

Title: Amendments of design ownership provisions IA No: BIS0360 Lead department or agency: Intellectual Property Office Other departments or agencies:	Impact Assessment (IA)
	Date: 03/12/2012 Stage: Final Source of intervention: Domestic Type of measure: Primary Legislation Contact for enquiries: Janette.McNeill@ipo.gov.uk 01633 814750

Summary: Intervention and Options	RPC Opinion: RPC Opinion Green
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Cost of Preferred (or more likely) Option

Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
£0m	£0m	£0m	Yes	Zero Net Cost

What is the problem under consideration? Why is government intervention necessary?

The current provisions associated with ownership of UK designs are not aligned with those for EU designs, making the laws unnecessarily complex for business to understand, and creating complex ownership issues leading to legal disputes.

A change in the law is required to simplify and streamline ownership provisions of designs and reduce the likelihood of disputes over ownership arising.

What are the policy objectives and the intended effects?

To simplify legal provisions on ownership and to make them easier for business to understand, and therefore reduce the risks of using design rights.

To ensure legal provisions are fit for use and do not allow unfair exploitation of inconsistencies and complexities.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

- 1) Do nothing.
- 2) Amend the law to simplify legal provisions governing the ownership of designs.

Respondents to the consultation have identified that four of the five changes proposed would be beneficial to business, so we are proceeding with Option 2.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 04/2018

Does implementation go beyond minimum EU requirements?					
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible :

SELECT SIGNATORY

Date:

Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual □(excl. Transition) (Constant Price)	Total Cost □(Present Value)	
Low	0	0	0	0	
High	0		0	0	
Best Estimate	0		0	0	
Description and scale of key monetised costs by 'main affected groups' The do nothing option is cost neutral, however it does not meet the policy objective.					
Other key non-monetised costs by 'main affected groups' N/A					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual □(excl. Transition) (Constant Price)	Total Benefit □(Present Value)	
Low	0	0	0	0	
High	0		0	0	
Best Estimate	0		0	0	
Description and scale of key monetised benefits by 'main affected groups' The do nothing option is benefit neutral, however it does not meet the policy objective.					
Other key non-monetised benefits by 'main affected groups'					
Key assumptions/sensitivities/risks			Discount rate (%)		3.5

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0	Benefits: 0	Net: 0	No	N/A

Summary: Analysis & Evidence

Policy Option 2

Description: Amend the law to simplify legal provisions governing the ownership of designs.

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual <input type="checkbox"/> (excl. Transition) (Constant Price)	Total Cost <input type="checkbox"/> (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

Description and scale of key monetised costs by 'main affected groups'
It has not been possible to determine any monetised costs for this proposal.

Other key non-monetised costs by 'main affected groups'
There may be transitional time costs for businesses and legal advisor as they acquaint themselves with the new rules.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual <input type="checkbox"/> (excl. Transition) (Constant Price)	Total Benefit <input type="checkbox"/> (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

Description and scale of key monetised benefits by 'main affected groups'
It is not possible to calculate monetised benefits.

Other key non-monetised benefits by 'main affected groups'
Simplifications will help businesses by: reducing the risk and uncertainties of using design rights; enabling easier determination of ownership in assignments and licences; reducing the scope for unnecessary legal disputes about ownership; and reducing administrative burdens associated with official records about registrations. Altogether this should reduce resources spent in ironing out potential problems and make trade in designs, through licensing and assignments, easier. Responses to the consultation have suggested that in some cases, individual businesses may save up to several thousand euros, but it has not been possible to determine the overall effect on UK business.

Key assumptions/sensitivities/risks There is no realistic prospect of amending EU design law to reflect the UK position.	(%) 3.5
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BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: 0 Benefits: 0 Net: 0	Yes	ZERO NET COST

Evidence Base (for summary sheets)

Evidence Base

Problem under consideration

The laws surrounding the ownership of unregistered and registered design are unnecessarily complex, often creating ownership issues which can lead to legal disputes. The same product may be covered by four different types of design protection:

- registered UK design
- unregistered UK design
- registered EU design
- unregistered EU design

In some instances, the product may be covered by copyright as well. The law does not make consistent links between all of the rights, so a business may have to expend unnecessary resource in ensuring they can legitimately claim ownership across all the rights, or they may be subject to unexpected legal disputes if another party claims ownerships of rights to a product they are manufacturing. This complexity may present barriers to commercial activity and create inefficiencies in the market place. Respondents to the designs consultation have generally agreed that UK and EU law should be harmonised as far as possible.

Rationale

IPO evidence (Moultrie 2011) suggests the overall landscape of protection alternatives can be confusing for many firms. Survey and case study evidence suggests that multiple options of protection can be complex for managers, especially where costs, duration of protection, scope of protection and ability to defend each option are considered. In addition, this was raised by stakeholders as a result of our call for evidence. Respondents to the consultation generally feel that proposals to harmonise UK and EU law are beneficial for the reduction in complexity that they will bring. If unaddressed, there is a risk that companies could be involved in cost- and time- intensive legal disputes, therefore reducing the resources they are able to use on developing and expanding their businesses.

Stakeholders indicated there were 5 problematic areas. Following consultation, we are proceeding to amend the law in the first four of the five areas listed below.

1. Defences against infringement of artistic copyright

In recognition of the overlap between design and artistic copyright, when acting legally under one law, you cannot be 'caught' as acting illegally, by the other. So acts carried out with permission from the owner of a registered design are not infringements of the corresponding artistic copyright. However, this relates only to UK registered designs, not to corresponding designs registered throughout the EU (which includes the UK). So a UK business given permission to use a design registered in the EU could find itself in breach of UK copyright laws. This may lead to costly legal disputes. This proposal will amend UK law to ensure designs registered across the EU – which also cover the UK – are subject to the same rules as those for UK registered designs in relation to defences against copyright infringement. Respondents to the consultation overwhelmingly agreed with this proposed harmonisation.

2. Entering details of registered design ownership on the register

To avoid a situation where UK unregistered and registered designs for the same product inadvertently end up in different ownerships, the law generally states that when the ownership of one changes, the ownership of the other will too. In its role of guardian of the register, the IPO must be notified of any such changes in relation to registered designs, but cannot enter such changes on the register unless it believes the unregistered right is in the same ownership. This can create two interrelated problems:

- Rules regarding the ownership of unregistered UK rights are restrictive relative to those for registered designs, so the owner of the registered right may not be entitled to own the unregistered right;

- As unregistered rights, by their nature, are not entered on a central register, ownership is extremely difficult to check. This places a duty on the IPO which is correspondingly difficult, if not impossible, to fulfil.

In both cases, the IPO cannot enter the changes in ownership details on the register. Ownership details of the registered right may therefore be out of date, meaning that businesses who wish to contact registered design owners e.g. for licensing purposes or to resolve disputes, have to devote extra resources to tracking down the owner. This proposal will remove barriers to the IPO entering details about changes in ownership on the register, so that businesses can rely on that information being accurate and up to date, without having to seek further information elsewhere. Respondents to the consultation agreed with this proposal, suggesting that it simplified the system of recording ownership, and made it more likely that details would be up to date.

3. Ownership of commissioned designs

UK design law is out of step with both EU design and UK copyright law on the ownership of works which have been commissioned from one party by another. Under UK law, designs are owned by the person commissioning them, rather than the designer. The reverse is true for EU design (which is also valid in the UK) and UK copyright law: the designer (creator) owns the design (or copyright). So you could get a situation where the commissioner owns the UK right, but the designer may invoke EU design or UK copyright in any dispute.

This proposal will align the presumption about who owns commissioned UK designs so that, subject to any agreement to the contrary, the designer is regarded as the first owner in line with the EU provisions covering ownership of EU designs and with those governing ownership of UK copyright, which is particularly closely related to UK unregistered design. Respondents to consultation agreed with the harmonisation of the law that this proposal represented, suggesting that this would make the law easier to understand.

4. Claim to ownership

The person applying to register a design must sign the application form to confirm that he or she is the proprietor of the design. However, the web of different rights makes this a difficult claim to make, and if a mistake is made, e.g. the wrong legal entity is entered as the proprietor, this can in certain cases only be rectified by application to the courts. This means the business spends unnecessary time and money preparing and submitting amendments to the court, and the courts use unnecessary resources considering such cases, which could otherwise have been dealt with by the IPO.

If the business fails to correct the mistake in proprietorship details, its design could be at risk of attack and could be declared invalid. Failure to retain registration may make it more difficult for the owner to prevent other businesses from copying their products. It could also prevent the owner from gaining access to finance where that has been made dependent on ownership of registered IP rights. This proposal will remove the requirement on applicants to claim to be the proprietor of a design, whilst still permitting third parties who can show they are the real legal owner of the design to cancel the registration or apply for rectification of the register. Respondents to the consultation broadly agreed with the proposal, which could act as a mechanism for disputes over entitlement, and could cause delays in applying for a design whilst awaiting confirmation of e.g. changes in ownership, potentially jeopardising the ability for the business to exploit it.

5. Rules concerning joint proprietors or joint designers

Unregistered UK design law has specific rules about how to treat designs owned or created by more than one person, whereas registered UK design law was thought not to. This would have complicated the relationship between these two rights, creating an unsatisfactory lack of clarity, and forcing business to rely on other laws to interpret what they should do in any particular circumstances.

However, in consultation it had also been suggested that the law in this area was already adequate. We are therefore not pursuing this issue. Notwithstanding the outcome of the consultation on this issue, a change in the law is required to simplify and clarify the other ownership provisions of design IP rights in the areas listed above.

Background

Following the Hargreaves review of IP, Government acknowledged that there was limited information on how important design rights were to growth, and whether the current design IP framework was meeting the needs of business. The IPO issued a 'call for evidence' and associated survey to acquire this information. Responses to the 'call' confirmed that the design IP framework needed to be simplified and improved in a number of areas to make it more fully meet the needs of business. This IA deals with one of a number of issues which are part of a package of reforms. It deals specifically with matters about ownership.

Policy objectives

To simplify legal provisions on ownership to make them easier for business to understand, and therefore reduce the risks of using design rights.

To ensure legal provisions are fit for use and do not allow unfair exploitation of inconsistencies and complexities.

Affected stakeholder groups, organisations and sectors

These proposals may affect the following groups:

Businesses engaged in the design industry: owners of designs or prospective buyers or licensees of those designs will spend less time and money having to explore complex ownership issues, and will have more confidence that transactions will not result in ownership disputes. They should therefore be involved in fewer such disputes. Those seeking to identify owners of registered designs which may have changed ownership will be able to use details on the IPO's register, without having to check whether these have been superseded.

The **legal profession** (IP litigators and patent and trade mark attorneys): their workload may reduce slightly if they have to spend less time exploring complex ownership issues, explaining them to their clients, and dealing with any disputes which may arise.

The **IPO** may have a small reduction in workload if it no longer has to consider whether the ownership of registered and unregistered designs is consistent.

Description of options considered

Option 1: Do nothing

Ownership provisions surrounding UK designs will remain complex and out of step with EU designs legislation and other closely allied IP rights such as copyright.

With no change, the costs and benefits of this option are zero.

In view of responses to the consultation, we are not going to proceed with this option.

Option 2: Amend the law to simplify legal provisions governing the ownership of designs.

Respondents to the consultation have broadly agreed with the proposals to harmonise UK and EU designs law, although following the responses received we are no longer proceeding with proposals to amend the rules concerning joint proprietors.

Overall, this will amend UK law to ensure designs registered across the EU – which also cover the UK - are subject to the same rules as those for UK registered designs in relation to defences against copyright infringement. It will remove barriers to the IPO entering details about changes in ownership on the register, so that businesses can rely on that information being accurate and up to date, without

having to seek further information elsewhere. It will align the presumption about who owns commissioned UK designs so that, subject to any agreement to the contrary, the designer is regarded as the first owner in line with the EU provisions covering ownership of EU designs and with those governing ownership of UK copyright, which is particularly closely related to UK unregistered design. This should make the laws relating to similar rights more consistent and therefore simpler for business to understand. It will remove the requirement on applicants to claim to be the proprietor of a design, whilst still permitting third parties who can show that they are the real legal owner of the design to cancel the registration or apply for rectification of the register.

Costs

There do not appear to be any ongoing costs associated with this proposal. There may be minor transitional costs for government in implementing the changes. There may also be some transitional costs for businesses and legal advisors as they acquaint themselves with the new rules, for example, some respondents to the consultation thought that any change could result in more actions to sort out claims about the ownership of designs. However, we expect these costs to be minimal and as we expect the time it will take businesses and legal advisors to be adhoc we have not been able to monetise these potential costs as we are not able to estimate the time taken and the number of people affected. No evidence was provided in the consultation to suggest that these costs would be significant.

Benefits

The amendments proposed under option 2 will help reduce the complexity surrounding ownership by aligning the treatment of UK and EU designs, and simplifying requirements elsewhere. It is not possible to calculate monetised benefits as there are too many unknowns, such as the exact nature of the dispute, its complexity, the nature of the parties involved, and the potential value to the individual parties of the design in question. In addition few respondents to the consultation commented on the size of likely costs, restricting themselves to indicating that ownership disputes could be 'expensive' or suggesting that a recent court case could have cost 'several tens of thousands of pounds', however no further evidence was provided to substantiate these anecdotes. Another response from legal advisors suggested that due diligence costs could be halved if, as proposed, it was necessary to pursue only one chain of ownership for commissioned designs, rather than two as now. Although monetising the benefits is therefore not possible, these comments all suggest that such changes would result in lower costs being passed on to business. The amount of time and money businesses would have to spend on legal advice should be reduced: legal advisors responding to the consultation confirmed that they would need to spend less time advising clients about the ownership rules of different rights. As the law would be clearer, this would reduce the likelihood of confusion over who owns the design rights and avoid the necessity of businesses having to check the position with legal advisors, including about whether other non-design right laws should be applied in particular circumstances. Thus businesses would not have to spend so much on legal fees.

As ownership details would be more easily kept up to date on the register, businesses will no longer have to spend additional time and money seeking subsequent owners for licensing or other purposes. Responses to the consultation have suggested that in some cases this could result in savings ranging from minimal amounts, through a few hundred pounds or even up to several thousand euros.

There should be less chance of mistakes made over ownership jeopardising the validity of design registrations: one respondent referred to several cases where designers had mistakenly registered designs in their own name rather than in the name of the company which owned the rights. This had affected the validity of the designs which in turn affects the ability of the owner to exploit them.

Taken together, the changes now being taken forward means that the likelihood of commercially advantageous deals, such as selling or licensing, falling through because of uncertainties over design right ownership should be reduced. With greater clarity over ownership rules, businesses can have greater confidence in proceeding with agreements to manufacture or licence. With greater activity in the market place, there is more likely to be economic growth.

The higher level of certainty will lead to design rights becoming a more valued asset. This means businesses who own them will be more likely to be able to attract financial backing as they have a stronger portfolio of assets.

Overall, these simplifications should give businesses greater confidence in the legal ownership of their designs, by reducing the risk and uncertainties of selling and licensing them.

Risks and Assumptions

We have assumed that, although this has been brought to our attention by stakeholders, it is not causing significant impacts on business at present – responses to the consultation suggest that the overall costs to business en masse are likely to be low. However, we take the view that the risk is sufficient, particularly for smaller companies who may not have resources to correct any difficulties arising from the current situation, to warrant a change in the law. In relation to commissioning, we have assumed that there is no realistic prospect of amending EU design law to reflect the UK position.

Proportionality approach

Responses to the consultation indicate that the difficulties in the current law cause problems for individual businesses, although the impact on UK industry does not appear to be large. According to the proportionality approach, we therefore take the view that extensive analysis of the likely impact of this proposal is not justified.

Impacts on SMEs/micro businesses

Micro businesses and individual applicants are the most frequent users of the UK design registration system, and tend to have fewer resources (time, expertise) at their disposal to help them understand the IP system. These measures are intended to help them by reducing the complexity of ownership provisions and make them easier to understand, especially in relation to closely allied design rights and copyright.

OITO

The current provisions associated with ownership of UK designs are not aligned with those for EU designs, making the laws unnecessarily complex for business to understand, and creating complex ownership issues leading to legal disputes. A change to the law is required to simplify and streamline ownership provisions of designs and reduce the likelihood of disputes over ownership arising. There are no quantified costs or benefits, although there are likely to be costs and benefits that we have not been able to quantify. Following OITO methodology, the preferred option is in scope of OITO and has a 'Zero Net Cost' to business.

Summary

Although the proposed changes are not likely to have a large financial impact, they are one of a number of proposals which are intended to improve the functioning of the UK designs framework, particularly for the micro businesses and individuals which tend to use it. We believe, as respondents to the consultation have indicated, that changes to the provisions surrounding ownership of designs will simplify the law, so making it easier to understand, and reducing the potential for costly disputes. This in turn lowers the risk of selling or licensing designs and frees up resources which could be more profitably used in other activities.

Evaluation

A full evaluation strategy and Post Implementation Review is being developed for the introduction of the Hargreaves recommendations. The Post Implementation Review will detail the benefits associated with the introduction of the design reforms and will include input from external stakeholders. The plan will also set out how and when the benefits will be measured, which will depend on the type of benefit, as some benefits will be measured by applications and take-up that can be measured from the first year of operation, whereas others will depend on information that will take several years. The evaluation strategy will set out the activities that will be undertaken in order to evaluate the policy, drawing on

management information collected through the design system, as well as research that is commissioned in order to measure the benefits.

The main source of data available for evaluation will be collated using industry figures. These statistics, alongside other management information on the operation of the system will be used by Government to assess the impact of the design reforms, including assessing whether benefits have been achieved and how policy or operations can be developed to realise benefits more effectively.