

Title: Providing constructive notice in relation to patented products IA No: RPC12-FT-BIS-1560 Lead department or agency: Intellectual Property Office Other departments or agencies:	Impact Assessment (IA)		
	Date: 13/02/13		
	Stage: Final - validation		
	Source of intervention: Domestic		
	Type of measure: Primary legislation		
Contact for enquiries: Debbie Cooke			
Summary: Intervention and Options		RPC Opinion: VALIDATED	

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?
£0m	£0m	£0m	Yes Out

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

Patent holders can stamp or label their products with relevant patent numbers. This ensures that anyone who infringes the patent cannot later claim that they were unaware of the patent, and so be excused from paying damages to the patent holder. However patent details often change over product lifetimes, and re-marking products accordingly is very costly. Allowing patent holders to mark their products with a website where current patent details are provided would overcome this cost, with no real detriment to third parties. This would require a change to section 62 of the Patents Act 1977.

What are the policy objectives and the intended effects?

One objective is to ensure that patent holders can efficiently and effectively notify others of the patent protection relevant to a particular product whilst ensuring that this information is accessible to the public so that others can easily establish whether patents exist and what they protect. A second objective is to make no change to the current situation in relation to the damages payable by infringers – the court or comptroller will not award damages against those innocent infringers who prove that they were unaware that a patent existed, whereas damages may be awarded against those who were aware that a patent existed.

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

Introduce an option which allows patent holders to stamp a product with a web address in order to provide constructive notice of the patent protection relating to that product. As the details on the requirements for stamping a product are contained within the Patents Act, any changes would need to be regulatory. There is therefore no alternative to regulation.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 10/2018					
Does implementation go beyond minimum EU requirements?			N/A		
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:		Non-traded:

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 1

Description: Introduce an option which allows patent holders to stamp a product with a web address in order to provide constructive notice of the patent protection relating to that product.

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year	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
High	0	0	0
Best Estimate	0	0	0

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

Companies choosing to provide details of their patented products through a website will need to set up a web page to provide the relevant details. It is estimated that 81% of UK businesses have a website so there will be no additional costs for these businesses. For those without a website, estimated costs for a basic website range from £25 a year to £240 (plus an additional £125 set up cost). See evidence base for further details.

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

Third parties wishing to gain information on a patented product will need to access a website in place of checking the product. However if the number of the patent is included on a product, it is necessary to check the status and scope of that patent (e.g. by checking online at the IPO) and so the additional preliminary step of accessing a website is unlikely to be burdensome, and would be outweighed by the benefit of having more up-to-date information on the company website.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (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'

Figures on the exact costs of providing constructive notice are not widely available. However, one large technology company estimates that using a website to provide notice of their patent rights could represent cost savings of approximately £50,000 a year. These costs would be at the higher end of the scale given the nature and size of the company and average costs are likely to be lower, depending on the size of the business in question. See evidence base for further details.

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

Removing the need for a company to use paper labels to provide notice of their patent rights has environmental benefits through the reduced use and disposal of paper labels every time the patent details change. The use of a website to keep the patent details up to date is also of benefit to interested parties as this provides an additional route where interested parties can establish the likelihood of infringement. This could reduce the costs of infringement to both the patent holder and any interested party.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

Stamping or labelling products with patent details is entirely optional as there is no obligation on patent holders to provide notice of their patent rights in this way. Introducing this new option would give businesses a choice in the way they do this and the benefits of this are therefore assumed to outweigh any additional costs.

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base

1. The problem under consideration and rationale for Government intervention

Patent holders can stamp or label their products with relevant patent numbers. This ensures that anyone who infringes the patent cannot later claim that they were unaware of the patent, and so be excused from paying damages to the patent holder – because in proceedings for infringement of a patent, the court or the comptroller cannot award damages against an innocent infringer who proves that he was unaware that a patent existed. Marking a product in order to make others aware of the patent protection afforded to that product is sometimes called providing “constructive notice”.

However patent details often change over product lifetimes. For example, new patent applications relating to a particular component may have been published, published patent applications may have become granted patents, patents may have lapsed or been revoked or patent applications may have been refused, or there may have been a change in a manufacturing step or a change of component used.

Patent holders tell us that re-marking products when the patent details change is very costly, both in terms of time and money. US patent law has recently been amended to introduce the option of virtual patent marking which enables patent holders to provide constructive notice to infringers by marking their product with a reference to a website containing an up-to-date list of all relevant patents associated with the product, rather than requiring the patent holder to mark the list of patent numbers directly on the product itself. The change to US law allows a web address to be provided but requires the web address to be accessible to the public without charge for accessing the address and requires the information provided on the website to associate the patented article with the number of the patent.

Patent holders have told us that they would like a similar option to be available under UK patent law so that they will be able to stamp/label the product with a web address which provides the relevant patent number(s), rather than having to list the patent numbers directly on the product itself. Allowing patent holders to mark their products with such a website where the current patent details are provided would overcome the costs associated with stamping a product, with no real detriment to third parties. Providing consistency in the US and UK would be also beneficial to those businesses that operate in both the US and the UK.

In order to introduce such an option, a change to section 62(1) of the Patents Act 1977 is required, as this provision currently only recognises constructive notice provided in the form of the word “patent” or “patented” together with the number of the patent applied directly to the product.

2. Policy objectives and intended effects

One objective is to ensure that patent holders can efficiently and effectively notify others of the patent protection relevant to a particular product whilst ensuring that this information is accessible to the public so that others can easily establish whether patents exist and what they protect.

A second objective is to make no change to the current situation in relation to the damages payable by infringers – the court or comptroller will not award damages against those innocent infringers who prove that they were unaware that a patent existed, whereas damages may be awarded against those who were aware that a patent existed.

3. Policy options considered, including alternatives to regulation

We propose to introduce an option which allows patent holders to stamp a product with a web address in order to provide constructive notice of the patent protection relating to that product. As the details on the requirements for stamping a product are contained within the Patents Act, any changes would need to be regulatory. There is therefore no alternative to regulation.

If this option is not introduced, patent holders who wish to provide constructive notice to others that a product is patented will continue having to re-stamp their products whenever the relevant patent

numbers change and will therefore continue to bear the costs, time and effort involved in that process. Details obtained through consultation with stakeholders suggests that some businesses set up checks at regular intervals in order to update their list of patent numbers relevant to each product and then have to either re-print labels with the updated list, ready to be stuck on to the product when it is manufactured (and destroy any un-used out-of-date labels), or re-cast a stamp that directly stamps the patent numbers onto the product. Patent holders tell us that this is time-consuming and expensive.

4. **Expected level of business impact**

Monetised costs

There is no cost at all if the patent holder doesn't choose to use this new option. Patent holders who choose this option will have to set up a website (or webpage on an existing website) which is accessible to all and will need to maintain the website to ensure the information is kept up-to-date.

A study of the ICT activity by UK businesses conducted by the Office for National Statistics¹ showed that 81% of UK businesses have a website and therefore the cost of creating an additional webpage to provide constructive notice is likely to be minimal for these companies.

For those companies who do not have a website, research suggests that the estimated costs of setting up a website can vary between £25 a year and £240 plus set up costs of £125². These costs are likely to be minimal when compared to the costs of stamping. **Details obtained through consultation indicate that the unit cost of stamping a product may be as little as £0.05 per product but as the stamp is likely to be added to every product produced by a company, the associated stamping costs will greatly outweigh any website costs which will be more favourable than having to stamp and re-stamp products.**

Non-monetised costs

Third parties who wish to establish what patent protection exists for a product will have to access a website. However they would have to check the status and scope of the patents in any event (e.g. by checking online) and so the additional preliminary step of accessing a website is unlikely to be burdensome, and is likely to be outweighed by the benefit of having more up-to-date information. This has been confirmed through consultation with IPO stakeholders who feel that there will not be any additional burdens when researching information on patented products.

We recognise, however, that this proposal could increase the number of patent holders who take advantage of this change and start to provide constructive notice where previously none had been given. This could create an additional administrative burden to third parties who wish to move into a new market, as they will have to ensure that they actively check the relevant website rather than possibly relying on a lack of a marking or stamp on a particular product as a way of deciding whether that product is protected by a patent. However, as the onus is on any infringer to prove that he was unaware of the existence of an earlier patent, we would assume that any third party wishing to move into a new market would take all necessary steps to check for the existence of earlier granted rights.

The possibility of this additional administrative burden was highlighted to stakeholders through consultation but stakeholders have commented that as they are used to researching patents, the use of a website to provide constructive notice will not create any additional burdens when undertaking this research.

Monetised benefits

Patent holders who currently choose to stamp or label their products and choose this option instead will make cost savings by no longer having to re-stamp products each time the relevant patent details change. Instead, they will only have to update the details on the website provided.

¹ http://www.ons.gov.uk/ons/dcp171778_289328.pdf

² <http://www.guardian.co.uk/money/2011/jul/22/self-employment-set-up-website>

Information on the exact costs of providing constructive notice through stamping or labelling products is not widely available. However, details obtained through consultation with stakeholders indicate that for one large technology company, providing constructive notice through the use of a website rather than labelling their products could save in the region of £50,000 a year as they currently place a label giving information of the patent details on all of their products and review and update these on a quarterly basis. These costs would be at the higher end of the scale given the nature and size of the company and average costs are likely to be lower than this and dependent on the size of the company and the markets in which they operate.

Stamping or labelling products with patent details is entirely optional as there is no obligation on patent holders to provide constructive notice. There are no monetised benefits to those patent holders who do not choose to stamp or label their products but for those that do, there are clearly benefits in doing so if the patent is infringed. Introducing this new option would give businesses a low cost choice in the way they provide constructive notice and as the cost of setting up a website is clearly significantly less than initiating stamping activities (both in terms of direct costs and environment costs), the benefits of this are therefore assumed to outweigh any additional costs.

Non-monetised benefits

Third parties will have an additional route in which to easily access more up-to-date information relating to the patent protection afforded to a particular product, potentially resulting in them being able to ascertain more quickly what they themselves are free to manufacture without infringing a patent. This could therefore reduce infringement costs for both the third party and the patent holder.

Feedback gained during consultation with users also indicates that there may be environmental benefits for those companies who currently use paper labels to provide the patent details on their products. By using a website to provide the patent details, this will reduce the need to produce and print these labels, together with reducing the waste which can be generated when labels are updated and old labels are disposed of. The exact details of the numbers of companies who provide constructive notice in this way are unknown and therefore it is not possible to quantify these environmental benefits.

5. Risks

Not introducing this change will result in our law being out-of-step with US law in this area (since a similar change was brought into effect in US law when the America Invents Act was enacted on 16 September 2011). This carries with it the risk that some businesses could believe that in the UK they also only need to include patent information on their website in order to provide constructive notice. Such a misconception may lead to that business losing out on damages in any infringement proceedings.

Not introducing this change also carries with it the risk that the patent information provided on products that are on sale is not up-to-date. This is also a slight risk under the proposed change, in that there may be delays before businesses update their websites, but the risk is far greater where the products themselves have to be stamped as there is always a delay before manufacturers are able to update actual marks on products, and it may be the case that businesses put off taking such action for as long as they can in order to postpone the costs and disruption involved.

Indeed the current situation may result in products which have already been stamped and are in the supply chain being sold with out-of-date information, even after new stamps have been created for newly-manufactured products. This could lead to confusion for consumers and third parties. Businesses are likely to be in a position to far more quickly update their websites and therefore the proposed change reduces the risk of products being sold with out-of-date information, by providing businesses with a lower cost way of ensuring that the information is kept up-to-date.

In any event, it will be in the interest of the business to update their website promptly as otherwise they risk not being entitled to damages if an infringer proves that the website did not include the relevant patent and therefore he was unaware that a patent existed at the time the infringement took place.

There is also a risk that businesses may misrepresent their patents rights on their websites and claim patent cover that they are not entitled to. However, as stated above, it is in the interest of the business to correctly reflect their patent rights to ensure they are entitled to claim damages in a case of infringement. As it is also an offence under the Patents Act 1977 to falsely claim patent rights, this also reduces any risks of misrepresentation.

As detailed above, there is also a risk that this could result in more businesses taking advantage of an easier way of providing constructive notice and therefore creating additional burdens for third parties who will have to check more information to ensure they are fully aware of any patented products. However, as the onus is on the infringer to prove that he was unaware of the existence of the patent product, we would assume that third parties will actively seek to gain as much information as possible on existing patent rights to ensure they can defend their actions should they find themselves in litigation.

6. Assumptions

Due to the wide-spread usage of websites for business purposes, we have assumed that the majority of businesses now have a web presence of some kind on which to include the patent information. Nonetheless, any business which does not have a website would be under no obligation to create one for these purposes, as the current system of marking products with the relevant patent numbers would remain available for such businesses to use after the introduction of the proposed change.

7. OITO status

Under the “One In, Two Out” rule, a measure that has a net cost to business must have a measure or measures of twice the equivalent cost removed in order to be implemented. The evidence gained through consultation suggests that the benefits of this proposal to business are twice the equivalent cost of setting up a website.

This change to regulation is entirely optional for firms and is being introduced in response to changes in the US law which has prompted UK patent holders to request a similar provision of a lower cost / more effective route to patent notification in the market. It is reasonable to assume that patent owners will only choose to report patent information on a website rather than stamping their products if they believe it to be of greater benefit as it represents a cost saving and is more flexible than their current method. Overall, for these reasons, we expect the costs of patent notification to reduce for firms which wish to protect their products in this way. It is therefore an OUT, and the extent of benefits will depend on the number of firms which decide to use the provision.

8. Wider impacts

Micro organisations are within scope of this proposal. It involves the introduction of an additional voluntary option which patent holders will not be required to use. Where businesses, including micro-businesses, choose to use this option there may be benefits to them of doing so. It may also bring benefits to businesses, including micro-businesses, who do not themselves own a patent as they will be able to easily access more up-to-date information relating to the patent protection afforded to a particular product, potentially resulting in them being able to ascertain more quickly what they themselves are free to manufacture without infringing a patent. For these reasons micro-businesses will not be exempted from the proposals.

9. Evaluation

The proposed change is being introduced as part of a package of changes to the Patents Act 1977. The IPO will monitor and evaluate the impact of these changes on an on-going basis through regular discussions with stakeholder groups, monitoring of customer complaints and consideration of any legal decisions which make specific reference to the changes introduced and the impact they had had. A post implementation review will also take place to pull together any information gathered in respect of the changes and this is currently scheduled for 2018.