UTILITY MODELS AND THEIR COMPARISON WITH PATENTS AND IMPLICATIONS FOR THE US INTELLECTUAL PROPERTY LAW SYSTEM

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ABSTRACT

European Patent Office (EPO) practice, guided by the European Patent Convention (EPC) is in many aspects very similar to Europe's national patent practice, such as the German patent law. In this article, the US practitioner is briefly reminded of some of the considerable differences between US Patent and Trademark Office (USPTO) patent prosecution practice and its European counterparts, primarily the EPO. The utility model is highlighted and discussed using the patent laws of Germany as a case study for comparison. Additionally, this paper examines the potential benefits of utility model protection in the US, as well as what changes would be required in order to minimize any negative impact of the introduction of such a new intellectual property (IP) right to the existing US legal system.

INTRODUCTION

USPTO and EPO patent prosecution practices differ in several respects. For example, a patent application to the EPO goes through a centralized application and prosecution phase, and, if granted by the EPO, this patent has the same effect as a national patent granted by all contracting states. Therefore a European patent (EP) is subject not only to the national law of the individual member states but also to the provisions of the EPC. During centralized prosecution at the EPO, patent claims are generally amended more easily than in the US, and without significant negative consequence. Finally, one of the more notable differences is that an EP application may be subject also to a centralized inter-parties opposition process at the EPO in which it may be granted in either its original or amended form or revoked.

Another important difference is that the USPTO has a “first to invent” system whereas the EPO is a “first to file” system. Thus, the earliest applicant may obtain an EP even if the invention was first invented or conceived of by another party. Also, an inventor has the right to be named on an EP application, but—in contrast to the US—the inventor on an EP application has the right to decline being named as an inventor on the patent application. In addition, and most importantly, incorrect naming of the inventor will not jeopardize the validity of the EP.

Also in contrast to US patent law, EP applications are required to have “absolute novelty.” For the purposes of the EP application, if the invention was known, described in a printed publication, or publicly used anywhere prior to the priority date of the EP application, novelty of the invention is destroyed. Thus the concept of a grace period is not known in Europe, generally, with the exception of a six-month grace period in extremely rare cases related to certain exhibitions or instances of evident abuse. Novelty of an EP application is destroyed also if the invention has been described in another EP application with an earlier priority date—even if it was not published before the priority date of the application under examination. However, even where such “special” prior art does carry an earlier priority date, it cannot be used for evaluating non-obviousness (inventive step) in the prosecution of an EP application.

The hurdle to demonstrate inventive step is often higher in EP practice. EPO examiners have never been under an obligation to demonstrate a prima facie case, for example, and they are able to base their arguments on what is generally known to one skilled in the art more than their US counterparts. Another key difference is that it is expected that inventive step in EPO practice will be argued on the basis of the “problem solution approach”, which consists of determining (1) the closest prior art, (2) the technical problem which the claimed invention addresses and solves in light of the closest prior art (the objective technical problem), and (3) examining whether the claimed
solution to the objective technical problem is obvious to the skilled person in view of the state of the art in general. [i]

Furthermore, there is no requirement to specifically disclose a “best mode” in an EP application; an enabling mode is sufficient. Also, applicants for an EP are not under any requirement to disclose known prior art or evidence relevant to the patentability of an application to the EPO together with the application or later during its prosecution.

It is worth noting, finally, that European prosecution history estoppel has been a matter for national law rather than one for the EPO. With fairly limited exceptions, prosecution history estoppel does not exist in the member states of the EPO.

I. UTILITY MODELS

Utility models are a short-term registered right granted for inventions that often lack the same degree of inventive step that patent law requires. Utility models are often referred to as “small patents” or “petty patents” and are sometimes considered to be a type of “second-tier protection.” In many systems this registered right is granted without a substantive examination, in contrast to most patent granting procedures, and it often has a shorter lifetime but otherwise gives the same exclusive rights as a patent does. Accordingly, because they are granted without substantive examination, utility models are considered “weak.” The utility model is enforceable but is more likely to be invalidated than a patent that has undergone substantive examination. In other words, while a weak patent application is likely to be made stronger by the substantive examination, the utility model will be granted if it only meets the formal requirements. However, the quality of the utility model application - and whether an uninvalidatable right results - depends a great degree on the applicant. For example, an applicant himself may choose to do a very thorough prior art search and evaluation prior to filing the application, in which case the utility model might be relatively strong.

At present, many countries have adopted some form of utility model protection. Various terms such as utility innovations, utility certificates, innovation patents, utility solutions and short-term patents may be used in different countries. Major industrial nations such as Germany, South Korea, and Japan; EU member states such as Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Ireland, Italy, the Netherlands, Poland, Portugal, Slovakia, and Spain; and critical emerging economies such as Brazil and China offer some form of utility model protection. In total, about seventy five countries currently provide utility model protection. Interestingly, utility model protection is widely available in only non-English language countries. Janis reviewed this topic [ii] several years ago, but, due to the general lack of utility model laws in major English-speaking economies such as the United Kingdom, Canada or the United States, much of the literature on this issue is not in English.

US patent practitioners may encounter utility models on a regular basis as part of their normal international filing practice; such as in Patent Cooperation Treaty (PCT) applications, for example. The PCT International Application encompasses the filing of applications for not only patents but also applications for the various other means of protecting inventions-- including utility models. [iii] The filing of the PCT application constitutes a request for every kind of protection that may be available from each designated Contracting State. Thus, PCT applicants always have the option of applying for utility model protection in Contracting States offering such protection. Any further choice with respect to kind of protection sought can be made only at the time of national phase entry before the respective designated Offices. The option to file for utility model protection can be particularly interesting, as will be discussed later, in cases where an enforceable right is rapidly sought or when the international search report and/or written opinion of the international searching authority or the international preliminary examining authority indicates that the international application might fail to meet the higher novelty or inventive step requirements for obtaining patent protection. In a similar manner, filing of the EP application is equivalent to a national application for a patent or utility model. [iv] The EP application may similarly be converted to a national utility model if it is refused by the EPO or deemed withdrawn, for example, in the rare case where a EP application filed initially with a national authority due to potential national security issues, is not forwarded to the EPO in time. [v]

It is worth noting that the European Commission (EC) initially declared itself in favor of utility model
protection in 1995 by either harmonizing Member State protection, introducing protection in Member States lacking such protection, creating a community utility model, or a combination of these. [vi] Later in 1997 the EC presented the proposal for a Directive, approximating the national provisions of Member States, for protecting utility models. [vii] This proposal was later suspended and finally withdrawn in 2005 though largely due to the majority of Member States indicating a preference for giving priority instead to efforts to introduce a Community patent. In addition, the Commission had instead published in 2001 a consultation document on the impact of the introduction of a Community utility model. [viii] A later summary report of the responses [ix] indicated that the majority of the respondents opposed the introduction of a Community model due to concerns about introducing further legal uncertainty to EC IP protection, dissatisfaction with the low inventiveness criteria of the proposed utility model, and fear that the utility model would unnecessarily compete with the existing patent systems without introducing any real benefit to small and medium-sized enterprises (SMEs). Nonetheless, proposals for a community utility model have been made by Llewellyn [x] and Ravillard, [xi] and studies have been carried out by Dinwoodie and co-authors [xii] and Kern. [xiii] The interested reader is referred to those original works for more detailed information. In conclusion, further European action at the Community level on either harmonizing Member State law or introducing a Community utility model appears to be very unlikely for the foreseeable future.

Suthersanen has studied and reviewed the influence of utility models on innovation and economic development, especially in the case of developing countries. [xiv] Research into the influence of utility models on innovation and development has revealed that utility models would likely promote local industrial growth by offering rapid and inexpensive intellectual property protection in certain specific circumstances. For example, net importers of intellectual property could benefit from the introduction of utility model protection to stimulate local incremental innovations. In other cases, utility model protection could provide protection against massive copying and imitation, especially if protection against such copying was not available through unfair competition laws. In addition, it was proposed that economies dominated by industries characterized by more incremental innovation such as transporting, domestic articles, basic electronics, and optics etc. could be stimulated by utility model laws; whereas, industries more typically characterized by “breakthrough” innovations such as biotechnology and pharmaceutical were unlikely to need such forms of protection. Boppart has also found that the food industry would generally benefit from utility model protection [xv] due to its typically high failure rate of new product launches and relatively short product cycle of even many successful product launches due to rapid changes in consumer trends and the seasonality of certain products. The point is that there are industries would benefit from cheaper short-term protection; they do not need long-term (patent) protection because their products typically have short lifetimes relative to the twenty year patent term.

In the present manuscript various aspects of the German utility model or “Gebrauchsmuster” system will be next examined and compared and contrasted with those of German patents. The interested English-language reader may obtain English language translations of the discussed German patent and utility model laws on-line from the World Intellectual Property Organization (WIPO) Collection of Laws for Electronic Access (CLEA) database. [xvi]

A. Subject Matter for the German Utility Model

The allowable subject matter eligible for protection as a German Utility Model is defined in sections 1 and 2 of the Utility Model Act (GebrMG). [xvii] These two paragraphs set the absolute preconditions required for obtaining protection. Inventions must be new, involve an inventive step, and be capable of industrial application in order to eligible for protection as a utility model. As in the case of patents, several types of inventions are not considered as acceptable subject matter for a utility model. Such non-registrable inventions include:

- Processes for manufacture or use;
- Discoveries, scientific theories, and mathematical models;
- Aesthetic creations;
- Schemes, rules, and methods for performing mental acts, for playing games, or for doing business;
- Programs for computers;
- Presentations of information;
- Inventions covering matter that, if published or used, would contravene “public order” or morality; and
- Plant or animal varieties.
Therefore nearly the same subject matter can be protected by a German utility model as by a German patent as described in sections 1 and 2 of the German Patent Act (PatG). [xviii] The most important exception is that processes cannot be protected as utility models. In particular, case law has indicated that a new use for a known substance is to be considered a process and therefore not protectable as a utility model, although König [xix] has offered a dissenting opinion on this matter. It should be noted, however, that means or substances described by a product-by-process claim might nonetheless still be protected as utility models.

B. Novelty for the German Utility Model

The invention of the utility model is considered to be novel according to GebrMG § 3 if it does not form part of the state of art comprising any knowledge available to the public in Germany through either written description, as in a patent or publication, or use within the territory of the Federal Republic of Germany. In other words, oral disclosure does not destroy novelty of Germany utility model nor does public use outside of Germany. In contrast, EP or German patent must have absolute novelty and oral disclosure or public use anywhere destroys novelty. In addition, there is a grace period of six months prior to the priority date of the utility model for written description or use if it is based on the concept of the applicant or his predecessor in title. In order to remove uncertainty regarding the question of novelty of the utility model application, the applicant can elect to request a prior art search at the time of application or at a later date. This prior art search is in no way a requirement.

In contrast, the German patent law defines the state of the art quite differently and more broadly. [xx] For patents, the state of the art includes all knowledge made available to the public (anywhere in the world) by means of a written or oral description, by use or in any other way, before the priority date of the patent. It should be noted that there are considerable differences in how utility model law and patent law treat unpublished prior art. According to PatG § 3, the content of several types of patent applications, having an earlier priority date and which were published only on or after the date of the German patent application in question, are also considered to be part of the state of the art in the case of German patents. These prior art applications include German national patent applications and international applications filed under the PCT and for which the German Patent and Trademark Office (GPTO) is the designated Office with respect to the application. Additionally European applications designating Germany and for which the designation fee has been paid are also part of the prior art unless the European application is based on an international application and does not fulfill the requirements of EPC § 158(2).

In addition, the GPTO takes in accordance with the GebrMG, a prior claim approach with utility models. In the prior claim approach it is still possible in principle for a utility model claim to be novel and have an inventive step over prior art that is simply disclosed in the description of an earlier patent or utility model. It is therefore often possible to amend the claim of a utility model to get around an earlier claim. In contrast, the GPTO tends to take a prior contents approach when judging the novelty and inventive step of a patent claims. In the prior contents approach, the entire contents of the earlier application are looked at in judging the novelty and inventive activity of a patent application.

In summary, it can be concluded that the novelty requirements of a German patent application are much stricter than those for a utility model application.

C. Inventive Step

The inventive quality defined by the meaning of GebrMG § 1(1) is an inventive step (erfinderischer schritt) that is more than just handicraft skills and, as such, is inventive over the prior art defined by the prior section on novelty. Compared to a German patent, a utility model has a less rigorous requirement for the inventive character--the utility model inventive step is satisfied by anything beyond handiwork and prior art. For patents, inventive activity is required. Inventive activity should not be obvious to one skilled in the art or be a simple extension of the state of the art. [xxi] Patents require novelty and inventive activity (erfinderische taetigkeit), understood as being something not obvious to one skilled in the art starting from the prior art and not a simple extension of prior art.
Despite a lower threshold for determining inventive step in utility models as compared to patents, the fate of utility models is less secure than patents. This can be generally ascribed to the human factor in judging the inventive character. The human factor is particularly important during the cancellation proceedings for utility models and, in the case of patents, appeals of decisions of the Examining Sections or Patent Divisions before the Chambers of Appeals or proceedings for a declaration of nullity of patents before the Nullity Chambers. Since there is always a technical member on the latter Chambers in patent matters, this member may be hesitant to indirectly attack his colleague in the Examining Section by attacking the inventiveness of the patent in question. In the case of the cancellation proceedings for utility models, a new unbiased panel is convened. Because the inventive step in the utility model claims have not actually been examined by the GPTO during the formal examination and registration process, they are much more likely to take a quite critical stand on the matter of inventive step.

D. Examination and Registration of Utility Models

The registration of the utility model typically takes about two to three months from the filing date. The Utility Model Section of the German Patent and Trademark Office examines utility model applications only with regards to the formal requirements of the first section on allowable subject matter (absolute preconditions) prior to registration. The relative preconditions— the requirements of novelty, inventive step, and industrial applicability— are examined only during litigation processes, for example, in the event of nullity or infringement proceedings. This means that a utility model, which satisfies the subject matter requirements, will be registered even if it fails to meet one of these relative preconditions. But while the utility model is granted in this scenario, it remains invalid and, thus, not enforceable. No rights are granted; instead, only a fictitious title results. This lack of legal certainty can be avoided by prior art searches carried out either by the applicant or the applicant's representatives or, upon request, by the German Patent and Trademark Office. [xxii]

The GPTO undertakes an examination of a German patent application prior to grant with respect to the formal requirements of PatG § 34, 36-38 [xxiii] and considers whether the invention is or is not patentable due to its nature, subject matter, or amenability to industrial application. The applicant may comment or make amendments to the application upon notification of any deficiencies in the application. In contrast to the utility model, a third party can request that the patent be examined for “informal” requirements, [xxiv] although the third party does not become a party to the proceedings. The filing of a request for search reports by applicants is fairly rare. A more efficient strategy for the applicant is to request an expedited examination of the patent application. The applicant can then receive an actual opinion within twelve months. This opinion can be useful not only in judging the strength of the patent in question, but it can also help the applicant to decide whether to also file for further patent applications under the PCT or EPO. In the case of utility models, it is much more common to assert them on the basis of the GPTO search report, especially if no examiner's report is available yet on a patent application filed on the same invention.

In a similar manner, the applicant or a third party may request examination of the patent application as to formal requirements, as above, and whether the subject matter is patentable under the requirements of sections PatG § 1-5. These requirements include the content of the application and the payment of the fee, naming of the inventor(s), and the prohibition of the addition of new material through amendments. The requirements of PatG § 1-5 include allowable subject matter, novelty, inventive act, and industrial applicability. If the application is judged to be defective with regards to formal requirements, the applicant will be requested to remedy them within a certain period of time. If the application is judged to be defective under these sections, the applicant is notified of this decision and its basis and also invited to comment upon them within a period of time. The applicant may reply with comments and/or may chose to amend the application at this time. A decision to grant a patent or reject an application may be appealed by either party to the Patent Court.

E. Priority and Derivation of the German Utility Model

In the case of the utility model, the date of receipt determines the priority date of the application unless other priority is claimed. According to GebrMG § 6(1), domestic priority may be claimed based on an earlier patent or utility model application filed with the GPTO for the same invention, except in the case that the earlier application
has already claimed a domestic or foreign priority. As in the case of a patent, this domestic priority may only be claimed within twelve months of the filing date of the earlier GPTO application. This claim to domestic priority of the utility model application must additionally be made within two months of the filing date of the utility model application, and priority may be claimed only for those features that are adequately disclosed and supported by the earlier application.

Priority may be claimed based on a combination of several earlier applications. If the earlier application is also a utility model application and is still pending before the GPTO, it will be deemed withdrawn when the priority claim is made. The features of the laws governing claims to domestic priority for German patent applications are quite similar and are found in PatG § 40, and many of them apply mutatis mutandis to utility model applications. Finally, foreign priority based on an earlier application disclosing the invention in a Paris Convention country may also be claimed for a utility model application according to GebrMG § 6(2) in exactly the same way as for a patent application. [xxv]

An interesting additional option for a German utility model application is to make a derivation or “branching” (abzweigung) application off of an earlier patent application on the same subject matter and invention with effect in Germany, [xxvi] such as a national patent or an international (PCT) or European application designating Germany. In this case the filing date as well as the priority date of the patent application is maintained in the derivative utility model application, and the filing date of the patent determines the term of the protection offered by the utility model. This derivation right can be exercised up to two months after the prosecution of the patent application is completed, for example, the grant of the patent, rejection of the application, or conclusion of opposition proceedings. However, this derivation can no longer be exercised once ten years have passed since the date of filing of the patent application. A derivative utility model application can also potentially be a useful tool for dealing with an original patent application for which the search results indicate an incurable deficiency with respect to the stricter inventive activity or novelty requirements of a patent application but which still meets the lesser requirements for a utility model application.

However, there are limitations imposed on the derivative utility model application. Since processes are not protectable in a utility model, the application cannot branch off of a patent application having only process claims. Similarly, if the patent application has both product and process claims, the process claims must be deleted in the derivative utility model application. Along the same lines, one must be careful to avoid introducing “new material” into the utility model application that is not supported by the original patent application.

In spite of these limitations, the derivative utility model application can be a useful strategic tool, especially in the case of infringement. For example, if the applicant has received a favorable search report already in the patent application procedure and is aware of a potential infringer, the applicant can much more quickly obtain strong protection in the form of the full injunctive and damage rights by filing a derivative utility model application. This derivative utility model will generally be granted much more rapidly than the patent, especially if the pending patent application is a European one. In addition, the claims of the derivative utility model application can be amended and adapted to a known infringement product, so long as everything in the amendments had been disclosed in the original utility model application. In this manner, the applicant can create a situation of clear and unambiguous infringement, which may be easier to enforce in infringement proceedings.

F. Term of Granted Utility Model

The registered utility model is initially granted protection for a term of three years, beginning the day following the filing of the application. The term may be renewed for another three years upon payment of a fee, followed by additional terms of two years each up to a maximum total utility model term of ten years. [xxvii]

In contrast, the term of a German patent is twenty years, beginning on the day following the filing of the application for the patent. [xxviii] Furthermore, annual fees are due for an application or its resulting patent beginning in the third year. If these annual fees are not paid within the required time limits and conditions, the patent application will be deemed to be withdrawn or the patent to be lapsed. [xxix]
G. Infringement Proceedings

For the utility model, protection from infringement begins upon publication of the utility model registration and covers uses of the subject matter of the utility model, such as offering, producing, using, selling, importing, or possessing for the stated purposes. GebrMG § 11-14 defines the scope of protection of a registered utility model in terms of prohibited acts, limitations in scope of effects (i.e., exemptions for private or experimental use), and scope of protection (i.e., defined by the claims, which may be interpreted based upon the description and drawings).

The proprietor of a registered utility model may sue infringers in order to: stop the infringing activities, claim damages, bring about the destruction of infringing goods, and obtain information on the origin and distribution channels of the infringing product. [xxx] In addition, the infringer may be subject to fine or even imprisonment and the infringing goods may be subject to seizure by customs officials according to GebrMG § 25. However, because no substantial examination of utility model applications is carried out, a potential infringer may commonly defend himself by asserting a claim against the proprietor of the utility model for cancellation of the utility model, as discussed in the next section.

H. Cancellation of the Utility Model

According to GebrMG § 15, any person may assert a claim for cancellation of a utility model in the case that (1) the subject matter is not registrable within the terms of GebrMG § 1-3, (2) the subject matter is already protected based on an earlier patent or utility model application, or (3) if the claims extend beyond the content of the application as originally filed. A request for cancellation stating the grounds for cancellation is filed with the GPTO along with the fee. [xxxi]

Upon receiving a cancellation request, the GPTO notifies the proprietor of the requested cancellation and invites him to reply within one month. The utility model is cancelled if there is no response. Where the proprietor contests the cancellation, the GPTO notifies the requestor and investigates the merits of the request. The final decision is based on a hearing and that decision is then communicated to the parties in writing. [xxxii] This decision may then be appealed to a Chamber of Appeal of the Patent Court; [xxxiii] an appeal on a point of law from the Chamber of Appeal may be appealed to the Federal Court of Justice. This appeal to the Federal Court of Justice is only possible, however, where the Patent Court allows it.

I. Advantages/Disadvantages of Utility Models versus Patents

As suggested by the discussion above, there are several advantages of utility models in comparison to patents. Some of these advantages include:

• Lower costs;
• Less strict requirements concerning novelty;
• Less strict requirements concerning inventive character;
• More expedient registration procedure;
• A certain strategic means (branching off) for obtaining full protection for an invention during the intermediate period between publication of a patent application having effect in Germany and its actual grant; and
• A means to protect a “lesser” invention that a PCT or EP search or opinion indicates would not meet the more rigorous novelty and/or inventive step requirements for a patent.

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Requirements

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Table I: Overview of the Stages of Prosecution Leading to Grant of IP Right

The above table illustrates why utility models are granted faster and are typically less expensive than patents. The examination for formal requirements for utility model and patent applications typically takes only a few months at most. The German patent office and EPO then require the payment of a fee for carrying out the prior art search. The search can usually be carried out within a few months, and it is completely optional for a utility model, which may instead be directly granted at the conclusion of the examination for formal requirements. After the patent applicant receives the search report, the applicant may decide to request substantive examination and pay the examination fee, depending on whether or not the report is positive. The substantive examination of patents at the German patent office or EPO may take many months or even several years depending on the particular circumstances, such as the number of prior art documents found in the search and their relevance to the claimed invention, the speed at which the applicant requests and pays for the examination, the necessity of amending the claims and the willingness of the applicant to do so, the speed at which office actions are prepared and sent by the examiner, and the speed at which replies are prepared and sent by the applicant. Therefore, it may be concluded that utility models are granted more rapidly since they do not usually undergo a prior art search at the patent office and never undergo substantive examination at the patent office prior to grant.

Concerning expenses, typically the patent applicant must pay both a search fee and an examination fee during prosecution, anticipating any possible grant of a patent. For businesses using outside counsel, such as small businesses without their own internal patent counsel, substantial additional out-of-pocket legal expenses may be incurred. These legal fees may derive from the hours of time required for counsel to analyze the search results and to develop a prosecution strategy with respect to any relevant cited prior art and the time needed to respond to office actions during the examination phase. For these reasons, obtaining a utility model is also generally less expensive.

Furthermore, for the case of EP patents, it should be noted that any opposition to the grant of the EP patent at the EPO by other parties will generally extend the prosecution phase of that patent by several years, particularly if either or both the patent proprietor and opponent(s) end up appealing the decision of the Opposition Division. Any opposition and subsequent appeal will also greatly increase the legal expenses for the proprietor, particularly for small businesses relying on outside patent counsel.

Despite its benefits, there are several disadvantages of the utility model as compared to patents, including:
• Inability to protect a method or process in a utility model;

• maximum protection period of ten years is inadequate for some inventions;

• Utility model can be “weaker” than a patent in that it is not examined as to substance during the examination procedure (therefore it is a good practice to attack an infringer only if one at least has a search report on the utility model); and

• Postponement of infringement proceedings by the parallel claims of a potential infringer for cancellation is more likely to succeed in the case of a utility model than a patent.

J. Conclusions

Based on an examination of the prosecution histories of many German patents (e.g. the option of branching off a utility model application from a patent application), and the large number of utility model applications that continue to be filed, it can be concluded that the German utility model is in many ways a complementary or even competitive means, relative to patents, for the protection of intellectual property in Germany. For example, although the numbers have shown a slight downward trend in recent years, the number of German utility model applications filed, concluded registration procedures, registered, and in effect in 2005 and 2006 are about twenty to thirty percent of the respective numbers for German patents originating from national and EP applications. [xxxiv]

Despite their appeal, larger firms such as those in the German chemical industry have taken the position that utility models are “unsafe,” and oppose them. For example, large firms do not wish to consume their resources defending themselves against an unexamined right. However, such companies could handle utility models more strategically and monitor potentially infringing utility model applications as is done in the case of patent applications. These companies could, for example, gather evidence indicating a lack of novelty or inventive step for the “troublesome” utility model and file litigation requesting cancellation of the utility model. However, this additional monitoring and litigation is quite costly for the firms involved. Furthermore, there is considerable risk of receiving negative publicity in the event that one of the major chemical manufacturers takes action against the utility model of a much smaller company. On the other hand, Grund and co-authors have taken the position that utility models can be used to great effect in the biotechnology sector, [xxxv] especially since a somewhat recent decision by the German Federal Court of Justice (BGH) [xxxvi] has allowed medicinal uses of chemical compositions and biotechnology products to be protected as utility models. Nonetheless, although they have been subject to some criticism, it seems clear that the utility model system has many advocates in Germany and will remain a useful intellectual property protection method for quite sometime into the future.

II. Utility Models and the US Intellectual Property Law System

As mentioned in the introduction, the US does not and never did offer protection for inventions in the form of utility models under its intellectual property laws. In this section, the potential benefit of an introduction of utility models into the US is examined, particularly for the case of small businesses or certain industries. Then, the negative aspects resulting from a possible introduction of utility models are considered, and finally, the changes in other areas of US law that would be required for a successful introduction of utility models are discussed.

K. Potential Benefits of an Introduction of Utility Model Protection in the US

Even in today's modern US economy, large enterprises play a much smaller role than often expected. [xxxvii] For example, according to the U.S. Small Business Administration (SBA), ninety nine percent of all independent enterprises in the US have fewer than 500 employees, and these small enterprises employ fifty two percent of all US workers. In fact, about 19.6 million Americans work for businesses having fewer than twenty employees, 18.4 million Americans work for companies employing between twenty and ninety nine workers, and 14.6 million work for businesses employing between 100 and 499 people. In contrast, 47.7 million Americans work for larger firms employing 500 or more people. In addition, small businesses provided seventy five percent of new job growth in the
period between 1990 and 1995, an even larger contribution than in the 1980's. It is evident that small businesses are a critical part of the US economy and a major contributor to its growth.

Unfortunately, US intellectual property law and its practice can be financially challenging to small businesses. For example, it is estimated that the typical cost for a small US business to obtain a patent might be $20,000 to $30,000--not including the necessary attorney's fees and associated legal services. [xxxviii] In fact, due to these rapidly increasing costs, some small businesses question whether filing a patent is a worthwhile practice. [xxxix] Similar comments have been made by small business leaders in Congressional testimony; for example, Mitchell Gross, Chairman and CEO of Mobius Management Systems, has stated that the process of issuing US patents is too costly and takes too much time. [xli] Therefore it appears that there is clearly a need for a more rapid and less expensive form of intellectual property protection for inventions in the US, particularly one that would be affordable and useful to small businesses.

Of course, the reduced costs associated with utility models would benefit not only small businesses, but also larger technology firms. Those businesses that are characterized by rapid innovation and short product cycles would benefit from the inexpensive and rapid protection of intellectual property rights, as discussed above. In particular, start-up firms would more quickly obtain enforceable IP protection for their developments, which could aid them in seeking capital and investors. In addition, US firms face increasingly stiff competition from abroad, and some of the rapidly developing countries still have weaker IP protection and enforcement, which has in some cases fostered the development of companies that are quite effective at rapidly bringing copying or imitating products to the marketplace. Therefore a number of firms in various industries might also potentially benefit by being able to quickly obtain an enforceable IP right in the US to help in dealing with the potential importation of any such copied or imitated products.

L. Potential Disadvantages of an Introduction of Utility Model Protection in the US

One major concern is whether the implementation of utility models might cause significant harm to US business. For example, the introduction of utility models as an unexamined right might only exacerbate the current problems related to the litigation of poor quality patents or overly broad patent claims. Many authors are in agreement that such litigation is a large burden to US business, particularly smaller businesses, which often do not have the financial resources and personnel to deal with lengthy and costly litigation. [xli]

Intellectual property litigation involves significant cost and uncertainties, which make it unattractive to smaller start-ups, even though it can lead to a significant financial return and the exclusion of competitors. The costs might include the preparation of the legal case, distraction of employees, attendance of court proceedings by witnesses such as employee inventors, and document production. Furthermore, there may be considerable risks of the loss of trade secrets through the discovery process and of counterclaims of infringing the competitor-defendant's patent portfolio. [xlii] Even though most patent lawsuits settle before trial, attorneys' fees and the indirect costs of litigation are almost always still high.

There are also indirect business costs associated with patent litigation, which may include strained relationships and jeopardized cooperative development. Furthermore, businesses in weak financial positions may experience dramatic increases in their credit costs due to potential bankruptcy risks created by patent litigation. Researchers report that alleged infringers lose approximately a half a percentage point of their stock market value upon being sued for patent infringement. [xliii] Furthermore, they report that this indirect cost is actually an order of magnitude larger than those of the actual legal fees of the patent litigation. This indirect cost and amounts to about nineteen percent of these same companies' R&D spending, an amount that is often greater than some estimates of the value of their granted patents.

Not only have the costs of patent litigation been traditionally high, they have been increasing dramatically in recent years, as have the rates of patent litigation. [xliv] Limited available evidence and its analysis, as well as anecdotal evidence, indicate that the high costs and risks of litigation have created opportunities for abuses of the patent system in which there is the potential for larger and wealthier firms to willfully infringe the patents of
individuals and small businesses or to exert clearly invalid patents against smaller firms. [xlv] Clearly it is small businesses that are most at risk in the litigation of poor quality patents. Without other additional systemic changes and reforms, the introduction of an unexamined IP right such as utility model protection would only increase the burden on small and all other businesses, as well as add additional stress to an already overloaded court system.

M. Means to Address Limitations of Utility Models for the US

The introduction of utility model protection into the US could bring significant benefits only if it were accompanied by legal system reforms and the development of new business methods for minimizing the cost and risk of IP litigation.

Numerous authors over the years have proposed reforms of the legal system and the process of litigating patent disputes. Such reforms and changes could promote the successful introduction of utility model protection. A few relevant and representative reforms will be briefly mentioned here. For example, it has been proposed that limits be put in place to control excessive damage awards. Such a change may promote the settlement of patent disputes, discourage speculation in litigation, prevent the protection of patents of questionable validity, and better confine the reward of patent holders to within the scope of their invention. [xlvi] Similarly, to control and limit excessive damage awards might also reduce the risks in the litigation of unexamined short-term registered rights such as utility models. Indeed, the relatively smaller damage awards and lack of punitive damages available in other regions such as Europe are a factor in the relative success of utility model protection in those regions.

Also, fostering or even mandating the use of alternative dispute resolution methods such as mediation and arbitration has been proposed as a useful means to control costs, reduce damages, and increase the speed of resolution of patent disputes. Finally, several authorities have hypothesized that more widespread availability and reduction in the cost of patent insurance for both pursuing patent infringers (patent abatement or enforcement insurance) and for defending against patent infringement suits (patent liability insurance) would be an effective means of minimizing the sometimes crippling financial effects of patent litigation. [xlvii] According to The Danish Patent and Trademark Office (DPTO), this is a major reason why SMEs do not patent their inventions as frequently as do larger firms. The high cost of patent insurance is also why the DPTO has, for some years, strongly urged private insurance providers to offer patent insurance to the Danish market. [xlviii] In addition, the European Commission's expert Best Practices on Enforcement of IPR working group has a sub-group for Funding and Evaluation that is working on promoting the possibilities of obtaining insurances in Europe covering patents and other types of intellectual property rights. [xlxi] Unfortunately patent insurance is generally quite expensive and of limited availability, in part due to the difficulty in assessing the risk to be insured. As a consequence, patent insurance might find widespread application only in markets that have also been undertaking efforts to reduce the costs and uncertainty of patent litigation.

III. CONCLUSIONS

Utility models are an important, albeit second-tier, means of protecting inventions and lesser inventions at lower cost for shorter periods of time. They are complementary and sometimes even competitive means, relative to patents, and thus particularly useful to SMEs. In particular, the derivative utility model application can be a very useful strategic tool, especially in the case of infringement. Therefore utility models are a useful intellectual property right to be considered by US applicants and practitioners in their strategies for international intellectual property protection.

Furthermore, the introduction of utility model rights in the US could benefit small businesses and start-up firms in the form of low cost and rapid IP protection. Such firms may benefit not only from the reduced costs but also from the rapidly obtained enforceable IP right. This may assist start-up firms in obtaining capital or seeking investors, stimulate innovation in industries characterized by rapid developments or short product cycles, or be useful to a variety of firms in dealing with the importation of any rapidly copied or imitated products. However, the effective integration of an unexamined IP right such as the utility model into the US would require further refinement of patent insurance products as well as the development of markets to minimize the costs and risks.
incurred in the litigation of IP rights.

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[v]. EPC, supra note 4, art. 135,137, rule 155,156; see also VISSER, SUPRA NOTE 4, 322 - 325 AND 625 - 626.


[xx]. German Patent Act § 3

[xxi]. German Patent Act § 4

[xxii]. Utility Model Act § 7

[xxiii]. German Patent Act § 42

[xxiv]. German Patent Act § 43

[xxv]. German Patent Act § 41

[xxvi]. Utility Model Act § 5

[xxvii]. Utility Model Act § 23

[xxviii]. German Patent Act § 16(1)

[xxix]. German Patent Act § 20

[xxx]. Utility Model Act § 24

[xxxi]. Utility Model Act § 16
[xxxii]. Utility Model Act § 17
[xxxiii]. Utility Model Act § 18


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[xlv]. M. Haberman and R. Hill, Patent Enforcement for SMEs and Lone Inventors--A System Failure, Intellectual

[xlvii]. Bessen & Meurer, supra note 44


[xlix]. Id.