

<b>BIS Title:</b> Revision of scope of design protection. <b>IA No: BIS 0361</b>  <b>Lead department or agency:</b> The Intellectual Property Office (IPO) <b>Other departments or agencies:</b> Department for Business, Innovation and Skills (BIS)	<b>Impact Assessment (IA)</b>	
	<b>Date:</b> 17/01/13	
	<b>Stage:</b> Final	
	<b>Source of intervention:</b> Domestic	
	<b>Type of measure:</b> Primary legislation	
<b>Contact for enquiries:</b> Bill Trott 01633 814281 bill.trott@ipo.gov.uk		
<b>Summary: Intervention and Options</b>		<b>RPC Opinion:</b> GREEN

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, Measure qualifies as One-Out?
£0	£0	£0	Yes
			Zero Net Cost

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

Stakeholders have told the IPO that the UK's legal framework for protecting designs is complex, confusing and, as consequence, somewhat incoherent. In particular, this has:

- created a lack of legal clarity and onerous proprietorship rights;
- reduced the protection available to overseas rights holders who trade or wish to trade in the EU; and
- reduced legal certainty for firms seeking to protect or use designs.

This is particularly burdensome for smaller businesses with less experience and knowledge of the intellectual property system. Both inhibit use of the design rights system, and the willingness of firms to invest in new designs.

**What are the policy objectives and the intended effects?**

To provide a clear, consistent and equitable legal framework for protection designs.

To ensure there is a clear definition of what a design right covers and who can claim them.

To widen the defences to design infringement.

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

Option 1: Do nothing.

Option 2: Modernise and simplify the law.

Option 2 is the chosen option because achieves the policy objective.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> April 2018					
Does implementation go beyond minimum EU requirements?				No	
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)				<b>Traded:</b> N/A	<b>Non-traded:</b> N/A

***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.***

Signed by the responsible SELECT SIGNATORY: \_\_\_\_\_ Date: \_\_\_\_\_

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Reset the balance between the rights of proprietors and the freedom to innovate and simplify the law.

## 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	n/a	n/a	n/a
High	n/a	n/a	n/a
Best Estimate	n/a	n/a	n/a

### Description and scale of key monetised costs by 'main affected groups'

There will be negligible costs for businesses as the primary objective of this option is to make the law clearer and fit for purpose.

### Other key non-monetised costs by 'main affected groups'

With a simpler system it may be easier for firms to identify infringement and, where appropriate, take infringement action or defend their rights, resulting in legal costs. There will be some minor costs of learning new definitions.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	n/a	n/a	n/a
High	n/a	n/a	n/a
Best Estimate	n/a	n/a	n/a

### Description and scale of key monetised benefits by 'main affected groups'

It is not possible to monetise benefits without evidence on the number of disputes likely to be avoided by a clearer system of rights. Extensive and detailed questioning as part of the consultation process produced no quantitative cost benefit data, though there is some anecdotal evidence that the effect would be small. To acquire quantitative data on benefits would be disproportionate.

### Other key non-monetised benefits by 'main affected groups'

Benefits will mostly be realised by firms which will enjoy greater legal certainty over what they can do by way of product design innovation without risk of legal action, and greater certainty over what they can protect - and so will be able to invest in new product design with lower risks of copying. It will become clearer how 'commonplace' designs can be used by firms when innovating new designs. With a simpler set of legal definitions, firms may be able to reduce costs of legal advice.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
The UK legal framework for design has a negative impact on businesses use of design rights. This is the view our stakeholders have expressed to us, and the use of design rights is lower in the UK than other countries. We take the view that the effects of the problem are sufficient to warrant a change in the law. Research commissioned by the IPO supports this view and is reference on page 3.		

## BUSINESS ASSESSMENT (Option 1)

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

## Evidence Base

### Background

Following the Hargreaves review of IP, Government acknowledged that there was limited information on the importance of design rights to growth and whether the current design IP framework was meeting the needs of business. IPO issued a “Call for Evidence” and associated survey to acquire this information. Responses to the “call” confirmed that the designs IP framework needed to be improved in a number of respects to more fully meet the needs of business.

In particular, research<sup>1</sup> conducted on behalf of the IPO states:

“Designs were originally protected as artistic creations under the auspices of copyright law. As society began to recognise value in different forms of artistry, from books to fabrics to fine arts, and as technological developments facilitated copying of these different art forms, the law responded in a piecemeal fashion, conferring copyright protection upon whichever form of design was under threat at the time”.

“However well intentioned, the legislative history of design has been unimpressive and has led to successive reviews which condemn the law as riddled with unnecessary complexity. Today, the law exists as a combination of various rights, including the common-law rights in passing off, copyright, UK unregistered design rights, UK registered design and European unregistered and registered design.

Research shows that the design community considers the law expensive and unpredictable. The Survey<sup>219</sup>, validates this contention. In addressing why companies did not pursue a claim for infringement, even when their designs were being copied, they cited uncertainty of outcome as one of the prevailing reasons in discouraging them from bringing court proceedings.”

This situation has been complicated because designs are protected in the UK by a number of “rights” – some European and some “home grown” – which overlap and can apply to the same design in quite complicated ways. For example, a new design for a chair might be covered by the UK unregistered design right (UDR) –as set out in the Copyright, Designs and Patents Act 1988 (CDPA) – by the EU unregistered design right, as set out in EU law. The first protects designs for up to 15 years and the second for up to 3 years. On top of that, they define what can be protected in different ways. And the law also provides for protection by registering a design – in the UK (RD) or at the EU level at the European designs registry (RCD). The former are covered the Registered Designs Act 1949.

The piecemeal changes to design legislation leading up to the introduction of the 1988 Act, coupled with the interpretation placed on key parts of the Act by certain judgments of the Courts, have “skewed” the balance between proprietorship and competition, and created excessively complicated legal requirements. This situation has been exacerbated by the subsequent introduction of the EU directive on national registration of designs and the regulation governing

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The Development of Design Law Past and Future , From History to Policy , Alexander Carter-Silk, Michelle Lewiston , 2012.

the registered community design and unregistered community design right, adding to the level of legislative complexity

There is no impetus from stakeholders for removal or reform of “home grown” UK law (the UDR and the RD) so as to comply with the EU rights in total. In fact, it has been pointed out that the UDR (for example) provide for “additional” protections much appreciated by designers. There are, however, a number of issues on which UK and EU design law are out of kilter, where harmonisation and simplification would assist business and where, as stated above, the *ad hoc* amendment of the UK law – and the interpretation of its provisions – have created inequity. This IA deals with certain changes to the law that help to restore the balance between ownership rights and freedom to innovate and compete.

### **Problem under consideration**

Design is a wide ranging activity covering a range of industries from furniture, ceramics, jewellery and fashion to industrial design and architecture. Research commissioned by the IPO shows that in 2008, £33.5bn was invested in design of all forms.

The legal right to a design is protected by a combination of “home-grown” UK law and EU law. The resultant legal regime is complex – valid rights are protected when a design is first made public, but can also be protected by registration (at the IPO or at the EU Registry in Alicante).

We have been told by stakeholders that, in particular, the law governing UK rights is not entirely fit for purpose. Specifically, there are a number of provisions in the Act that create an imbalance between the rights of proprietors and freedom to innovate. There are two key problematic areas.

#### **1. The definition of a design right**

First, the definition of a design in the Copyright, Designs and Patents Act 1988 (CDPA) is not specific enough and does not exclude relatively minor “features” of a design as opposed to the design itself. The effect of this is that claimants can unfairly trim their claims to focus on just one aspect of the copied item, and even one aspect of one part of the copied item. This interpretation of the law (which has been confirmed by the courts) favours owners of designs and makes it difficult for other traders to know what they can and cannot do. Stakeholders claim that this can have a paralysing effect on innovation and can involve parties in unnecessary disputes. To resolve this problem, the definition of UDR will be amended to create certainty whilst not diminishing its unique value.

Second, in relation to the UDR, to be protectable, a design has to be “original”. This has been taken to mean the design must be a product of some effort or skill on behalf of the designer and has not been copied. The law also adds that something that is “commonplace” cannot be considered original. The courts have stated that the test for the latter is what was already available in the UK at the time of the application. This is not consistent with the Registered Designs Act where the analogous concept of “novelty” extends to the whole of the European Economic Area. To resolve this problem, the definition of “commonplace” will be extended to expressly cover the EU, and other geographic areas where the UDR subsists.

Finally, under the Copyright Designs and Patents Act 1988 (CDPA) UK unregistered design rights holders must “qualify” to own the right – that is, certain conditions must be met. The qualifying conditions are complicated and partly based on nationality (ss. 217 to 221 CDPA). They have been criticised by the courts and business. To resolve this problem, the qualification requirements in the CDPA will be liberalised.

## **2. Extend defences for infringements**

Two changes to the defences under the UK designs regime are proposed. First, there is no protection for prior use of a design – that is, there is no defence extended to someone who acted in good faith in using a design before the application date of a registered design, which has not been copied. Such a defence exists for the Registered Community Design (RCD) and for patents. The current law can leave a business vulnerable to legal action from proprietors who have gained their right after the business has already been fairly trading in a design. To resolve this issue, a provision will be introduced into the Registered Designs Act that reflects Article 22 of the Regulation governing the RCD, which allows for a right of prior use for any third person who can establish that before the date of filing of the application, they had in good faith commenced use of the design.

Next, EU design right protection and copyright allows certain actions by third parties which are in the public interest, such as using the design for non commercial purposes. The UK UDR does not allow this. To resolve this issue, the CDPA will be amended to include defences and non-infringements currently set out in section 7A of the Registered Design Act.

### **Rationale for intervention**

Changes to primary legislation are required to ensure that the law with regards to design rights is fit for purpose, and consistent.

### **Policy objective**

To provide a clear, consistent and equitable legal framework for protection designs.

To ensure there is a clear definition of what a design right covers and who can claim them.

To widen the defences to design infringement.

### **Description of options considered**

#### **Option 1: Leave the law unchanged (do nothing)**

This maintains the current system which means the anomalies discussed above will remain. With no change to the current system, the costs and benefits of this option are zero but it does not meet the policy objective.

#### **Option 2: Amend UK unregistered and registered design law.**

It is intended that the current inequities in the law will be removed by the changes proposed here. The legal regime covering both registered and

unregistered designs will, as a by product, be simplified and clarified by the creation of greater parity with EU provisions.

### **Description**

In relation to the definition of the UDR, it is proposed that the law be amended in the following ways:

- Amend the definition of the UDR to create certainty whilst not diminishing its unique value;
- Extend the definition of “commonplace”, to expressly cover the EU, and other geographic areas where the UDR subsists; and
- Liberalise the qualification requirements in the CDPA.

The following defences will be created:

- By introducing a provision into the Registered Designs Act that reflects Article 22 of the Regulation governing the RCD, which allows for a right of prior use for any third person who can establish that before the date of filing of the application, he had in good faith commenced use of the design;
- The CDPA be amended to include defences and non-infringements currently set out in section 7A of the Registered Design Act.

### **Affected stakeholder groups, organisations and sectors**

The changes will simplify and clarify the law. The major affected group, following the moderation of the qualification requirements, will be those who are able to claim a UDR who could not previously. Thus the “pool” of the latter rights holders will increase. This will have an effect on other stakeholder groups, to a greater or lesser extent. There will also be other effects on legal stakeholders. Likewise these groups will be affected by the “definitional and defence” changes to the law.

*Existing holders of UDR:* As far as qualification is concerned, though the majority will not be affected directly, as they already qualify for the right, it is possible that there may be more “clashes” in relation to subsistence of rights, as there will be a wider constituency of potential qualification. Much of this – and it is likely to be at the margins even then – can be limited by transitional arrangements in legislation.

*“New” holders of the right:* a change in the law will increase the number proprietors to which design right will apply.

*Legal professionals:* It is possible there will be a “knock-on” increase in legal work for attorneys as the latter seek to understand and explain the changes. Liberalising qualification requirements should reduce legal costs in that lengthy enquiries into the citizenship or habitual residence will be reduced.

*The IPO:* The Office may be asked by stakeholders to explain the law, which will tie up some resource.

*The Courts:* Theoretically there could be an increase in cases before the courts, given that the number of rights holders will go up, but this would be minimal, even immeasurable. Historically, cases before the courts involving the UK unregistered design right come in fits and starts but amount to an average of two per year since 2007. This number is unlikely to be measurably increased by the changes proposed since they will produce both positive and negative effects. The alteration to the qualification could theoretically increase the number whilst the amendment to the definition of the UDR is likely to have the opposite effect.

### **Costs**

There will be negligible costs for businesses as the primary objection of this option is to make the law clearer and fit for purpose. Monetising the cost associated with these changes would either require a large number of assumptions (producing data that lacks accuracy) or take a disproportional level of resources, as we would need to gather primary data. Extensive and detailed questioning as part of the consultation process produced no quantitative cost benefit data, though there is some anecdotal evidence that the effect of the changes would be small, such as the cost of familiarisation with the legal changes.

There may be minor transitional costs for Government in implementing the changes, and for businesses and legal advisors as they acquaint themselves with the new rules.

### **Benefits**

It has not been possible to monetise the benefits of the proposed changes as there is no robust data. No quantitative evidence was produced by respondents to the Consultation, despite asking a number of specific questions about monetization of benefits and costs. Benefits will mostly be realised by firms which will enjoy greater legal certainty over what they can do by way of product design innovation without risk of legal action, and greater certainty over what they can protect - and so will be able to invest in new product design with lower risks of copying. It will become clearer how 'commonplace' designs can be used by firms when innovating new designs. With a simpler set of legal definitions, firms may be able to reduce costs of legal advice

There was little notional support given to the concept of a “chilling effect” on innovation. This could occur where expansion of the definition of UDR would widen the scope of protection and thus potentially reduce the opportunity for imitation of existing protected designs leading to the development of new designs. Many respondents thought that the requirement to prove an UDR had been copied, would mitigate the adverse effect on innovation.

Some legal representatives pointed out that, given the precise scope of a design not need to be elucidated until before a court, UDR effectively subsisting in just part of part of a part of an article could put considerable burden on defendants and lawyers. They encouraged amendment of the CDPA so as to clarify this.

In relation to the qualification requirements, the main benefit, very much supported by respondents to the Consultation, will be cost savings over the current system. For example, the latter was considered to be extremely complex,

and necessitated a great deal of investigation as to the citizenship of designers, their habitual place of residence and to the place of first marketing of the designs to establish whether they qualified for protection under UDR.

Respondents considered that there was a potential for an increase in trade in the UK because more designers will have the confidence engendered by UDR protection and design rights acquired by UK businesses outside the EU will now be protectable in the UK (the current law does not allow for this). Overall this would encourage innovation and investment. This will be particularly the case where registration is not appropriate to an industry - for example, in the fashion industry, profoundly design driven, but where only a few out of very many designs actually turn a profit. Registration is pointless and expensive, and design owners must rely on unregistered rights to protect their designs.

Although no quantitative evidence was submitted during the consultation, opinion as to a geographical delineation of “commonplace” in relation to UDR was mixed. In particular, no-one thought that defining – and expanding – the meaning of “commonplace” under the UDR (effectively increasing the “prior art”) would enhance inter-EU trade. It had been suggested that the current law could unfairly block EU businesses using designs, or features of designs, commonplace in the EEA, therefore reducing trade – or that a change to the law could increase innovation by allowing UK designers access to the “reservoir” of unprotected designs that they should be able to copy – and draw inspiration from – when creating genuinely protectable rights. There was no evidence supporting these contentions.

Nevertheless, it would be illogical to have a requirement for geographical “originality” that was not on all fours with the qualification requirement. As a consequence, in agreement with the small majority that favoured change, there is a clear benefit in harmonising territorial scope as to the meaning of commonplace in the CDPA, for the sake of clarity and legal consistency.

As for the expansion of defences in the RDA, it has been suggested that this would create a more satisfactory balance between the rights of proprietors and the freedom to use protected material in a non-commercial environment. To encourage, for example, the training of designers of the future; and greater experimentation with designs ideas, which will help to create the landscape from which innovative ideas emerge. No quantitative evidence emerged from the consultation to support this, but one respondent suggested that not having the proposed defences would mean that it would otherwise be possible to infringe a design which was not yet publicly available. This would mean searching could not be relied upon, which in turn would discourage good product clearance and freedom-to-operate practice.

In summary, based on the submissions to our Call for Evidence and Consultation, it is considered that the changes would “readjust” the design rights system in the UK to benefit creators and users of design.

## **Risks and Assumptions**

We assume that the current UK legal framework for design has a negative impact on businesses use of design rights. This is the view our stakeholders have expressed to us, and the use of design rights is lower in the UK than other countries. We take the view that the effects of the problem are sufficient to warrant a change in the law. Research commissioned by the IPO supports this view and is reference on page 3. There is a risk that the changes have no impact on businesses use of design rights.

### **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. The rebalancing of the designs regime, as set out, will benefit SMEs the most.

### **OITO**

There are costs and benefits to business that we have not been able to quantify with any degree of accuracy. Following the OITO methodology we consider the chosen option as a regulatory measure (“an IN”) with a “Zero Net Cost” to business.

### **Summary**

The chosen option is option 2, to modernise and simplify the existing law as not doing so will not meet the policy objective. There are a number of ways in which the law on registered and unregistered design has been made more complex by piecemeal amendments to the law, decisions of the courts and the interaction between EU and UK law. The changes set out here are intended to reduce complexity, open up protection for design rights and thus increase trade and make the process of IP protection simpler for those seeking to create new designs – and for those who expect a reasonable degree of protection for the designs they have created.

### **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.