the harmonisation of patent protection on the international level – as for example several developing countries did not grant product patents to pharmaceuticals prior to TRIPS.⁴²

For utility models, no such obligation exists. That means that countries can freely determine whether they wish to make such a system available to all fields of technology – or whether they want to limit protection to certain technology sectors while excluding others. Given that utility model systems often are designed as registration systems without a substantive examination as to the requirements for protection (such as local or universal novelty, a degree of inventiveness, etc), an exclusion of certain fields of technology which are primarily served by the patent system may be an important consideration.⁴³ In that way, a

⁴⁰ See *U Suthersanen*, *Utility Models and Innovation in Developing Countries*, ICTSD Issue Paper No.13 (2006), at ix.

⁴¹ See section i and ii above.

⁴² India and Argentina are examples for countries which traditionally excluded pharmaceutical products from patent protection, see *UNCTAD & ICTSD*, *Resource Book on TRIPS and Development*, Cambridge University Press (2005), at 356.

⁴³ Countries such as Germany for example have historically limited utility models to three dimensional models or working tools – hence excluding compounds, processes and initially even machines as such from protection. As an overview of national utility models laws indicates, commonly excluded subject matter may be processes, chemical or biological substances, other substances, compositions or compounds as such, computer programmes, (business) methods, as well as the typical subject matter excluded from patent protection; see *WIPO – CDIP*, *Patent related Flexibilities in the Multilateral Legal Framework and their Legislative Implementation at the National and Regional Level – Document prepared by the Secretariat (CDIP/5/4, 1st March 2010)*, Annex II.

second tier protection system can focus on minor and incremental innovations which often will not meet the high standards of patent protection that are necessary to ensure high patent quality. Tailoring utility model protection to specific fields of technology may be a way of facilitating incremental innovation in the for example in the light engineering sector (such as the automotive sector, agricultural machinery, machine tools) and other sectors where minor or incremental innovation occur.

Focussing protection on specific fields of technology where small scale innovation appears particularly vulnerable and in need of protection further prevents any abusive registration behaviour in those sectors excluded from protection: Especially in case of registration-only systems, companies may attempt to use the exclusivity utility model rights entail in order to block competitors from offering their products on the market. In this regard, software, pharmaceuticals and high-tech Information Technology (IT) products may be amongst those to be excluded from utility model protection as the need for substantive examination appears particularly important here to prevent abusive and anti-competitive blocking behaviour.

Overall, the option to exclude certain fields of technology from utility model protection appears as an important element of flexibility in designing a system that primarily fits domestic needs and responds to demands for encouraging incremental and minor innovations from micro, small and medium enterprises (MSMEs). In light of this insight, any international obligations – along the lines of Art.148 A:1 of the EU – CARIFORUM EPA⁴⁴ – which arguably demand for indiscriminate protection for all fields of technology should not be agreed to without considerations as to the impact for any future domestic system of utility model protection.

(2) As to the requirements for protection, Art.27:1 TRIPS prescribes the three criteria of novelty, inventiveness and industrial applicability (or utility). Beyond this, TRIPS does not regulate further details as to how these requirements must be implemented in the national laws of WTO Members – it for example does not contain an obligation as to foreseeing a high or low threshold of inventiveness.⁴⁵

For utility model systems, again no international obligation on this matter exists. Countries can hence freely determine what conditions for protection they see fit in their domestic setting. In particular, they can decide on the ‘degree’ of novelty required – by demanding an innovation to be universally, regionally or merely locally new: meaning is that the innovation for which protection is claimed has not been available to the (relevant international, regional or domestic) public prior to the application for registration for utility model protection. Merely demanding local novelty for example would further lower the threshold and so make protection available to innovations which may be already in use elsewhere, but not domestically. While this may be a way to promote local incremental and small scale innovation, it also carries the danger of unreasonably encroaching the public domain.

Countries also have the flexibility to decide on the level of inventiveness which they wish to require as condition for protection. The same applies to the utility / industrial applicability requirement. Countries could also completely do away with any of these requirements or substitute any of them with other requirements more suitable in the respective domestic setting.⁴⁶ Again, there is plenty of flexibility which can be used in a constructive

⁴⁴ See section iii above.

⁴⁵ UNCTAD & ICTSD, Resource Book on TRIPS and Development, Cambridge University Press (2005), at 358.

⁴⁶ Malaysia for example has implemented a system of utility model protection which does not require an inventive step (see section 3) b. ii. for details). Other countries, like Germany, initially conceived the system as a form of design protection (see section 3) a. i. for details) or limit protection to innovations which are embodied in a three-dimensional form or structure (such as the case in Spain or Portugal – see *U Suthersanen*, Utility

manner in favour of a system tailored towards encouraging local innovation and taking into account any other relevant interests on the domestic level.

(3) Under the TRIPS patent regime, Art.28 deals with the rights which national laws of the WTO Members states must grant to the patent holder. They are conceived as negative rights to exclude others from utilising the patented invention in all commercially relevant forms.⁴⁷

For utility models, countries may decide not to extend the exclusivity to all acts of making, using, offering for sale, selling, or importing the protected innovation. They may also choose a completely different system of protection by exchanging the concept of negative rights to exclude others from engaging in certain acts with a form of liability rule whereby the beneficiary of utility model protection cannot prevent the use of her/his innovation, but is entitled to some form of reasonable compensation instead.⁴⁸ The system of protection then is akin to the situation of statutory licenses which apply to exclusive rights under certain circumstances.⁴⁹ It primarily means that others – in particular market competitors or second-comers – may use the protected utility model without the need for obtaining and negotiating a license, but against payment of a fee (so called ‘take and pay’ rules). On the one hand, this may reduce the incentive for investing into new innovations and therefore could decrease the encouragement for incremental and small-scale innovations.⁵⁰ On the other hand, liability regimes have a much lesser impact on the public domain since others remain free – against the payment of a fee – to use the protected utility model.⁵¹

In any case, due to the policy space on the multilateral level, all options are on the table for designing a system of utility model protection. This may include seriously taking into account options beyond the traditional concept of exclusive rights.

(4) Another important area to consider are exceptions and limitations to the exclusive rights, including options of compulsory licensing. Here, two TRIPS provisions are pertinent in the patent protection context. For once, Art.30 allows WTO Members to provide “limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not

Models and Innovation in Developing Countries, ICTSD Issue Paper No.13 (2006), at, 13). See also the discussion in section b. below.

⁴⁷ Art.28 TRIPS states: 1. A patent shall confer on its owner the following exclusive rights: (a) where the subject matter of a patent is a product, to prevent third parties not having the owner’s consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product; (b) where the subject matter of a patent is a process, to prevent third parties not having the owner’s consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process. 2. Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.

⁴⁸ Of course, a crucial issue then is to determine who decides over the amount of compensation and according to which criteria. On the distinction between exclusive rights and liability rules see generally *A Kur & J Schovsbo*, Expropriation or fair game for all? The gradual dismantling of the IP exclusivity paradigm, in *A Kur, M Levin* (Editors) *Intellectual Property Rights in a Fair World Trade System*, Edward Elgar Publishing: Cheltenham, 2011, 408-451. On liability rules for sub-patentable innovations see generally *J H Reichmann*, *Of Green Tulips and Legal Kudzu: Repacking Rights in Subpatentable Innovation*, *Vanderbilt Law Review* (2000), 25-53.

⁴⁹ See Art.13 (1) of the Berne Convention on the Protection of Literary and Artistic Works (1971) dealing with the statutory authorisation of subsequent sound recordings of musical works once the author has already agreed to a recording of her/his work. After this first recording, (other) phonogram producers then can re-record the work against payment of an “equitable remuneration which, in the absence of an agreement, shall be fixed by the competent authority.”

⁵⁰ The argument is that an exclusive right offers more protection to the beneficiary of the right (who can actually exclude others from using the protected subject matter and refrain from licensing her/his product) and thereby a greater incentive to innovate.

⁵¹ This right to use could further – depending on the domestic environment – be limited to certain uses. It could for example cover only situations where the user can show that she/he needs to rely on a protected utility model to come up with a value-added product or to implement a follow on innovation which would equally be eligible for utility model protection (and which she/he would have to license back to the holder of the first utility model).

unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.” It hence functions as a general limitation as to which types of exceptions can be allowed from patent protection in national laws: An exception must be such that it

- 1) is limited;
- 2) does not unreasonably conflict with a normal exploitation of the patent; and
- 3) does not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

In the *Canada – Patents*⁵² dispute, two exceptions in the Canadian patent law relating to pharmaceutical patents and the market-entry of generic competitors were scrutinised under Art.30 TRIPS. The WTO Panel charged with the case, adopted a rather narrow reading of the open and ambiguous terms of Art.30 TRIPS and found one of the Canadian exceptions to be inconsistent with that provision.⁵³

Any country considering establishing a system of utility model protection is not bound to exceptions which meet the three conditions of Art.30 TRIPS. It can freely determine which type of uses do not require any authorisation of the right holder, whether any compensation is owed for such a use and what kind of conditions apply for invoking such an exception. Given the widespread use of provisions equivalent to Art.30 TRIPS in the context of other IP rights regulated under the multilateral framework,⁵⁴ the policy space available for countries with regard to exceptions applicable to utility models is extraordinary. Any country with a utility model system may therefore consider without any constraints what kind of uses should be exempted from the protection available for utility models.

The other provision in TRIPS which deals with uses without the authorization of the right holder is Art.31 TRIPS. It regulates a long list of conditions under which countries may foresee compulsory licenses to use the patented invention.⁵⁵ Also with regard to compulsory licensing, the multilateral framework does not contain any equivalent obligations that apply to utility models.⁵⁶ Beside the issue of local working, countries thus are flexible to design a system of compulsory licenses, in case they consider such as system necessary, in accordance with their domestic needs. It could for example cover situations similar to those mentioned in relation to statutory licensing (take and pay rules) above. These may be cases where a user can show that she/he needs to rely on a protected utility model to come up with a value-added product or to implement a follow-on innovation.

(5) With regard to duration of protection, the TRIPS patent regime includes in Art.33 a minimum term of 20 years counted from the filing date. For utility models, no multilateral minimum standard exists and countries have chosen terms between 5 years and 25 years.⁵⁷ Given this flexibility, a country should design the duration of protection in light of overall

⁵² *Canada – Patent Protection of Pharmaceutical Products*, March 17, 2000 – Report of the Panel (DS 114).

⁵³ See *H Grosse Ruse - Khan*, Policy Space for Domestic Public Interests Measures under TRIPS, South Centre Research Paper Series, No.22 (July 2009); online available at <http://ssrn.com/abstract=1542542>.

⁵⁴ See Art.9 (2) of the Berne Convention, Art.13 TRIPS and Art.10 of the WIPO Copyright Treaty (1996) in the context of copyright, Art.17 TRIPS concerning trademarks, and Art.26:2 TRIPS with regard to industrial designs.

⁵⁵ See Art.31 (a) – (l) TRIPS.

⁵⁶ As discussed above, the Paris Convention provisions on compulsory licensing (see Art.5 A) do apply to utility models, as explicitly stated in Art.5 A (5) of the Paris Convention. The obligations contained therein however are primarily relevant for compulsory licenses tackling failure to use and do not apply to compulsory licenses for other reasons – such as to promote public interest or to allow the utilisation of utility models necessary for follow-on innovation. See section i for details.

⁵⁷ See *U Suthersanen*, Utility Models and Innovation in Developing Countries, ICTSD Issue Paper No.13 (2006), at 2.

objective pursued with the utility model system. If it is to encourage incremental innovation in certain industrial sectors, the average lifecycle of products subject to protection in the relevant sectors as well as the time needed to develop such products may be key determining factors.

(6) Finally, the multilateral framework for patent protection – and other IP rights falling under TRIPS – contains obligations concerning the enforcement of these IP rights. In part III of the TRIPS Agreement, 20 provisions on general enforcement obligations, civil and administrative procedures and remedies (such as injunctive relief and damage awards), provisional measures, border enforcement measures and criminal sanctions set out comprehensive obligations pertaining to the enforcement of IP rights.

The core question that arises in this context is whether these obligations also apply in case a country establishes a system of utility model protection. According to the first sentence of Art.41:1 TRIPS which sets out the overall scope of the enforcement part of TRIPS,

“Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of *intellectual property rights covered by this Agreement*, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.”⁵⁸

The decisive issue hence is whether utility models are a “form of intellectual property rights covered by this Agreement” in the sense of Art.41:1 TRIPS. If so, then the different types of enforcement measures required in Art.41 to 61 TRIPS have to be extended also to utility model protection.

Two provisions are relevant in this regard. On the one hand, Art.1:2 TRIPS states that “for the purposes of this Agreement, the term ‘intellectual property’ refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II.” As argued above,⁵⁹ this does not include utility models since they are not addressed in any form in the sections 1-7 of part II of TRIPS. On the other hand, Art. 2:1 TRIPS states that “in respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 through 12, and Article 19, of the Paris Convention (1967).” As concluded above, that means that the substantive obligations of the Paris Convention, including those on utility models described above, are made part of TRIPS and hence are obligations under the WTO Agreements.⁶⁰ The reference in Art.2:1 also includes the enforcement provisions in part III of TRIPS. Does this imply that, if a country decides to introduce utility model protection, it must offer all enforcement tools required under part III of TRIPS also to utility models?

This question must be answered in the negative. Based on Art.2:1 TRIPS, the Paris Convention obligations contained in Art.1-12 and 19 of the Paris Convention apply also “in respect of”⁶¹ parts II, III and IV of TRIPS. The obligation to grant national treatment in case a country introduces utility models therefore applies to the availability, scope and use (the scope of part II TRIPS), enforcement (part III), as well as acquisition and maintenance (part IV) of utility model protection.⁶² In other words: with regard to these issues of IP protection (including enforcement), the national treatment obligation of the Paris Convention also applies to utility models. WTO Members therefore may not discriminate against nationals of

⁵⁸ Emphasis added.

⁵⁹ See section ii.

⁶⁰ See *US – Sec 211 Omnibus Appropriations Act of 1998*, Appellate Body Report (WT/DS/176/AB/R), para.124-125.

⁶¹ Art.2:1 TRIPS.

⁶² Compare the explanations in fn.20 above.

other WTO Member states with regard to issues of enforcement.⁶³ It however does not mean that the individual obligations contained in part III of TRIPS concerning IP enforcement apply to utility models protected in the national laws of WTO members.⁶⁴

In sum, the enforcement obligations contained in part III TRIPS do not apply in case WTO Members foresee utility model protection in their national laws – but they are obliged, by virtue of Art.2:1 TRIPS in connection with Art.1:1 and 2:1 of the Paris Convention, not to discriminate against nationals from other WTO Members to the extent they do offer enforcement remedies and procedures against infringements of utility models. This results in another significant flexibility to design the enforcement system for (merely registered, not examined) utility models in a manner which takes into account safeguards against abuse – for example by limiting the injunctive relief remedies or damages unless there is at least a prima facie case that the registered utility model meets the novelty- and other requirements for protection.

This section has shown the almost unlimited policy space which the multilateral framework leaves in designing a utility model system tailored to the domestic needs, in particular to encourage small scale and incremental innovation. Contrasted to the comparable dense international regulation of patent protection, the flexibilities regarding subject matter, conditions for protection, rights granted, exceptions and limitations, duration as well as enforcement measures become evident and indicate the range of options available to a country considering to introduce utility model protection. Against this background, the next section examines common elements and areas of divergence in the legal protection of utility models around the world.

⁶³ This also follows from the Paris Convention as such – since Art.2:1 requires all contracting states to grant nationals of other contracting states the same protection *and same remedies against infringement* as available to their own nationals; compare section 1 above.

⁶⁴ This conclusion does not stand against the conclusion reached in section ii above (see fn.15) that the Paris Convention obligation to grant national treatment concerning utility models are incorporated into TRIPS by virtue of Art.2:1 TRIPS and hence part of WTO law. As already explained above, this incorporation is limited to the issues addressed in parts II, III and IV of TRIPS.