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Proposal for a

EUROPEAN PARLIAMENT AND COUNCIL DIRECTIVE

approximating the legal arrangements for the protection of inventions by utility model

(presented by the Commission)

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EXPLANATORY MEMORANDUM

INTRODUCTION

1. A utility model is a registered right which confers exclusive protection for a technical invention. It resembles a patent in that the invention must be new - it must possess "novelty" - and must display a measure of inventive achievement - it must involve an "inventive step", though generally the level of inventiveness required is not as great as it is in the case of patents. Unlike patents, utility models are granted as a rule without a preliminary examination to establish novelty and inventive step. This means that protection can be obtained more rapidly and cheaply, but that the protection conferred is less secure.

2. In July 1995 the Commission presented a Green Paper on the protection of utility models in the single market.[1] The purpose of the Green Paper was to stimulate a wide-ranging debate on the need for Community action in this area given the impact which differences between national laws have on the smooth functioning of the single market, and to propose various options from which the Commission might choose in the light of the comments made.

3. Community action in this field would first of all make it possible to make the free movement of goods resulting from minor technical inventions in the Community more transparent and prevent differences between national laws or the lack of such laws from causing distortions of competition. Secondly, such action would improve the legal environment for Community firms, engaged as they are in an ongoing process of innovation and adaptation, and thus enhance their competitiveness in the world market through the protection of their inventions by utility model - a device particularly attuned to serving the needs of small and medium-sized enterprises (SMEs).

4. This initiative is one of the measures envisaged in the first action plan for innovation in Europe, which was presented by the Commission in November 1996[2] with a view to establishing a framework favourable to innovation. It is stated in that action plan that the Commission will decide in the light of comments on its Green Paper on utility models whether to propose Community legislation in this field.

5. All the interested circles have played an active part in the debate. Nearly 90 contributions have been sent in response to the Green Paper, a sign of how -

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1 Document COM(95) 370 final of 19 July 1995.

2 "Innovation for growth and employment", Document COM(96) 589 final of 20 November 1996, point 2.6.

important this issue is to all concerned. The European Parliament and the Economic and Social Committee have also made known their views on the subject. Hearings have been held by the Commission, including one attended by European trade associations on 23 September 1996 and another attended by Member States' experts on 4 November 1996, to assess the need for a Community initiative on utility models and to identify the content of such an initiative.

6. The exercise has revealed a real need for the protection of inventions by utility model in the Community, especially in certain industries (e.g. toy manufacture, clock and watchmaking, optics, microtechnology and micromechanics) and on the part of SMEs, patent protection being unsuited to certain types of invention such as minor technical inventions.

7. The majority of business circles concerned have come out in favour of a Community initiative in this field consisting in a harmonisation of national laws, including the introduction of a system of utility model protection in those Member States where there is none.

PART ONE: BRINGING ABOUT A SINGLE MARKET IN THE PROTECTION OF INVENTIONS BY UTILITY MODEL

A. HARMONISING NATIONAL RULES ON UTILITY MODEL PROTECTION

8. The primary objective of this proposal is to harmonise at Community level the effective protection afforded to technical inventions by national laws and in so doing to ensure the smooth functioning of the single market. Such inventions are currently covered by different protection rules - where indeed such rules exist - from one Member State of the Community to another.

9. These differences between protection arrangements, including the lack of any protection in some Member States, may discourage an inventor or a small firm from seeking protection in other Member States. The table below shows, for the period 1987-90 and for a few selected Member States, the average annual number of utility model applications from residents in the home country compared with the number of applications from other EC countries.[3]

	Applications from residents	Applications from non-residents
Germany	13 608	1 494
Belgium	177	73
Spain	3 519	394
Greece	269	57
Portugal	56	45

(Source: Industrial Property Statistics, publications A and B, WIPO, and Belgian Patent Office)

According to a survey of businesses and independent inventors carried out as part of a general survey by the Ifo Institute of the economic impact of utility model protection in the European Union,[4] the fact that the number of applications from other Member States is so small is due to the difficulties standing in the way of

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3 There are no data on Greece for 1987, the utility model having been introduced in that country that year by Law No 1733/1987.

4 Survey by the Ifo Institute of the economic impact of utility model protection in the European Union, Munich, May 1994.

cross-border applications. The differences between laws are so many administrative hurdles to be cleared by applicants, with difficulty in the case of independent inventors and SMEs, and they thus hamper industrial innovation and the completion of the single market.

10. Harmonisation will make it possible for equivalent national systems of utility model protection to co-exist. A person applying for a utility model will be assured of finding an equivalent property right in the other Member States and will no longer come up against different sets of rules. If he seeks protection in another Member State, he will know what its scope is and what essential requirements have to be met in order to qualify for such protection. Harmonisation will also make it possible to reduce costs and simplify applications for protection in other Member States.

11. The approximation of national laws must necessarily include substantive provisions defining the scope of the present proposal and governing the matter for which protection is sought, the conditions with which applications must comply, the extent and duration of the protection, the exhaustion of rights and the grounds for lapse and revocation. The approximation of these provisions will help to reduce the number of conflicts and the resulting damage to the single market.

B. INTRODUCING RULES ON UTILITY MODEL PROTECTION IN THOSE COUNTRIES WHERE THERE ARE NONE

12. The approximation of the laws of the Member States of the Community will oblige those Member States which have no system of protection of inventions by utility model to endow themselves with this form of protection. This will be the case with the United Kingdom, Luxembourg and Sweden.

13. A survey of British firms and independent inventors carried out as part of the Ifo Institute's general survey referred to above has revealed the existence of a marked economic interest, especially among SMEs, in this new form of protection, supplementing as it does patent protection.

C. FACILITATING THE FREE MOVEMENT OF GOODS

14. Article 3(c) of the EC Treaty provides that the activities of the Community are to include an internal (i.e. single) market characterised by the abolition, as between Member States, of obstacles to, among other things, the free movement of goods. Article 7a of the Treaty provides that the internal market is to comprise an area without internal frontiers in which the free movement of goods is ensured. The national systems for the protection of inventions by utility model produce effects, however, which are entirely confined to the territory of the Member State in respect of which the protection is granted.

15. The utility model is a right which forms part of the protection of industrial and commercial property as referred to in Article 36 of the EC Treaty. The Court of Justice of the European Communities has had occasion to interpret Articles 30 and 36 of the EC Treaty in the light of the free movement of goods and has held that, whilst the Treaty does not affect the existence of rights recognised by the legislation of a Member State in matters of industrial and commercial property, the exercise of these rights may nevertheless, depending on the circumstances, be affected by the prohibitions in the Treaty, since derogations from the free movement of goods are admitted of only to the extent that they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property.[5]

16. Most Member States have their own system for the protection of inventions by utility model. Others, such as the United Kingdom, Luxembourg and Sweden, have decided to do without utility model protection altogether. These differences between systems of protection are outside the control of the right-holder and force him to avoid markets in which he cannot obtain equivalent protection for his invention.

17. The differences between national systems of protection make it more difficult, moreover, to obtain cross-border protection for inventions in the single market. According to a survey of firms and independent inventors carried out as part of the above-mentioned general survey by the Ifo Institute, 50% on average of all firms questioned have experienced serious or some difficulties with cross-border applications for utility models in the single market, while 32% fell into the "don't knows" category, so great are the differences between the various systems.

The extent of protection varies considerably from one national system to another, and an invention which qualifies for protection in one Member State may not qualify, at least not on the same terms, in another. This is the case, for example, with the inventive step, the level of inventiveness required in order that an invention might qualify for utility model protection. Some Member States (e.g. Belgium and France) require the same inventive step as for a patent, while others (Greece, Italy and Spain) are willing to accept a smaller inventive step. But even within those Member States in which a smaller inventive step is acceptable, "smaller" may be interpreted in many different ways. The condition as to novelty likewise does not have the same scope in all Member States. In Spain, for example, novelty is determined by reference to

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5 See, for example, Case 192/73 *Van Zuylen Frères* v *Hag AG* [03.07.1974] ECR 731, and Case 15/74 *Centrafarm* v *Sterling Drug* [31.10.1974] ECR 1147.

the domestic state of the art, while in the other Member States the criterion adopted is that of the international state of the art, albeit with restrictions in some cases (Germany and Portugal).

The same applies to the duration, or term, of protection. This may be six years (e.g. Belgium and France), seven years (Greece), eight years (Finland), ten years (e.g. Austria, Denmark and Germany) or more (e.g. in Portugal, where the term is renewable indefinitely). This means that an invention may no longer be protected in one Member State, whereas in another it continues to enjoy protection for a longer period.

Procedure, including the application procedure, also differs from one Member State to another. In some cases, a preliminary examination is carried out to check for novelty and inventive step (Belgium and France), while in most other cases the only check that is carried out is one to ensure that the formal conditions for protectability are satisfied. All this uncertainty acts as a brake on the free movement of goods in the single market.

18. The differences which exist between national protection systems thus have an indirect effect on trade between Member States and on firms' capacity to treat the single market as just that, a single setting in which to do business. This state of affairs leads to a lack of transparency, and it does nothing to make the movement of goods any freer.

D. AVOIDING DISTORTIONS OF COMPETITION IN THE SINGLE MARKET

19. Article 3(g) of the EC Treaty calls for the establishment of a system ensuring that competition in the internal market is not distorted. This objective ties in with the phrase in Article 2 which requires "a harmonious and balanced development of economic activities" throughout the Community. If businesses are to take advantage of the fundamental freedoms laid down in the Treaty, the intellectual property rules must allow fair competition between them.

20. For businesses, and in particular for independent inventors and SMEs, the differences which exist at present between national protection systems and the consequent need for legal or expert advice are a source of administrative difficulty and a major cost factor. This restricts innovative activity on the part of businesses, isolates them and distorts competition. It may well be that businesses define their commercial policy in Member States' domestic markets on the basis of the protection their products are

afforded there. From the consumer's point of view, it follows that the products resulting from technical inventions may not be available throughout the Community.

The differences mentioned in point 16 also have a direct impact on competition in the single market.

21. In those Member States which require the same inventive step for a utility model as for a patent, adequate protection is unavailable for inventions incorporating only a small inventive step with the result that products may be copied or imitated with impunity. The position is even worse in those Member States where there is no utility model protection.

22. Copies and imitations are as a rule cheaper to make than the originals on which they are based. In those Member States in which the level of protection is low or non-existent, a copy or an imitation may therefore have a bigger share of the market than the original. And in those countries where there is a high level of protection, it may well be that, as the single market becomes more and more integrated, counterfeit goods may be imported more easily.

23. This state of affairs is incompatible with the Community's objective of shielding the rights stemming from the creative efforts of European researchers and inventors and the substantial investment carried out by European businesses in this area from infringement by third parties. It, too, distorts competition. To restore the balance, businesses operating in the single market must be assured of a level playing field.

E. THE NEED FOR ACTION AT COMMUNITY LEVEL

24. There is a need among business circles, and especially among certain sectors of industry and SMEs, for protection at Community level of technical inventions by utility model. This need cannot be satisfied by action taken solely at the level of each Member State. Harmonisation of Member States' laws at Community level is therefore necessary. This will make it possible for one and the same invention to be protected in an identical manner throughout the Community.

25. In accordance with the principle of proportionality laid down in Article 3b of the EC Treaty, however, the measures envisaged must be proportionate to the primary objective pursued, namely that of making the functioning of the single market more transparent. The harmonisation of national laws, including the introduction of a

system of protection in those Member States where none yet exists, will therefore not have to cover every aspect of national laws affording inventions protection by utility model, but instead will have to be confined to approximating those essential provisions which have the most direct impact on the functioning of the single market.

26. The aim is not therefore to create, at Community level, a Community right to utility model protection which would make it possible to obtain protection for one and the same territory covering all Member States through a single application to a common office in accordance with a single procedure and a single law. Nor is the aim to introduce mutual recognition of national systems whereby a utility model registered in one Member State can produce effects in the other Member States if the applicant so requests. Both these approaches aroused only limited interest on the part of the sectors of business and industry concerned in the course of the consultation exercise set in train by the Commission with the Green Paper.

PART TWO: ECONOMIC NEEDS IN THE LIGHT OF THE COMMUNITY OBJECTIVES

A. THE ECONOMIC SIGNIFICANCE OF UTILITY MODEL PROTECTION

1. Utilisation of the utility model in the Community and the reasons therefor

27. The rate of utilisation of the utility model in the Community is a good instrument for measuring its economic significance to businesses. As far as national applications for protection are concerned, the number of applications in those countries which have a system of protection requiring a small inventive step is higher than in those countries which require the same inventive step as for a patent (e.g. 12 000 annual applications on average in Germany compared with only a few hundred a year in France). As far as cross-border applications are concerned, their number is very small owing to the difficulties caused by the heterogeneous nature of the various utility model systems in the Community.

28. As regards possible trends in the behaviour of applicants for utility models in the Community, a survey of patent agents carried out as part of the above-mentioned general survey by the Ifo Institute has shown that an increase in applications for protection is likely in the event of the law in force being fundamentally changed. Simplification of the conditions for obtaining protection would lead in particular to more frequent recourse to the utility model irrespective of the size of the business concerned.

    The sounding of opinions among the business community carried out by the Commission on the basis of the Green Paper has revealed, moreover, that there is a real economic need for the protection of technical inventions by utility model, especially on the part of SMEs and in certain industries (e.g. toy manufacture, clock and watchmaking, etc.).

29. The reasons given for seeking utility model protection, these being the features of this form of protection, are as follows:

    - quick, simple registration: an applicant has to wait an average of six months for a utility model compared with anything from two to four years for a patent, because as a rule no examination has to be carried out to establish novelty and inventive step. This enables, firstly, the applicant to be protected within a short space of time against copies and imitations, thereby consolidating the competitive position

of businesses, in particular SMEs, and helping to improve the quality of their products, especially capital and consumer goods, through marketing. Secondly, rapid registration may lead to rapid commercialisation of the invention, whether under licence or by the applicant himself.

- Flexible conditions for obtaining protection: whereas in the case of a patent the invention must involve an inventive step and be absolutely new, most utility model systems require a different level of inventiveness and less than absolute novelty (e.g. in Spain, where only the domestic state of the art is taken into account), with the result that the requirements for obtaining a utility model are more flexible and less stringent. The lower inventive step requirement is an important reason for seeking utility model protection as this makes it possible to cover inventions representing small technological advances, these being important not only to SMEs but also to large firms.

- Low cost: unlike patents, utility models are granted without any preliminary examination to establish novelty and inventive step. This makes them cheaper to obtain than patents. This is especially important to firms seeking to protect themselves as comprehensively as possible against the danger of copying and imitation, as they have to apply for a large number of utility models. Cost is also a decisive factor in the case of inventions the commercial success of which is uncertain. This is especially true in the case of SMEs, which tend not to have enough information on markets to be able to gauge the sales prospects of new products, whereas big companies can make use of tried and tested planning and forecasting machinery to help them limit the risk of failure.

- Temporary protection pending the grant of a patent: rapid registration means that a utility model can be used to bridge the relatively long period which passes before a patent, involving as it may a preliminary examination, is granted, always supposing that the invention qualifies for both forms of protection. Temporary protection is useful mainly in countries where a comprehensive examination is carried out in order to establish novelty and inventive step before a patent is granted and where the procedure is therefore fairly long.

2. The significance of utility models compared with patents

30. The significance of national systems of protection by utility model as compared with protection by patent depends primarily on the way the system is designed. A comparison of figures for applications for national patents (not registered with the European Patent Office), European patents and utility models in four Member States of the Community for the period 1987-91, except in the case of Italy where the only figures available were those for the period 1987-89 concerning applications for national patents and utility models (see table below), shows that, in those countries where the inventive step required for a utility model is smaller than what is needed for a patent (e.g. Germany, Italy and Spain), the number of applications for utility model protection is greater than in those countries where the inventive step requirement is the same as that for a patent (e.g. France).

Number of applications for patents/utility models by country selected	Applications for national patents	Applications for European patents	Applications for utility models
Germany	88 271	55 672	61 057
Spain	7 306	1 017	17 260
France	31 209	22 350	1 771
Italy	10 369	9 927	10 890

(Source: European Patent Office, Epidos/Inpadoc, position at 9.7.1993; Ifo patent statistics; and Ifo Institute Calculations)

31. This state of affairs is due to the fact that, in the systems where the inventive step looked for is smaller, the requirements which must be satisfied in order to qualify for protection are lower. Each of the two types of right therefore has its own *raison d'être.*

32. Utility model systems with the same requirements as patents have less appeal because they are in competition with patents, which many applicants prefer because of their greater security.

3. The significance of utility model protection by reference to the size of the firm or industry

33. Utility model protection is not equally important to all firms: it depends where the

firm's interests lie. A study carried out in Germany,[6] but whose findings are applicable to all Member States of the Community, has shown that, while large firms with a turnover in excess of ECU 1.25 billion are interested in the utility model, there is higher demand for utility models among firms with an annual turnover of less than ECU 5 million. The interest shown by SMEs[7] is due primarily to the savings in terms of cost, time and administration.

34. Owing to their limited financial and human resources, such firms' research and development activities often result in technical inventions involving a small inventive step which do not necessarily satisfy the requirements for patent protection. More often than not the inventions amount to technical improvements which, by their number and interaction, have just as big an impact as inventions proper on the technology used in the sector concerned.

35. According to studies[8] carried out on the basis of utility model applications in the Community, the utility model is used in a number of industrial sectors in which there is a permanent need for innovation, especially in the form of minor technical inventions. The main sectors concerned are mechanical engineering, electrical engineering, precision instruments and optics and the automotive industry.

B. ENHANCING THE COMPETIVENESS OF FIRMS AND PROMOTING RESEARCH AND DEVELOPMENT

1. The utility model and the competitiveness of firms

36. Clearly, a sustained inventive activity places firms at an advantage technologically and is an important factor from the point of view of their competitiveness. For a number of years now, the competitiveness of firms has been at the forefront of European policy. The capacity to innovate as a catalyst of competitiveness has

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6 Study of the problems of the German patent system in relation to the innovative activities of industry, carried out in 1989 by the Ifo Institute for the Federal Ministry of Economic Affairs.

7 Commission Recommendation No 96/280/EC of 3 April 1996 concerning the definition of small and medium-sized enterprises defines SMEs as being enterprises which have fewer than 250 employees and have either an annual turnover not exceeding ECU 40 million or an annual balance-sheet total not exceeding ECU 27 million, and which are not owned as to 25% or more of the capital or the voting rights by one enterprise or jointly by several enterprises falling outside the definition of an SME or a small enterprise (OJ No L 107, 30 April 1996).

8 European Patent Office, Vienna Sub-office, position at 8 January 1993, and survey of firms in Denmark, *AIPPI Yearbook* 1986, 1-4.

formed an integral part of European industrial policy since the early 1990s.[9]

37. Looked at from this point of view, owing to the features which distinguish it from the patent, such as the speed and simplicity of filing applications for protection, the utility model is an independent instrument of competitiveness at the service of firms, in particular SMEs, helping to safeguard or improve their market position and facilitate the economic and commercial exploitation of technical inventions.

38. The vast majority of industrial firms and independent inventors have indicated, in response to a survey carried out in a number of selected Member States as part of the above-mentioned general survey by the Ifo Institute, that, among the positive effects of the utility model, an improved market position clearly occupies pride of place irrespective of company size. Business people are aware that they can hold on to a competitive lead only if they are able to keep their competitors from copying or imitating them for a certain time through effective legal protection measures such as the utility model.

Through their innovations in products and processes, they seek to display originality and to distance themselves from the competition, so that customers develop a positive image of their technological capability. The protection of inventions by utility model may thus help to strengthen the competitive position of European businesses in the world market.

2. Innovation

39. Innovation,[10] in the sense of a number of technical improvements, is vital to industrial enterprises. Firms must constantly improve or renew their products if they are to keep or increase market shares. The development of new products improves firms' competitiveness regardless of the industrial sector concerned. The innovative activity of the European Community is not at present exploited sufficiently compared with that of its main trading partners, the United States and Japan. In the European Community, the share of GDP devoted to research, industry's research expenditure,

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9 See e.g. Commission Communication to the Council and the European Parliament of 16 November 1990 on industrial policy, document COM(90) 556 final.

10 See the Commission's Green Paper on innovation, document COM(95) 688 final.

research expenditure per head of population, and the total number of research workers compared with the active population are lower than in Japan and the US.

The protection of inventions by utility model is a significant means of promoting technical innovation within European firms. As the European Parliament has stated:[11] "Legal protection of industrial property promotes innovative activity in the EU. It is important to ease the way from idea to product".

40. While large firms do not consider that inventive activities can be developed much further beyond the mere renewal of products and that product life cycles cannot be shortened, SMEs, on the other hand, acknowledge that they must step up their inventive activities if they are to face up to the stiffer competition. Utility model protection therefore seems suited to small technological advances with a relatively short lifetime which are likely to develop in future. SMEs, which account for more than 99% of all European firms, 66% of all jobs and 65% of turnover in the European Community, will be the first to benefit.

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[11] Report on the Green Paper presented by the Commission on the protection of utility models in the single market, document EP 214.304/def. of 26 June 1996.

PART THREE: THE INTERESTS AT STAKE AND FORESEEABLE TRENDS

A. THE POSITION WITH REGARD TO INDUSTRIAL COMPANIES AND INDEPENDENT INVENTORS

41. In a survey carried out in 1993 in five Member States of the Community, companies and independent inventors showed considerable interest in a specific form of protection for their minor technical inventions supplementing patent protection but subject to less stringent conditions, involving no preliminary examination and being less costly and of shorter duration (see table below).

	Interest in utility model protection (as a percentage of the replies received)			
	Considerable	Moderate	Little	Don't know
Germany	46	30	16	8
Spain	41	25	12	22
France	22	51	13	13
Italy	26	42	19	13
United Kingdom	32	25	34	9
Up to 100 employees	41	34	12	13
101 - 500 employees	48	28	17	7
501 - 1 000 employees	29	37	24	10
Over 1 000 employees	27	32	38	3
All classes	39	32	20	9

(Source: Ifo Institute survey in selected EU countries in 1993; European Commission calculations, 1994)

42. It is clear from this table that a fairly strong need is felt by firms for protection of this type. On average 39% of the firms questioned said they would be very interested, 32% said they would be moderately interested, and only 20% would have little interest. The breakdown by size of firm shows that interest in such protection is greatest among firms with up to 500 employees, while interest is somewhat lower among companies with over 1 000 employees.

43. The survey also shows that, regardless of what sales they may have at present in the single market, industrial companies and independent inventors want at least to keep open the option of expanding their market in the future, and are to a large extent interested in EU-wide utility model protection for that reason.

B. CHANGES IN PRODUCT LIFE CYCLES, TIMES TO MARKET AND THE LIFETIMES OF INVENTIONS

44. Major changes are likely to occur in the near future, making it even more necessary to seek flexible forms of protection such as that by utility model. Product life cycles are shrinking worldwide, that is to say time-lags between invention, marketing and the next generation of products are growing shorter. This shortening of product life cycles creates a need for rapidly obtainable protection; it is less important that the protection obtained should last for a long time, except in a number of industries such as pharmaceuticals.

In Japan, this phenomenon manifests itself in a special way. According to a survey by the Japan Institute of Intellectual Property,[12] the marketing of articles protected by utility model very often begins in the interval between application and publication. In the United States, according to a survey by the US Patent Office,[13] there is a tendency for new inventions to be developed more rapidly in all industries apart from fuel, food, chemicals and pharmaceuticals. The average lifetime of an invention today is not more than six years.

45. If one tries to bring these shorter product life cycles and invention lifetimes into relation with the industries which make most use of utility model protection (e.g. mechanical engineering, electrical engineering and the automotive industry), one finds a striking degree of correlation. It takes on average four years to obtain a

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12 *Questionnaire relating to Legal Protection of the Fruits of R&D*, Japan Institute of Intellectual Property, 1991.

13 *Business Week, Science & Technology*, 3 August 1992, CHI Research Inc.

European patent. If we compare this figure with the average lifetime of inventions, we can conclude that demand for a form of protection which can be obtained quickly for short-lived inventions, separately from patent protection, will increase. The utility model provides the best way of meeting this demand.

C. CHANGES IN SPENDING ON RESEARCH AND DEVELOPMENT

46. Research and development ("R&D") has become a focus of economic research. However, a survey of companies and independent inventors carried out as part of the above-mentioned general survey by the Ifo Institute suggests that, especially in the case of high-tech industries and big companies, R&D spending will increase little in future. Thus in mechanical engineering, vehicles and accessories, electrical engineering, precision instruments and optics and medical engineering, between 50% and 58% of respondents felt that the level of R&D spending would remain the same. Given the intensive efforts to cut costs currently being made in all branches of industry, a stable level of R&D spending is nevertheless to be welcomed.

47. There is, however, scope for increasing R&D spending, for example in the packaging and materials handling industry, in the wood products and furniture industry, and among manufacturers of domestic appliances. The inventions which will be made as a result will require suitable protection. This trend suggests that utility model protection will indeed grow more important in future.

PART FOUR: THE ACTION PROPOSED

A. THE UTILITY MODEL IN PRACTICE

48. A utility model is a registered right which confers exclusive protection for a technical invention. It differs from a design right in that the latter protects the external form of an object and not the underlying invention. It resembles a patent in that the invention must be new - it must possess "novelty" - and must display a measure of inventive achievement - it must involve an "inventive step", though generally the level of inventiveness required is not as great as it is in the case of patents. Unlike patents, utility models are granted without a preliminary examination to establish novelty and inventive step. This means that protection can be obtained more rapidly and cheaply, but that the protection conferred is less secure.

However, as the European Parliament has stated,[14] "the imperfect legal certainty inherent in utility model protection should not be considered as an obstacle to its introduction in Community law given that the advantages of this protection outweigh its inconveniences".

49. Utility model protection is at present entirely a matter of domestic law. In three Member States (the United Kingdom, Luxembourg and Sweden) no form of utility model protection exists. The other Member States, where such protection does exist, have different systems, which call the rights they confer by a variety of names: "utility model", "utility certificate", "six-year patent", "short-term patent", "petty patent", "utility model certificate", etc. As one might imagine from the range of terms used, the systems diverge widely, but they all provide protection for technical inventions alongside what is available under patent law. All the schemes in existence are intended to boost the innovative capacity of companies.

50. These differences between national systems are inconsistent with the objectives of free movement of goods and undistorted competition in the single market, and they discourage innovative activity in European companies. A high level of innovative activity gives a business a technological advantage, which is an important factor in its competitiveness.

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[14] Report on the Green Paper presented by the Commission on the protection of utility models in the single market, document EP 214.304/def. of 26 June 1996.

51. Interest in the protection of inventions by utility model has increased in the Community in recent years. A system of protection was thus introduced recently in five Member States of the Community (Ireland, Denmark, Greece, Austria and Finland), with the result that there is now such a system in twelve of the fifteen Member States.

52. This proposal for a Directive seeks to harmonise the basic rules governing *inter alia* the protectable matter, the requirements for protectability, and the extent and duration of protection; it does not introduce any single set of filing arrangements or provide for the setting-up of a body with special responsibility for granting utility models at Community level. It does mean, however, that those Member States which do not yet have any system of utility model protection will have to introduce one into their domestic law.

The requirement that an invention must be embodied in three-dimensional form, such as is to be found in some national protection systems (e.g. Finland, Greece, Italy, Portugal and Spain), has not been included as it does not correspond to present needs. This makes it possible to bring processes within the scope of the proposal. Biological material, chemical or pharmaceutical substances and inventions involving computer programs are expressly excluded from protection by the Directive itself.

53. As a result of the harmonisation, an applicant for a utility model will be sure to find an equivalent property right in every Member State and will no longer be confronted with a multitude of different regulations. If he seeks protection in another Member State, he will already be familiar with the basic requirements for obtaining it and with its scope. The arrangements will help to reduce costs and simplify applications for protection in other Member States, and in so doing stimulate innovation.

54. In order to limit the lack of legal certainty due to the granting of too many rights without any preliminary examination to establish novelty and inventive step, this proposal contains a list of exclusions from protectability comprising *inter alia* biological material, chemical or pharmaceutical substances or processes and computer programs. It places a limit on the duration of protection and provides for the drawing-up of a search report at the applicant's request or, where a Member State so provides, in the event of legal proceedings being brought to enforce the rights conferred by the utility model. It does not rule out the possibility for Member States to provide for the payment of a larger fee for renewal of the property right.

B. LEGAL BASIS

55. The maintenance of different national systems of utility model protection in the Community is likely to hinder the free movement of goods and distort competition in the single market. Approximation of the basic national rules governing utility models will help to make the functioning of the single market more transparent, encourage innovation and technical progress at Community level and promote the movement of goods between Member States.

56. A harmonisation of national laws also reflects the interest shown by the sectors of business and industry concerned, which are largely in favour of harmonising national laws on utility model protection by means of a directive and introducing a system of protection in those Member States where one does not yet exist.

57. The Commission proposes that Article 100a of the EC Treaty be taken as the legal basis for this proposal. This was done in the case of other directives aligning national laws on intellectual and industrial property.[15] This choice of legal basis has been sanctioned by the Court of Justice on a number of occasions.[16]

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[15] See e.g. Directive 89/104/EEC approximating the laws of the Member States relating to trade marks (OJ No L 40, 11.2.1989, p. 1); Directive 93/98/EEC harmonising the term of protection of copyright and certain related rights (OJ No L 290, 24.11.1993, p. 9); and Directive 96/9/EC on the legal protection of databases (OJ No L 77, 27.3.1996, p. 20).

[16] See Opinion 1/94, Competence of the Community to conclude international agreements concerning services and the protection of intellectual property [15.11.1994] ECR I-5267, and Case C-350/92 *Spain* v *Council* [13.07.1995] ECR I-1985.

PART FIVE: EXAMINATION OF THE PROVISIONS

58. The various national systems of utility model protection include provisions based on national patent law which correspond to the provisions of the European Patent Convention. For the sake of consistency, a number of articles in this proposal are also based on the corresponding provisions of that Convention.

Article 1

59. The concept of utility model must be clearly defined by reference to the various concepts employed in the Member States. It should be noted, however, that the Belgian and Dutch terms used are not the official ones but are taken from draft legislation. The definition will enable Member States to know precisely which domestic provisions are affected by this Directive.

Article 2

60. This article determines the proposal's object. The proposal seeks to approximate Member States' laws, regulations and administrative provisions on utility model protection. Those Member States which have no utility model system will accordingly have to introduce one along the lines of this Directive.

Article 3

61. This article specifies which inventions are protectable by utility model. Protectable inventions are inventions which are susceptible of industrial application, which are new and which involve an inventive step. The following are not regarded as inventions: discoveries, scientific theories and mathematical methods; aesthetic creations; schemes, rules and methods for performing mental acts, playing games or doing business; and presentations of information.

Article 4

62. This article sets out the exclusions from protectability by utility model. Besides the traditional exception concerning public policy and morality, a number of other things are excluded, namely: inventions relating to biological matter; inventions relating to chemical or pharmaceutical substances or processes; and inventions involving computer programs. The exclusion of biological, chemical and pharmaceutical inventions is justified by the fact that such matters, substances or processes call for lengthy preparation before being placed on the market and should therefore be given patent protection, which lasts longer than utility model protection. What is more, these sectors are complex ones in which property rights involving no examination as to novelty or inventive step are out of place. The exclusion of

inventions involving computer programs is due to the fact that such inventions are currently protected either by patent (inventions relating to software) or by copyright (computer programs as such).

Article 5

63. This article explains what is meant by novelty. An invention is considered to be new if it does not form part of the state of the art. In keeping with most national utility model systems, the novelty of an invention is to be determined by reference to the international state of the art (absolute novelty). The state of the art comprises everything made available to the public by means of a written or oral description, by use, or in any other way, before the date of filing of the utility model. Additionally, the content of utility model applications as filed, of which the dates of filing are prior to the date of the application for the utility model concerned and which were published on or after that date, are considered as comprised in the state of the art.

Article 6

64. This article explains what is meant by inventive step for the purposes of this Directive. Here, an invention is considered as involving an inventive step if, in the utility model application, the applicant indicates clearly and convincingly that, compared with the state of the art, it exhibits either particular effectiveness in terms of, for example, ease of application or use, or a practical or industrial advantage. This wording is designed to cover the wide variety of situations which are provided for in the various national systems and are encountered in practice and which, as a rule, involve a different inventive step from that which is required in the case of a patent. Examples are an invention making it possible to solve a technical problem and an invention relating to the effectiveness or ease of use of a product in that it increases the product's usefulness by making it more effective and easier to use.

Article 7

65. This article explains what is meant by an invention "susceptible of industrial application". An invention is so considered if it can be made or used in any kind of industry, including agriculture. Surgical or therapeutic treatment procedures applicable to the human body or the bodies of animals and diagnostic procedures which are carried out on the human body or the bodies of animals are not considered to be inventions susceptible of industrial application.

Article 8

66. Paragraph 1 of this article specifies the requirements which must be satisfied by a utility model application. Paragraph 2 stipulates that the application will be subject to the payment of a filing fee and, where appropriate, a search fee. The latter is payable only where a search report is drawn up at the applicant's request. Member States remain free to provide that the fees payable at the end of the first period of validity should be sufficiently high to dissuade utility model proprietors from retaining their rights where these are no longer of any commercial value.

Article 9

67. This article concerns the date of filing of a utility model application. The date of filing of the application is the date on which documents filed by the applicant contain an indication that a utility model is sought, information identifying the applicant, and a description and one or more claims.

Article 10

68. This article provides that the utility model application must designate the inventor. If the applicant is not the inventor or is not the sole inventor, the designation must contain a statement indicating the origin of the right to the utility model.

Article 11

69. This article on unity of invention stipulates that the utility model application must relate to one invention only or to a group of inventions so linked as to form a single general inventive concept.

Article 12

70. This article on disclosure of the invention provides that the utility model application must disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art.

Article 13

71. This article stipulates that the claims must define the matter for which protection is sought and that they must be clear and concise and be supported by the description. It stipulates, further, that the number of claims must be limited to that which is

strictly necessary having regard to the nature of the invention. This requirement makes it possible to limit the extent of the protection so as to compensate for the lack of any preliminary examination.

Article 14

72. This article on the abstract provides that the abstract is to serve merely for use as technical information and that it may not be taken into account for any other purpose such as, for example, interpreting the scope of the protection sought.

Article 15

73. This article on examination as to formal requirements provides that the examination must be confined to the formal requirements of Articles 8 and 10 of this Directive and that it may not cover the novelty, inventive step or industrial application of an invention.

Article 16

74. This article on the search report stipulates that the search report is to be drawn up only at the request of the applicant and that the task of drawing up the report may be entrusted to any authority deemed competent by the competent authority with which the application has been filed. Member States may provide that a search report is compulsory in the event of legal proceedings being brought to enforce the rights conferred by the utility model.

Article 17

75. This article on the priority right is based on paragraphs A and C of Article 4 of the Paris Convention. Any person who has duly filed an application for a utility model or a patent in one of the Member States, such State being a party to the Paris Convention, is to enjoy, for the purpose of filing a utility model application in the other Member States, a right of priority during a period of 12 months from the date of filing of the first application.

Article 18

76. This article seeks to permit a person who has filed a patent application, while the procedure is under way and for a limited period, to file in the same Member State, in addition to or in lieu of his patent application, an application for a utility model. This option must, of course, be ruled out where priority has been claimed for the patent application. The general provisions concerning the right of priority are applicable here.

Article 19

77. Unlike in the case of patents, where the term of protection is 20 years, the duration of the utility model is fixed at six years from the date of filing of the application. It may be renewed for two successive periods of two years, but may not exceed a maximum period of ten years from the date of filing of the application. The difference compared with the patent is marked in view of the short lifetime of technical inventions and the different level of inventiveness involved.

Article 20

78. Paragraphs 1 and 2 concern the rights conferred by the utility model where the protected matter is a product or a process. The provisions are based on Article 28(1) of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs) concluded under the auspices of the World Trade Organisation. Paragraph 3 concerns limitation of the effects of the utility model and is based on the relevant provisions of points (a) and (b) of Article 27 of the Community Patent Convention. Paragraph 4, which is based on Article 28(2) of the TRIPs Agreement, provides that the proprietor of a utility model has the right to assign it or transfer it by succession and to conclude licensing agreements. Paragraph 5 is based on Article 30 of the TRIPs Agreement. It stipulates that Member States may provide limited exceptions to the exclusive rights conferred by a utility model, provided that such exceptions do not unreasonably conflict with a normal exploitation of the utility model and do not unreasonably prejudice the legitimate interests of the proprietor of the utility model, taking account of the interests of third parties. Lastly, paragraph 6 provides that, where the law of a Member State allows for use other than that authorised under paragraph 5 without the authorisation of the right-holder (e.g. in the event of compulsory licences), the provisions applicable to patents for similar use must be complied with. The aim is to render the conditions laid down in Article 31 of the TRIPs Agreement applicable by analogy to utility models.

Article 21

79. This article on Community exhaustion of rights incorporates, in paragraph 1, the principle set forth in Article 28 of the Community Patent Convention. The rights conferred by a utility model do not extend to acts concerning a product covered by that utility model which are done after that product has been put on the market in the Community by the right-holder or with his consent. By marketing the protected product in a Member State, the right-holder has been able to benefit from the economic conditions which accompany the exclusivity he enjoys, and he has thus exhausted his parallel rights to protection in the

other Member States. To avoid any ambiguity, paragraph 2 states that the principle of international exhaustion is ruled out, which means that the rights conferred by the utility model do extend to acts concerning a product covered by that utility model after that product has been put on the market outside the Community by the right-holder or with his consent.

Article 22

80. Paragraph 1 of this article, which is concerned with dual protection, allows one and the same invention to form the subject-matter, simultaneously or successively, of a patent application and a utility model application. Such dual protection is worthwhile where the user wishes to obtain temporary protection pending the grant of a patent, where he is not sure that the inventive step is sufficient for a patent, or where he wishes to be particularly well protected by two different systems for the same invention. So as not to place the right-holder in too strong a position, however, Member States may provide that a utility model which has been granted is deemed to be ineffective where a patent relating to the same invention has been granted and published (paragraph 2). Where they avail themselves of this opportunity, the Member States concerned must at least take appropriate measures to ensure that, where his rights are infringed, the right-holder cannot initiate successive proceedings under both sets of protection arrangements (paragraph 3). This provision is intended to prevent successive proceedings from being brought by a right-holder who, having failed to win his patent action, might seek to bring a fresh action on the strength of the utility model, or vice versa.

Article 23

81. This article on lapse of the utility model is based on the relevant provisions of Article 50 of the Community Patent Convention. The utility model lapses at the end of the period prescribed, if its proprietor surrenders it, or if the filing fee and any search fee have not been paid in due time.

Article 24

82. This article on the grounds for revocation of the utility model is based on the relevant provisions of Article 56 of the Community Patent Convention. An application for revocation may be filed only on the following grounds: the subject-matter of the utility model is not protectable; the utility model does not disclose the invention in a manner sufficiently clear and complete for it to be carried out by the person skilled in the art; the subject-matter of the utility model extends beyond the content of the application as filed; and the protection conferred has been extended.

Article 25

83. This proposal must be transposed into national law by 31 December 1999. Member States must inform the Commission thereof immediately. When Member States adopt the necessary provisions, these are to contain a reference to this Directive or are to be accompanied by such reference at the time of their official publication. Member States must communicate to the Commission the provisions of national law thus adopted.

Article 26

84. This article provides that, in accordance with Article 191(1) of the EC Treaty, the Directive is to enter into force on the twentieth day following that of its publication in the Official Journal of the European Communities.

Article 27

85. This article provides that the Directive is addressed to the Member States, including those which do not have any system of utility model protection.

Proposal for a

EUROPEAN PARLIAMENT AND COUNCIL DIRECTIVE

approximating the legal arrangements for the protection of inventions by utility model

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community and in particular Article 100a thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the Economic and Social Committee,

Acting in accordance with the procedure laid down in Article 189b of the Treaty,

Whereas the Treaty commits the Community and Member States to creating the conditions for Community industry to be competitive and to promoting a better exploitation of the industrial potential of innovation, research and technological development policies;

Whereas technical inventions play an important role in that they make available improved, better quality products which are particularly effective in terms of, for example, ease of application or use, or which confer a practical or industrial advantage compared with the state of the art;

Whereas, because of differences between Member States' utility model laws, an invention may not be protected throughout the Community, at least not in the same way or for the same length of time, a state of affairs which is incompatible with a transparent, obstacle-free single market; whereas it is therefore necessary, with a view to the establishment and proper functioning of the single market, to approximate Member States' laws in this area;

Whereas it is important in this context to employ every possible means of increasing the competitiveness of Community industry in the field of research and development;

Whereas small and medium-sized firms play a strategic role in relation to innovation and rapid response to market requirements;

Whereas there is a need for placing at the disposal of firms, and in particular small and medium-sized firms and researchers, an instrument which is cheap, rapid and easy to evaluate and apply;

Whereas utility model protection is better suited than patent protection to technical inventions involving a specific level of inventiveness;

Whereas technical inventions should be suitably protected throughout the Community;

Whereas, in accordance with the principle of proportionality, the approximation may be limited to those national provisions which have the most direct impact on the functioning of the single market;

Whereas, if the objectives of the approximation are to be attained, the conditions for obtaining and retaining the rights conferred by a registered utility model should in principle be the same in all Member States; whereas to that end an exhaustive list of the requirements which a technical invention must satisfy if it is to be protected by a utility model must be drawn up;

Whereas these requirements are for the most part the same as those for patent protection; whereas the level of inventiveness required must nevertheless be different to allow for the specific nature of technical inventions protectable by utility model;

Whereas utility model protection must be available both to products and to processes;

Whereas it is necessary to exclude from utility model protection not only those inventions which are normally excluded from patentability but also, in order to meet the needs of the industries concerned, inventions relating to chemical or pharmaceutical substances or processes and inventions involving computer programs;

Whereas a utility model application must satisfy requirements similar to those for patents; whereas, however, a utility model application gives rise only to a check to ensure that the formal conditions for protectability are satisfied without any preliminary examination to establish novelty or inventive step; whereas it may form the subject-matter of a search report on the state of the art only at the applicant's request;

Whereas it is essential, in order to safeguard the proper functioning of the single market and ensure that competition is not distorted, that registered utility models should henceforth confer upon their proprietor the same protection in all Member States and that the period of protection should be identical; whereas this period may not exceed 10 years;

Whereas the nature and scope of the rights conferred by a utility model must be spelled out; whereas the principle of Community exhaustion of rights must apply in accordance with the case-law of the Court of Justice of the European Communities, but the principle of international exhaustion must be expressly excluded;

Whereas rules must also be laid down on dual protection by patent and by utility model, and on the lapse and revocation of utility models;

Whereas all Member States of the Community are bound by the Paris Convention for the Protection of Industrial Property; whereas the Community and all Member States are bound by the Agreement on Trade-related Aspects of Intellectual Property Rights concluded under the auspices of the World Trade Organisation; whereas the provisions of this Directive must be in complete harmony with those of the Paris Convention and of the above-mentioned Agreement; whereas Member States' other obligations stemming from the Convention and the Agreement are not affected by this Directive,

HAVE ADOPTED THIS DIRECTIVE:

CHAPTER ONE

GENERAL PROVISIONS

Article 1

Definitions

For the purposes of this Directive, "utility model" means the registered right which confers exclusive protection for technical inventions and which is known in Member States by the following names:

Germany:	Gebrauchsmuster
Austria:	Gebrauchsmuster
Belgium:	Brevet de courte durée/Octrooi van korte duur
Denmark:	Brugsmodel
Spain:	Modelo de utilidad
Finland:	Nyttighetsmodellagen
France:	Certificat d'utilité
Greece:	Πιστοποιητικο υποδειγματοζ χρησιμοτηταζ
Ireland:	Short-term patent
Italy:	Brevetto per modelli di utilità
Netherlands:	Zesjarig octrooi
Portugal:	Modelo de utilidade

Article 2

Object

This Directive seeks to approximate Member States' laws, regulations and administrative provisions on the protection of inventions by utility model.

CHAPTER II

SCOPE OF THE UTILITY MODEL

Article 3

Protectable inventions

1. Utility models shall be granted for any inventions which are susceptible of industrial application, which are new and which involve an inventive step.

2. The following in particular shall not be regarded as inventions within the meaning of paragraph 1:

   (a) discoveries, scientific theories and mathematical methods;

   (b) aesthetic creations;

   (c) schemes, rules and methods for performing mental acts, playing games or doing business;

   (d) presentations of information.

Article 4

Exclusions from protectability

Utility models shall not be granted in respect of:

(a) inventions the exploitation of which would be contrary to public policy or morality, provided that the exploitation shall not be deemed to be so contrary merely because it is prohibited by law or regulation in some or all Member States;

(b) inventions relating to biological material;

(c) inventions relating to chemical or pharmaceutical substances or processes;

(d) inventions involving computer programs.

Article 5

Novelty

1. An invention shall be considered to be new if it does not form part of the state of the art.

2. The state of the art shall be held to comprise everything made available to the public by means of a written or oral description, by use, or in any other way, before the date of filing of the utility model application.

3. Additionally, the content of utility model applications as filed, of which the dates of filing are prior to the date referred to in paragraph 2 and which were published on or after that date, shall be considered as comprised in the state of the art.

Article 6

Inventive step

For the purposes of this Directive, an invention shall be considered as involving an inventive step if, in the utility model application, the applicant indicates clearly and convincingly that, compared with the state of the art, it exhibits either

(a) particular effectiveness in terms of, for example, ease of application or use; or

(b) a practical or industrial advantage.

Article 7

Industrial application

1. An invention shall be considered as susceptible of industrial application if it can be made or used in any kind of industry, including agriculture.

2. Surgical or therapeutic treatment procedures applicable to the human body or to the bodies of animals and diagnostic procedures which are carried out on the human body or the bodies of animals shall not be considered to be inventions susceptible of industrial application within the meaning of paragraph 1.

CHAPTER III

UTILITY MODEL APPLICATIONS

Article 8

Requirements of the application

1. A utility model application shall contain:

(a) a request for the grant of a utility model;

(b) a description of the invention;

(c) one or more claims;

(d) any drawings referred to in the description or the claims;

(e) an abstract.

2. A utility model application shall be subject to the payment of a filing fee and, where appropriate, a search fee.

Article 9

Date of filing

The date of filing of a utility model application shall be the date on which documents filed by the applicant contain:

(a) an indication that a utility model is sought;

(b) information identifying the applicant;

(c) a description and one or more claims.

Article 10

Designation of the inventor

The utility model application shall designate the inventor. If the applicant is not the inventor or is not the sole inventor, the designation shall contain a statement indicating the origin of the right to the utility model.

Article 11

Unity of invention

The utility model application shall relate to one invention only or to a group of inventions so linked as to form a single general inventive concept.

Article 12

Disclosure of the invention

The utility model application must disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art.

Article 13

The claims

1. The claims shall define the matter for which protection is sought. They shall be clear and concise and be supported by the description.

2. The number of claims shall be limited to that which is strictly necessary having regard to the nature of the invention.

Article 14

The abstract

The abstract shall merely serve for use as technical information. It may not be taken into account for any other purpose, in particular not for the purpose of interpreting the scope of the protection sought nor for the purpose of applying Article 5(3).

Article 15

Examination as to formal requirements

1. The competent authority with which a utility model application has been lodged shall examine whether the application satisfies the formal requirements of Articles 8 and 10 and shall check whether it contains a description and an abstract.

2. If a date of filing cannot be accorded, the competent authority shall give the applicant an opportunity to correct the deficiencies in accordance with such conditions and within such period as it may fix. If the deficiencies are not remedied in due time, the application shall not be dealt with as a utility model application.

3. The competent authority referred to in paragraph 1 shall not carry out any examination to establish whether the requirements of Articles 5, 6 and 7 have been met.

Article 16

Search report

1. If a utility model application has been accorded a date of filing and is not deemed to be withdrawn, the competent authority with which the application has been lodged shall, at the applicant's request, draw up on the basis of the claims a search report covering the relevant state of the art, with due regard to the description and any drawings.

2. The competent authority with which the application has been lodged may entrust the task of drawing up the search report to any authority which it considers competent to do so.

3. Immediately after it has been drawn up, the search report shall be transmitted to the applicant together with copies of any cited documents.

4. In the provisions which they adopt in order to comply with this Directive, Member States may provide that a search report is compulsory in the event of legal proceedings being brought to enforce the rights conferred by the utility model.

Article 17

Priority right

1. Any person who has duly filed an application for a utility model or a patent in or for one of the Member States, such State being a party to the Paris Convention for the Protection of Industrial Property, or his successors in title, shall enjoy, for the purpose of filing a utility model application in respect of the same invention in one or more other Member States a right of priority during a period of twelve months from the date of filing of the first application.

2. Any filing that is equivalent to a regular national filing under the domestic law of the Member State where it was made or under bilateral or multilateral agreements shall be recognised as giving rise to a right of priority.

3. By a regular national filing is meant any filing that is sufficient to establish the date on which the application was filed in the Member State concerned, whatever may be the outcome of the application.

Article 18

Internal priority

1. Any person who has duly filed a patent application shall enjoy, for the purpose of filing a utility model application in respect of the same invention, a right of priority during a period of twelve months, unless priority has already been claimed for the patent application.

2. The provisions of Article 17(2) and (3) shall apply *mutatis mutandis*.

CHAPTER IV

EFFECTS OF THE UTILITY MODEL

Article 19

Duration of protection

1. The duration of the utility model shall be six years from the date of filing of the application.

2. Six months before the period indicated in paragraph 1 elapses, the right-holder may submit to the competent authority an application for renewal of the utility model for a period of two years.

3. Six months before the period indicated in paragraph 2 elapses, the right-holder may submit a second and last application for renewal for a maximum period of two years.

4. In no circumstances may utility model protection last for more than ten years from the date of filing of the application.

Article 20

Rights conferred

1. Where the subject-matter of a registered utility model is a product, the utility model shall confer on its proprietor the right to prevent third parties not having his consent from making, using, offering for sale, selling, or importing for these purposes that product.

2. Where the subject-matter of a registered utility model is a process, the utility model shall confer on its proprietor the right to prevent third parties not having his consent from using the process and from using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.

3. The rights conferred by a utility model in accordance with paragraphs 1 and 2 shall not extend to:

(a) acts done privately and for non-commercial purposes;

(b) acts done for experimental purposes relating to the subject-matter of the protected invention.

4. The proprietor of a utility model shall have the right to assign, or transfer by succession, the utility model and to conclude licensing agreements.

5. Member States may provide limited exceptions to the exclusive rights conferred by a utility model, provided that such exceptions do not unreasonably conflict with a normal exploitation of the utility model and do no unreasonably prejudice the legitimate interests of the proprietor of the utility model, taking account of the interests of third parties.

6. Where the law of a Member State allows for use of the subject-matter of a utility model other than that allowed under paragraph 5 without the authorisation of the right-holder, including use by the government or third parties authorised by the government, the provisions applicable to patents for similar use shall be complied with.

Article 21

Community exhaustion of rights

1. The rights conferred by a utility model shall not extend to acts concerning a product covered by that utility model which are done after that product or has

been put on the market in the Community by the right-holder or with his consent.

2. The rights conferred by a utility model shall, however, extend to acts concerning a product covered by that utility model which are done after that product has been put on the market outside the Community by the right-holder or with his consent.

CHAPTER V

DUAL PROTECTION, LAPSE AND REVOCATION

Article 22

Dual protection

1. The same invention may form the subject-matter, simultaneously or successively, of a patent application and a utility model application.

2. Member States may provide that a utility model which has been granted is deemed to be ineffective where a patent relating to the same invention has been granted and published.

3. Member States which do not exercise the option referred to in the preceding paragraph shall take appropriate measures to prevent the proprietor, in the event of his rights being infringed, from instituting successive proceedings under both sets of protection arrangements.

Article 23

Lapse

A utility model shall lapse:

(a) at the end of the period laid down in Article 19;

(b) if its proprietor surrenders it;

(c) if the fees referred to in Article 8(2) have not been paid in due time.

Article 24

Revocation

1. An application for revocation of a utility model may be filed only on the grounds that:

(a) the subject-matter of the utility model is not protectable pursuant to Articles 3 to 7 of this Directive;

(b) the utility model does not disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art;

(c) The subject-matter of the utility model extends beyond the content of the utility model application as filed;

(d) the protection conferred by the utility model has been extended.

2. If the grounds for revocation affect the utility model only partially, revocation shall be pronounced in the form of a corresponding limitation of the utility model. The limitation may be effected in the form of an amendment to the claims, the description or the drawings.

CHAPTER VI

FINAL PROVISIONS

Article 25

Transposal

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 31 December 1999. They shall immediately inform the Commission thereof.

When Member States adopt these provisions, these shall contain a reference to this Directive or shall be accompanied by such reference at the time of their official publication. The procedure for such reference shall be adopted by the Member States.

2. Member States shall inform the Commission of the main provisions of national law which they adopt in the field governed by this Directive.

Article 26

Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Communities.

Article 27

Addressees

This Directive is addressed to the Member States.

Done at Brussels,

For the European Parliament

The President

For the Council

The President

FINANCIAL STATEMENT

TITLE

Proposal for a European Parliament and Council Directive approximating the legal arrangements for the protection of inventions by utility model.

DESCRIPTION OF MEASURE

The purpose of the measure is to enhance the competitiveness of firms, in particular SMEs, and promote innovation by approximating Member States' laws, regulations and administrative provisions on utility model protection and by introducing such protection in those Member States where there is none.

The measure has no financial implications for the Community budget.

THE IMPACT OF THE PROPOSAL ON BUSINESS
(with special reference to SMEs)

1. WHY IS COMMUNITY LEGISLATION NECESSARY?

To harmonise at Community level Member States' provisions on utility models and to introduce such arrangements in those Member States where there are none, by pursuing the following objectives:

(a) to improve the functioning of the single market in products resulting in particular from minor technical inventions by ensuring their free movement;
(b) to prevent the distortions of competition which SMEs seeking to innovate are currently faced with;
(c) to ensure that all firms and independent inventors enjoy better protection for their technical inventions through the approximation of national laws in this area;
(d) to improve the competitiveness of European industry by supporting European research.

2. WHO WILL BE AFFECTED BY THE PROPOSAL?

All sectors of industry will in theory be affected. According to surveys carried out among business people, however, the sectors most affected are mechanical engineering, electrical engineering, precision instruments and optics and the automotive industry. On the other hand, some sectors, such as the chemical and pharmaceutical industries, will, at their request, not be affected by the proposal.

SMEs, especially those which innovate, will be particularly affected by the proposal.

3. WHAT WILL BUSINESS HAVE TO DO TO COMPLY WITH THE PROPOSAL?

Utility model protection will be granted to those firms which request it, provided all the requirements are met. Utility model applications are to be filed with the competent authorities (in practice, national patent offices). A filing fee, the amount of which is a matter for Member States' competent authorities will be payable.

4. WHAT ECONOMIC EFFECTS IS THE PROPOSAL LIKELY TO HAVE?

(a) On employment

Harmonisation of the national rules governing utility model protection will constitute, for innovative firms, an incentive to maintain, or even increase, their investment in research and development. It will help to establish a legal framework suited to the protection of innovation especially in the area of technical inventions, and will therefore have a favourable impact on employment, notably in the research field.

(b) On investment and the creation of new businesses

Harmonisation of utility model protection should increase the likelihood that the firms concerned will recover their costs and will thus encourage them to invest. The patent being the best means of encouraging research, it is clear that the utility model, which complements it in the case of minor technical inventions, will be regarded as an incentive to research in industry.

(c) On the competitiveness of businesses

Harmonisation will mean that SMEs and independent inventors will no longer have to cope with different protection systems in the Community and that there will be less need to consult industrial property experts or legal advisers. This will help resolve many an insurmountable administrative or financial difficulty. Full rein may thus be given to firms' inventiveness, strengthening their competitive position both domestically and internationally.

5. DOES THE PROPOSAL CONTAIN MEASURES TO TAKE ACCOUNT OF THE SPECIFIC SITUATION OF SMEs?

The measures contained in the proposal are specifically targeted at SMEs with a view both to improving their competitiveness by reducing the cost of protecting their inventions and to promoting technical innovation at their level.

6. CONSULTATION

In July 1995 the Commission drew up and published a Green Paper on the protection of utility models in the single market.[17] It received nearly 90 replies from a whole range of interested parties. The European Parliament and the Economic and Social Committee

[17] Document COM(95) 370 final of 19 July 1995.

have also had the opportunity to make known their views on the subject.[18] In addition, the Commission held a hearing attended by European trade associations on 23 September 1996 and a meeting with Member States' experts on 4 November of that year to sound out their opinions.

[18] EP: document EP 214.304/def. of 26 June 1996; ESC: document ESC 1372/95 of 26 February 1996.

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