The European IP market needs a revolution

The European R&D and patenting world treat intellectual property as a legal right and nothing else. Most companies and investors want that attitude to change. If it does, a number of exciting possibilities can begin to emerge. What Europe needs most is intermediaries from outside the law

By **Giancarlo Migliori**

A recent EPO survey revealed that 60% of Europen companies do not care if the inventions and technologies they find and use are patented or not (which surely helps explain the modest levels of patent registrations in many EU countries!). At the same time, however, countless European surveys have revealed that technological innovation is the priority for the EU's institutions, as well as national and regional governments, industrial associations and others; and that European companies are very keen to improve technological innovation (including R&D outsourcing) as key weapon in the global competition race.

These conflicting findings tell us a few key things about the type of IP market Europe should adopt, given that improving its existing one is an official target, as set out by EU leaders in the Lisbon Agreement.

But there are steps which could be taken and which could lead to significant change in the European IP market and which I examine from an atypical angle, given that much has been written to show IP is a key intangible asset but little has been written about IP as the key industrial/commercial tool in the global competition game.

Take, for example, the UK research capability, which is well known and highly regarded. A recent Japanese study tried to calculate the ratio between such R&D supply and the actual innovation the country retained and developed internally. The result was published in the UK press and showed a staggering yearly loss of £8 billion, represented by patented and non-patented innovation which was purchased by foreign interests or drifted abroad in other ways before turning into economic value, thereby enriching other economic systems.

In Italy, meanwhile, the official Ministry of Commerce statistics regarding IP each year show inflows and outflows of services related to: technology trading (patents, know-how, inventions); brands and trademarks; technology services (consulting, expert staff, training, reports); foreign R&D inflows; and others. The result since the year 2000 has been approximately a Euro 1 billion deficit, something which the country would dearly love to recover or even turn into profit.

European recovery and growth depend on hammering home this message: IP as part of the technology value chain and marketplace is crucial to the future of corporate competitiveness.

IP and technology so far

There are three factors that need to change in the European IP landscape:

- The IP world tends to treat its practices and services as essential, separate, almost standalone. Things such as patenting, licensing and trademarks are presented to companies as legally dominated activities carried out mostly by traditional, registered, secretive agents.

  IP's main users and clients, such as industrial and commercial companies, investors and financiers do not share that view. They see IP as something that speeds up the flow of better technologies and ideas, matched and/or traded so as to enable companies to compete and win in increasingly open and dynamic global markets.

  IP therefore must be made easy and economical, and it must be integrated

Chart 1. **New methods that facilitate/accelerate/stimulate innovation flows** (an Italian example)

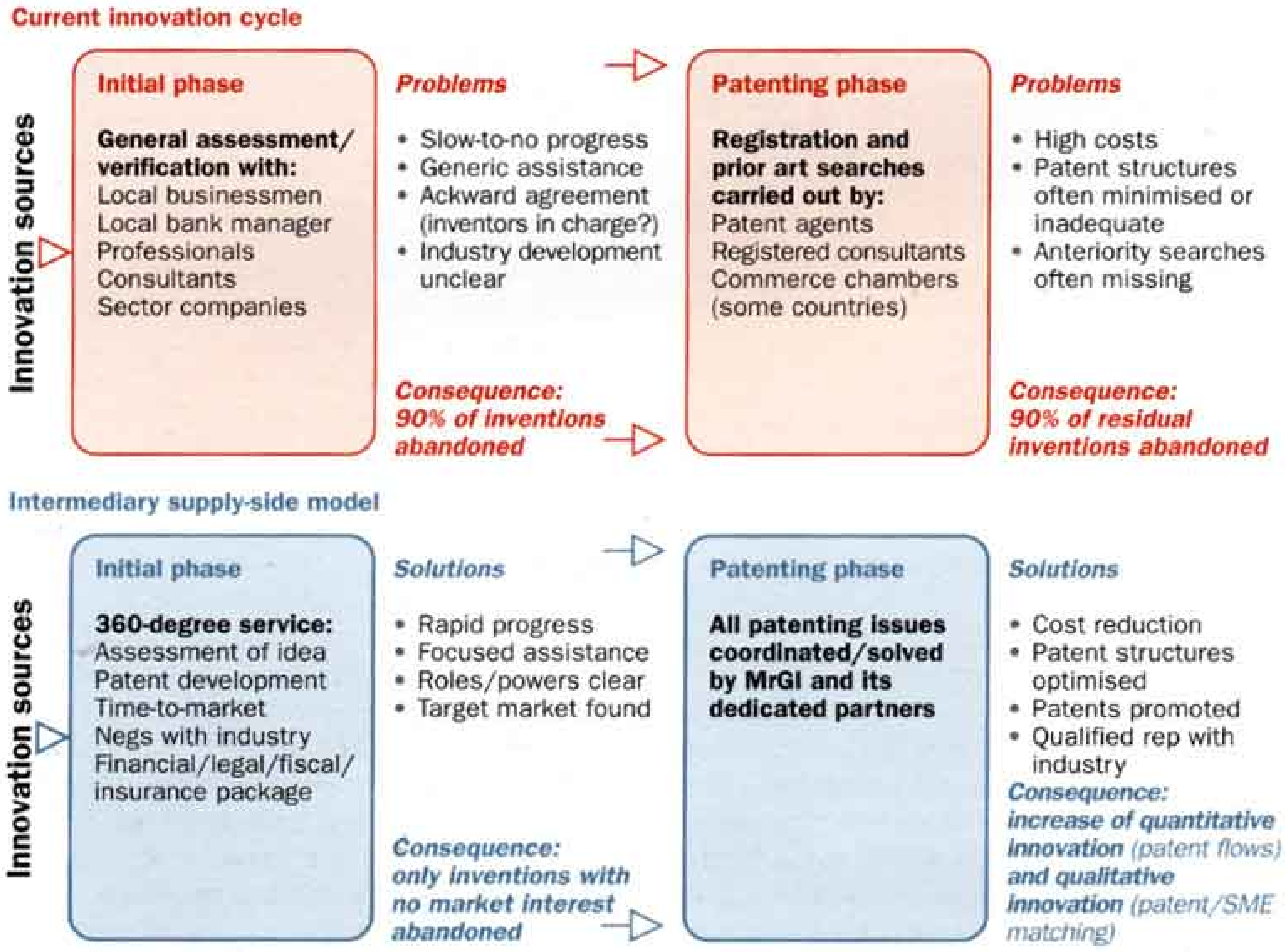

Chart 2: **Potential new deal flows from integrated IP & TT market-making** (UK example)

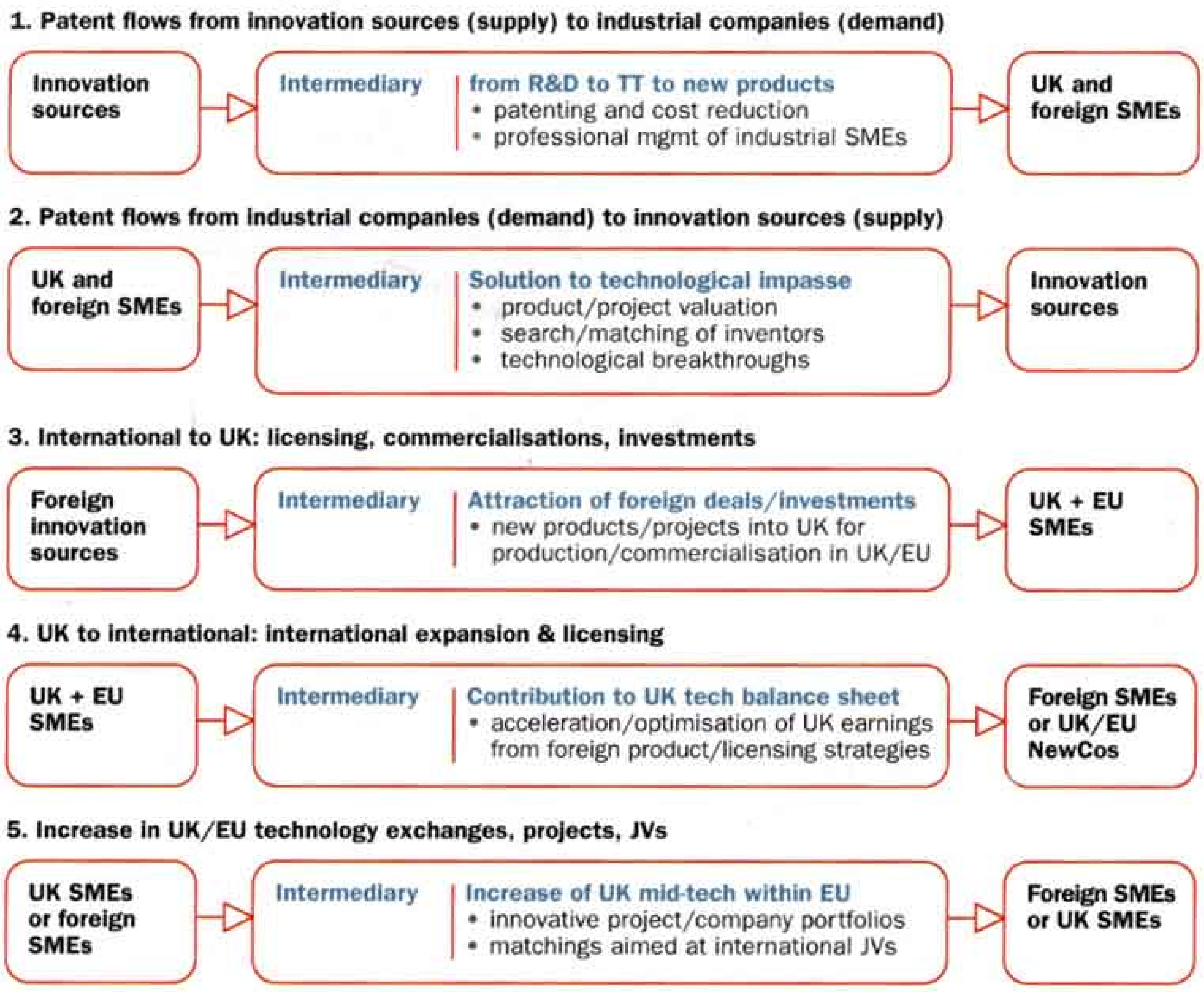

Chart 3. Large EU markets (UK, Italy, Germany, France): value of potential business

There are now IP service companies able to supply industrial demand (SMEs) with affordable outsourcing solutions costing as little as the lowest level of current EU R&D investments (ie, 0.5% of turnover) but far more effective. This makes them uniquely competitive to many industrial clients in need of these services.

Potential valuation in each large EU market (based on EU data)
Industrial companies selected with

Turnover of Euro 4 million to Euro 150 million, linked to rate of R&D investment (net of public sector) to turnover

Products used similar to investment banking product values: base 40K/mini 80K/midi 200K

- **Market value and number of companies with R&D investments 0.5% of turnover (current level)**
  Base product only – companies involved up to 20,000 – potential new market: Euros 800 million
- **Market value and number of companiess with R&D investments 1% of turnover (50% Lisbon target)**
  Base+Mini products – companies involved up to 60,000 – potential new market: Euros 2.4 billion
- **Market value and number of companies with R&D investments 2% of T/O (100% Lisbon Target)**
  Full product mix – companies involved up to 90,000 – potential new market Euros 4.8 billion

There is huge value and first mover advantage in becoming a leading intermediary in the last unconsolidated multi-billion euro corporate service in Europe

into the technology sector so as to become a standard part of industry's tools for competitiveness.

- IP in Europe is strongly led by the state and academic sectors. Their investments are higher than private ones, their research concentrates more on world-breakthroughs than on easily applicable industrial novelties. This contributes to Europe's historical mix being dominated by R&D/high-tech/large corporations, despite 80% to 95% of companies being SMEs whose output in products or services is mid-to-low-tech. Consequently, European business's urgent, desired technology mix should actually focus on tech transfer, mid-tech, SMEs! A mix requiring dynamic, integrated IP services.
- In Europe there is no IP and technology intermediary market. We know that no market has grown without a sizeable intermediary sector, as is the case with finance, insurance, marketing and most other business services.

The supply side of IP is ready for it, with state R&D, universities, labs, private inventors, corporate R&D all producing excellent IP flows. The demand side is certainly ready for it, with corporate sectors putting IP and technology top of their agenda (eg, 72% of companies even in Italy, a country long at the bottom of EU's stats).

Yet we see that only the patenting part of the technological value-chain is well covered. What has so far been missing is a system matching these IP flows in the marketplace, going beyond patent registration in order to interpret new technologies with an all-round service designed to lower the traditionally high wastage levels (see chart one). Global markets require specialists who find, select, value, package, trade, license and outsource IP and technologies on a large scale, for both industrial and investment purposes.

This must be Europe's true priority and there are business models around that can do it.

IP and technology in the future

Europe has excellent R&D capability, abundant innovation supply and demand, a newly dynamic university environment, and huge funding from the EU down to local regions and cities (though raindrop methods are to be reviewed to become more selective).

It has an official target in the Lisbon Agreement, which has stipulated that Europe be the world's leading knowledge-based economy by 2010 and has set a target for all member states of the EU to spend 3% of GNP on research.

But to be successful, Europe needs to act on the three factors mentioned above.

Integration between IP and technology

Earlier this year two top events were held in London, three weeks apart: the first was about IP; the second was about technology. The IP event was relatively small and while 10% of the 150 people present came from corporations, the rest of the audience was made up of agents, attorneys, lawyers and other IP consultants. There were no representatives from the investment community, finance or the banks. The technology event, on the other hand, was huge (around 1,500 people attended) and vastly richer, with a 40% corporate representation and 60% composed of investors, VCs, banks and similar organisations.

Two observations: there is no real money in IP on its own, all the money is in technology; and, I was the only person present at both events – ie, IP and technology are two separate worlds.

This is not a viable model if IP is to become an accepted asset class in Europe, neither will it help European corporates to embrace IP widely and systematically, nor persuade investors to understand it and go for it!

Instead, the European IP world should do its utmost to play down its legal bias and promote its key role in the creation and valuation of technology as a competitive advantage to business. This will help both the corporate and investment world to realise that IP is not a legal minefield but rather an excellent method to create, preserve and enhance both assets and profitability.

The changing IP mix for Europe

As previously stated, most funding and interest in Europe today go to a technology mix made up of R&D/high-tech/large corporations. This model satisfies universities' base research and a few boutique corporate finance companies competing for deals mostly in ICT and life sciences.

However, a far bigger volume of IP and technology transactions is ready to happen in the majority area of tech transfers/mid-tech/SMEs - an example of its potential deal flow is shown in chart 2 – thanks to EU industry having now realised their technology gap and the irreversible nature of competition from BRIC (Brazil, India, China) and other nations.

Unfortunately, this market is currently serviced by patenting consultants and little more. There are no integrated IP facilitators. There are too few innovation hubs, one-stop technology service providers or IP merchant banks as increasingly exist in the US.

An IP and technology intermediate market

We know that intangible assets can now account for nearly 80% of overall corporate value. We know that the value of traded licences alone has exceeded US$100 billion worldwide.

Now the European corporate world is ready to turn these enormous values into better opportunities for IP and technology flows of various kinds.

The main hindrance to this happening is the absence of medium and large intermediaries. So, for example:

- When a UK company had to engineer asset-backed finance against future IP values it had to call on IPI in the US.
- When EU companies want to raise debt in general or turnaround brands in particular they need to call UCC in the US.
- If EU inventors or universities wish to widen their IP portfolio exchanges they can call various national or regional companies in Europe, but to access global portfolios they need to call OceanTomo in the US.
- If European supply and demand wish to meet in a physical IP marketplace again they had better look to the breakthroughs coming from the US in terms of online exchanges or auctions.

Must we resign ourselves to an inadequate, illiquid IP and technology market in Europe, where there are few large deals a year? No.

MrgoodIDEA in Italy, IPB in Germany and perhaps Aorta in Scandinavia are young companies aiming to reach large volumes as well as high values in their portfolios. But there needs to be many others.

For that to happen quickly, though, three key initiatives need to be put in place:

- Focusing the attention of the R&D world on the intermediary market, in particular promoting tech transfer and inserting service companies in EU and national funding and credit lines from which they are now frequently excluded.
- Incentivating the banking sector to develop and offer its own IP & technology services (*IAM*'s finance panel is a good example in this area) which represent a truly huge potential for them in both corporate and investment services.
- Teaming up with dynamic US partners to accelerate the offer of next-generation IP services, both in the corporate and investment areas.

Potential market size

Unfortunately, there are few useful statistics about actual IP-related services in the EU.

In chart 3 I have tried to estimate the majority segment that this article has focused on – ie non high-tech for SMEs – limited to corporate services, without asset management products.

By any measure, however prudent, we end up with a multibillion business currently without intermediaries. This has to rate as the most promising service-sector opportunity in Europe today. I hope that by using some of the initiatives I have put forward we can soon develop a far more dynamic, large-scale IP market that is well integrated into Europe's technology flows and contributing to the well-being of both the continent's industrial and financial activities.

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