

Intellectual Property Bill

Updated Impact Assessment for a criminal offence for the copying of a UK or EU Registered Design

Summary

Clause 13 of the Intellectual Property Bill creates a criminal offence for the copying of a UK or an EU registered design. As this is a new offence, and therefore no direct figures are available, the initial Impact Assessment (IA) estimated the potential number of design cases per annum based on the average yearly number of criminal trade mark offences, relative to the number of trade mark registrations.

Update

The German Federal Ministry of Justice has since released figures which show that in 2011 there were 12 criminal prosecutions under German design law for deliberate infringement of a registered design¹. This is a more appropriate indicative figure than trade mark activity because it relates specifically to design infringement rather than other forms of intellectual property. For comparative purposes, the UK's and Germany's designs laws are governed by the same European legal framework, as well as each country retaining its own national system of registration.

Given the difference in design activity between the two countries, and based on the number of yearly design registrations, a central estimate of 6 prosecuted design cases per annum in the UK is considered reasonable; this has been reflected in the IA.

A reduction in the number of cases is consistent with amendments that were made to the criminal sanction to refine its scope during the Bill's passage through the Lords.

¹ Whilst researching the use of criminal sanctions in the EU the Government looked at Germany, Denmark, Italy and Finland; Germany provided the most robust data as Denmark has had no prosecutions to date, and figures for Finland and Italy were unavailable.

Title: Introduce a criminal offence for the deliberate infringement of a UK or EU Registered Design IA No: BIS0376 Lead department or agency: The Intellectual Property Office (IPO) Other departments or agencies: Department for Business, Innovation and Skills (BIS)	Impact Assessment (IA)			
	Date: 22/08/13			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Primary legislation			
Contact for enquiries: Howard Ripley E: Howard.Ripley@ipo.gsi.gov.uk T: 020 7034 2846				

Summary: Intervention and Options	RPC Opinion:
--	---------------------

Cost of Preferred (or more likely) Option			
Total Net Present Value (£m)	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
-2.79	0	0	In Zero net cost

What is the problem under consideration? Why is government intervention necessary?
Evidence suggests some designs are deliberately copied; in a survey funded by the IPO 59% of respondents reported they had experienced their designs being copied [Ref. ii]. The Civil Courts are currently the main route for businesses to enforce and protect a registered design. However, many believe they are prevented from using this route because of the cost, time and uncertainty that can be involved in doing so. This potentially harms UK designer's contribution to the country's economic growth. Intervention is necessary to punish and deter deliberate and serious design theft thereby ensuring the value of designs, and the incentives provided by protecting them, is not undermined.

What are the policy objectives and the intended effects?

- To reduce the scale of registered design infringement by acting as a deterrent;
- To increase protection for the holders of registered designs; and,
- To better punish perpetrators of blatant design infringement.

Taken together, these measures could help designers and business to better protect and commercialise their design property and contribute more effectively to economic growth in the UK.

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: Introduce a criminal offence for acts of infringement, limited to deliberate copying of a UK or EU registered design. Conviction could result in imprisonment for up to six months or a fine, up to the statutory maximum, or both in Magistrates court; or, on conviction on indictment a person could be subject to imprisonment up to ten years or to a fine, or both in the Crown court.
Option 2 is the chosen option as it allows designers and businesses to better protect and enforce their registered designs. It's an addition to existing civil sanctions and addresses cases of deliberate design infringement thus enhancing the ability of designers to adequately protect their design investment.
Option 2 was supported by the majority of respondents to the Designs Consultation [Ref. xvii] who answered questions relating to criminal sanctions.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2018					
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
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 2

Description: Introduce criminal sanctions for deliberate infringement of a UK or EU registered design

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -3.71	High: -1.97	Best Estimate: -2.79

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	1.9	0	2
High	2.8	0.1	3.7
Best Estimate	2.3	0.1	2.8

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

One off training and familiarisation costs for police have been estimated to be approximately £2.327m with 20% sensitivity. Costs to Crown Prosecution Service and Her Majesty's Courts and Tribunal Services are estimated to be approximately £4,700 and £5,200 per annum respectively. Costs to HM Prison services have been estimated at approximately £6,600. Legal aid costs are estimated to be approximately £36,000 per annum and Community & Suspended sentence costs are estimated at approximately £5,500. These calculations are explained in more detail in the 'Costs of Option 2' section later on in this document. We have used 1 case pa as a low estimate, 6 cases per year as the best estimate and 11 cases per year as the high estimate.

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

It has not been possible to fully monetise the training and familiarisation costs for Trading Standards Departments.

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	0
Best Estimate	0	0.0	0

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

There could be monetised benefits when prosecutions result in fines and victim surcharges. It is estimated that there will be approximately £700 collected in fines per annum, Victim surcharges could provide estimated benefits of approximately £100 per annum.

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

A criminal offence will help create a coherent approach to the protection of intellectual property rights in the UK. There will be benefits to business through simplification of the system through parity with other forms of IPR and increased confidence in design rights. As a result of this increased confidence design registration could become a more attractive proposition to creators and fewer businesses would continue to rely, often without strategy and by default, on unregistered UK design right as they do now.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
<p>The analysis makes several assumptions: a.) Germany can be used as a proxy for projections of future design criminal cases; b.) familiarisation costs to police and business; c.) resources dedicated to investigating design infringement will not be above the current level; and, d.) impact on legal aid services will be minimal. There may be additional costs to Probation Services if average prison sentence length rise significantly compared to the proxy offence.</p>		

BUSINESS ASSESSMENT (Option 1)

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

Evidence Base

References

- i) “Digital Opportunity: A review of Intellectual Property and Growth” report by Ian Hargreaves (<http://www.ipo.gov.uk/ipreview-finalreport.pdf>)
- ii) IPO Call for Evidence and Survey on the Design IP Framework (<http://www.ipo.gov.uk/hargreaves-designs-c4e.pdf>)
- iii) IPO Research on designs:
<http://www.ipo.gov.uk/ipresearch-designsreport1-201109.pdf>
<http://www.ipo.gov.uk/ipresearch-designsreport2-201109.pdf>
<http://www.ipo.gov.uk/ipresearch-designsreport3-201109.pdf>
<http://www.ipo.gov.uk/ipresearch-designsreport4-201109.pdf>
- iv) IPO Assessment of the Need for Reform of the Design IP Framework (<http://www.ipo.gov.uk/hargreaves-designsassessment.pdf>)
- v) Annual Survey of Hours and Earnings (ASHE), CIPFA, up rated to 2010/11 prices. (<http://www.ons.gov.uk/ons/rel/ashe/patterns-of-pay/1997---2011-ashe-results/patterns-of-pay-2011.html>)
- vi) Number of IP-related prosecutions - IP Crime Report 2011-12: <http://www.ipo.gov.uk/ipcreport11.pdf>
- viii) Helmers and McDonagh (2012) ‘Patent Litigation in the UK’ http://www.lse.ac.uk/collections/law/wps/WPS2012-12_Mcdonagh.pdf
- ix) MoJ Judicial and Court Statistics (annual) (<http://www.justice.gov.uk/statistics/courts-and-sentencing/judicial-annual-2011>)
- x) Trade Marks Act 1994 (<http://www.ipo.gov.uk/tmact94.pdf>)
- xi) Copyright, Designs and Patents Act 1988 (<http://www.legislation.gov.uk/ukpga/1988/48/contents>)
- xii) UK IP Awareness Survey 2006 Intellectual Property Survey 2006 Dr Robert Pitkethley (<http://www.ipo.gov.uk/ipsurvey.pdf>)
- xiii) CJS Unit Costs (MoJ Cost-Benefit Framework Feb 2010, LSC stats pack 2010/11), found in Home Office ‘Criminalisation of Forced Marriage IA’ – (<http://www.homeoffice.gov.uk/publications/about-us/consultations/forced-marriage/forced-marriage?view=Binary>)
- xiv) ‘Small and Medium-sized Enterprise (SME) statistics for the UK and Regions 2009’ (http://stats.bis.gov.uk/ed/sme/Stats_Press_release_2009.pdf).
- xv) Monies recovered for IP offences. Source IP Crime Report 2011-2012 (<http://www.ipo.gov.uk/ipcreport11.pdf>)
- xvi) IA Forced Marriage (Civil Protection) Act 2007 / Guidance for Police Officers Dealing with Cases of Forced Marriage (also for education, health and social care) 7/10/2008: (<http://www.opsi.gov.uk/acts/act2007/20070020.htm>)
- xvii) Consultation on the Reform of the UK Designs Legal Framework www.ipo.gov.uk/consult-2012-designs.pdf
- xviii) Anti-copying In Design – survey www.acid.uk.com/acids-submission-survey.html
- xix) Press release on Patents County Courts reform www.ipo.gov.uk/press-release-20110614.htm
- xx.) IPO (2010) Intellectual Property Enforcement in Smaller UK Firms (<http://www.ipo.gov.uk/ipresearch-ipenforcement-201010.pdf>)
- xxi.) NESTA (2012) UK Innovation Index 2012, p. 4 (http://www.nesta.org.uk/home1/assets/features/innovation_index_2012)
- xxii.) Justice Statistics Analytical Services – Ministry of Justice
- xxiii.) MoJ “Guidance for assessing the impact of a change in Criminal Law or Policy that impacts on the Criminal Justice System”

1. Introduction

Following the review of Intellectual Property and Growth report¹ by Ian Hargreaves in May 2011 the Intellectual Property Office (IPO) acknowledged there was limited information on how important design rights were to growth, and questioned whether the current design intellectual property (IP) framework was meeting the needs of business. The IPO conducted economic research and issued a 'call for evidence' and an associated survey² to acquire this information. NESTA research shows there was £15.5bn of investment in design in 2009, equivalent to 1.1% of GDP³. Responses to the call for evidence confirmed the design IP framework needed to be simplified and improved in a number of areas to make it meet the needs of business more fully. Many respondents recommended the introduction of criminal sanctions for the most blatant and serious thefts, or in other words 'infringement', of design IP right⁴. A consultation on the reform of the Designs Legal Framework was subsequently published in July 2012⁵ and sought more information and evidence on simplifying design law. The majority of respondents answering a question on criminal sanctions for design theft supported their introduction. Asked which design rights, that is registered or unregistered, should attract criminal sanctions the majority of respondents supported their introduction for registered design rights.

2. PROBLEM UNDER CONSIDERATION

Criminal sanctions exist for certain types of trade mark and copyright infringement. With these two rights, it has been recognised sanctions are needed to punish and deter the most deliberate and serious IP thefts. For trade mark and copyright infringement both criminal and civil courts are experienced in dealing with IP cases, and together they help form a framework where the rights of brand and copyright owners are effectively enforced.

In the case of designs there are no criminal sanctions for copying, and design infringement cases can only currently be dealt with through civil courts. Not only is this seen to be harming the UK design sector, as explained below, but it gives rise to anomalies. For example 2D design drawings are protected by copyright as artistic works. If these drawings are copied or a 3D object is made from the design drawing in circumstances where the person making the object knows, or has reason to believe, that he is making an infringing copy of a copyright work, a criminal offence is committed. But if that same person takes the 3D object and copies that rather than the design drawing then unless the 3D object qualifies for copyright protection as either a sculpture or as a work of artistic craftsmanship no criminal offence will be committed.

Design owners, particularly small and medium enterprises (SMEs) and micro businesses have told the IPO it is rare to experience inadvertent copying and that copying is often both blatant and deliberate. Responses to the Designs Consultation said deliberate infringers of design, especially larger firms copying SMEs, fail to take notice of the requests to cease thereby escalating the infringement.

There is strong evidence from firms, and specifically 'design-intensive' firms that design rights are expensive to defend in the courts. Most responding companies felt that design registration provides insufficient protection. At present, over 80% of the design-intensive firms claim to have experienced their designs being copied. In contrast, less than half of the technology based firms have had a similar

¹ "Digital Opportunity: A review of Intellectual Property and Growth" report by Ian Hargreaves (<http://www.ipso.gov.uk/ipreview-finalreport.pdf>)

² IPO Call for Evidence and Survey on the Design IP Framework (<http://www.ipso.gov.uk/hargreaves-designs-c4e.pdf>)

³ NESTA (2012) UK Innovation Index 2012, p. 4 (http://www.nesta.org.uk/home1/assets/features/innovation_index_2012)

⁴ IPO Assessment of the Need for Reform of the Design IP Framework (<http://www.ipso.gov.uk/hargreaves-designsassessment.pdf>)

⁵ Consultation on the Reform of the UK Designs Legal Framework www.ipso.gov.uk/consult-2012-designs.pdf

experience. In both cases, it is clear that copying of designs is a real issue to firms in all sectors. Of those that have had designs copied, successful action in defending against this copying is rare. Survey evidence demonstrates that a minority of firms that had experienced designs being copied took successful action in defending against this copying.⁶ As a result, firms are less likely to register designs in the future.

3. RATIONALE FOR INTERVENTION

Creating a criminal offence for the infringement of a registered design could help reduce the scale of design copying in the UK whilst increasing protection for the holders of registered design rights. The prospect of action in a criminal court and of personal liability (action in a criminal court will lead to the offender having a personal criminal record that will follow them around irrespective of the corporate vehicle they choose) may also make design infringement by retailers less likely.

This proposal is part of a wider programme of improvements to the designs legal framework (examined in the Designs Consultation) which includes reforms of the civil enforcement regime that will help design owning companies. The on-going reform of the Patents County Court will help all IP owning companies bring cases more cheaply and quickly and with fewer risks. Similarly, changes to the design registration offered by the IPO and the ability to seek an “opinion” on design infringement from the IPO, may also help design owning companies. While the other provisions provide benefits to business (resource savings, parity with other IPR, reduced complexity, flexibility), the introduction of criminal sanctions is necessary to create a deterrent against deliberate infringement that the current civil sanctions do not supply, a view supported by the majority of respondents in consultation.

4. POLICY OBJECTIVE

The policy objectives are:

1. To reduce the scale of registered design infringement by acting as a deterrent;
2. To increase protection for the holders of registered designs; and,
3. To better punish perpetrators of blatant design infringement.

Taken together, these measures will help designers and business to better protect and commercialise their design property and contribute more effectively to economic growth in the UK. The chosen policy option to achieve these objectives is to create a criminal offence for the infringement of a UK or EU registered design; that is the unauthorised making, marketing, importing or otherwise using a design for commercial gain in the course of business. The offence will only be applicable to designs registered prior to infringement, not to those registered after the infringement has taken place. Taken together, these measures will enable designers to better commercialise their design property and contribute more effectively to economic growth in the UK. Criminal sanctions will also better punish the perpetrators of blatant design copying which, in turn, could make the civil regime more effective, with companies more likely to respond positively to approaches under civil law if they know that an escalation of their activity may result in later criminal proceedings.

DESCRIPTIONS OF OPTIONS CONSIDERED

Option 1: Do nothing – we could continue with civil sanctions as the only option to enforce design infringement. Responses to the Designs Consultation indicated doing nothing was not the favoured option.

Option 2: Introduce criminal sanctions for deliberate infringement of a UK or EU registered design. For a criminal offence to have taken place deliberate copying will need to occur. That is, establishing the defendant acted without the prior consent of the registered proprietor and establishing the defendant acted whilst knowing, or having reason to believe, their product incorporated an existing registered design. We propose to implement this option, given the indication from respondents to the Designs Consultation that criminal sanctions should be introduced for registered designs.

⁶ IPO Design Economics, Chapter Three: Design Right Case Studies
<http://www.ipo.gov.uk/ipresearch-designsreport3-201109.pdf>

Option 1: Do nothing

Costs/Benefits

We do not propose to pursue this option.

A recurring theme in responses to the Designs Consultation was that designers, many of whom are small and medium enterprises (SMEs) and micro-businesses, can find it difficult to protect their designs against those who deliberately copy them. 59% of respondents to an IPO survey⁷ said their designs had been copied. However, only 32% of those who had their designs copied went on to take civil action in the courts. Of those companies that took no action, 91% cited the expense involved as the reason for not doing so.

Case studies provided to the IPO call for evidence⁸ suggested civil infringement actions they had been involved in had taken between 12 months to two years to complete. Costs varied with one SME citing costs of up to £50,000 for each action, with loss of business estimated in one case at between £250,000 and £750,000. In addition to the financial costs there were also felt to be management time costs that SMEs can ill afford. To put this in perspective there were approximately 4.8million SMEs in the UK in 2009 according to data from BIS⁹. A report for the Strategy Advisory Board for Intellectual Property Policy on Intellectual Property Enforcement in Smaller UK Firms¹⁰ found that around 20% of the SMEs interviewed who use copyright and design rights has been involved in an IP dispute during the previous five years. However the report does not split this down to just design rights, but it can be used to show that a significant proportion of SMEs are affected by IP disputes. Whilst several respondents to the Consultation talked of a successful resolution to their case, most experienced significant impact on their time and resources, both human and financial; many felt this acted as a significant deterrent to enforcement.

Evidence from stakeholders suggests deliberate copiers of designs take advantage of this uncertainty. This is creating concern amongst businesses about how feasible it is to protect against copying of designs. Examples to the Designs Consultation suggested that, having unsuccessfully 'pitched' a design to a retailer, a designer may subsequently find his or her design on sale without their permission and without any remuneration. They then find retailers respond to attempts to pursue the matter with stonewalling or rebuttals, safe in the expectation the designer will find any redress through civil sanctions too difficult, time consuming, uncertain and/or costly to pursue. As a result, the IP system is falling into disrepute and few companies in the UK protect their designs via registration.

Doing nothing would leave civil suits as the only option for design owning companies to pursue those who have copied their designs and would therefore not meet the policy objective. In some cases, such as where the level of infringement is in dispute, or where the infringement was not deliberate, civil courts will be the appropriate forum. But, in other cases where the infringer has ignored warnings to desist, or has criminal connections, civil sanctions are unlikely to be effective.

A wider impact of doing nothing will be that, because of doubts about being able to enforce them, design owning companies will continue to see little value in registering their designs. 36% of those who

⁷ IPO Call for Evidence and Survey on the Design IP Framework
(<http://www.ipo.gov.uk/hargreaves-designs-c4e.pdf>)

⁸ IPO Call for Evidence and Survey on the Design IP Framework
(<http://www.ipo.gov.uk/hargreaves-designs-c4e.pdf>)

'Small and Medium-sized Enterprise (SME) statistics for the UK and Regions 2009'
(http://stats.bis.gov.uk/ed/sme/Stats_Press_release_2009.pdf).

¹⁰ IPO (2010) Intellectual Property Enforcement in Smaller UK Firms
(<http://www.ipo.gov.uk/ipresearch-ipenforcement-201010.pdf>)

responded to an IPO survey¹¹ and who had not registered designs cited the expense of enforcement as their reason for not doing so. Such companies will, as a result, forgo some of the benefits that arise from IP registration. They could, therefore, increasingly be at a competitive disadvantage to their peers in other countries where design registration is used more extensively.

Option 2

Introduce criminal sanctions for deliberate infringement of a UK or EU registered design. For a criminal offence to have taken place deliberate copying will need to occur. That is, establishing the defendant acted without the prior consent of the registered proprietor and establishing the defendant acted whilst knowing, or having reason to believe, their product incorporated an existing registered design. We propose to implement this option, given the indication from respondents to the Designs Consultation that criminal sanctions should be introduced for registered designs.

Almost two thirds of respondents (ranging from individual designers to enforcement and lawyer associations) to the Designs Consultation were in favour of criminal sanctions for design infringement. They supplied evidence in order to demonstrate copying as deliberate and occurring with a disregard for the rights of proprietors who are mostly SMEs and micro-businesses. Many respondents noted criminal sanctions already exist in the UK for the infringement of trade marks and copyright and could see no rationale for why this should not be the case for deliberate infringement of designs.

The Designs Consultation explored what specific offences might be preferred and whether to extend criminal sanctions to both registered and unregistered designs. No firm view emerged from consultees as to which route should be followed. However, criminalising copying for unregistered designs would be too complex and therefore difficult to enforce. It could also prevent companies from innovating due to uncertainty as to the scope of an unregistered design's protection. Criminalising registered designs only will have a positive effect on encouraging companies to register their designs rather than relying (often as a result of having no IP protection strategy) on the UK unregistered design rights that offer less protection.

Key Costs of Option 2

Groups affected are: Ministry of Justice; Crown Prosecution Service; Her Majesty's Courts and Tribunal Services; the judiciary; Prisons and Probation Services; Trading Standards Authorities; design owners, their legal representatives; organisations representing design owners and design infringers.

Key Costs to Government

There will be one-off transaction costs to **police, trading standards authorities, magistrates and judges**, who would need to be made aware of the new offence. Data from the Chartered Institute of Public Finance and Accountancy (CIPFA) shows that in 2009/10 there were approximately 11,000 officers ranked inspector or above and 227,000 officers ranked sergeant or below. The 2009/10 unit cost of police time is approximately £59 per hour for inspectors and above and £36 per hour for sergeants and below¹². At 2011/12 costs¹³ the unit cost of police time is approximately £62 per hour for inspectors and above and £38 per hour for sergeants and below. If we assume that every officer will need approximately 15 minutes of training to understand the new offence then there would be a one-off cost of c.£2.2m (with a high/low estimate 20% above/below). This assumption of 15 minutes is based on data in the Home Office IA on Forced Marriage, where they estimate it would take 30 minutes to explain the new law on forced marriage to police officers¹⁴. We have assumed that criminal sanctions will take up less

¹¹ IPO Call for Evidence and Survey on the Design IP Framework (<http://www.ipa.gov.uk/hargreaves-designs-c4e.pdf>)

¹² Annual Survey of Hours and Earnings (ASHE), CIPFA, up rated to 2010/11 prices. (<http://www.ons.gov.uk/ons/rel/ashe/patterns-of-pay/1997---2011-ashe-results/patterns-of-pay-2011.html>)

¹³ Assuming costs have increased in line with the HMT GDP Deflator (http://www.hm-treasury.gov.uk/data_gdp_index.htm)

¹⁴ IA Forced Marriage (Civil Protection) Act 2007 / Guidance for Police Officers Dealing with Cases of Forced Marriage (also for education, health and social care) 7/10/2008:

police time than the law on forced marriages and therefore have scaled down the time taken appropriately. Specific evidence was not received on this issue during consultation. However, one respondent thought that given the complexity of design cases at least a half day would be needed for Trading Standards Authorities to receive training in this area. Due to lack of evidence, it has not been possible to monetise the familiarisation costs for trading standards authorities, magistrates and judges who would need to be made aware of the new offence.

Familiarisation Costs to Police (2011/12 prices):

11,000 officers ranked inspector or above = £62 an hour

227,000 officers ranked sergeant or below = £38 per hour

15 minutes of training to understand the new offence

Inspector and above: $11,000 \times (\pounds 62/4) = \pounds 170,500$

Sergeant and above: $227,000 \times (\pounds 38/4) = \pounds 2,156,500$

Total (Central Estimate) = approx £2,327,000 one off cost

Low Estimate (20% lower) = approx £1,861,600 one off cost

High Estimate (20% higher) = approx £2,792,400 one off cost

Estimating the number of future criminal cases involving UK registered design

We have no direct proxy to help us identify the number of cases likely to result in criminal proceedings. Using data from the number of criminal proceedings resulting from design right infringement in Germany can help form a basis to estimate the expected number of criminal proceedings resulting from design right infringement in the UK.

An Impact Assessment for the introduction of a criminal sanction for registered design copying was produced in February 2013. Because this is a new offence it used trade mark infringement as a rough working proxy for the number of design cases there might be each year; criminal sanctions already exist for trade marks and they are broadly similar to designs. Subsequently, we were provided with data from the German Federal Ministry of Justice that we think provides a more accurate working proxy. This figure relates to the number of criminal cases which are brought in Germany, where criminal sanctions for design infringement already exist. This provides a good comparison because it relates specifically to design infringement rather than other forms of intellectual property and the UK's and Germany's designs laws are governed by the same European legal framework, as well as each country retaining its own national system of registration. In addition, the criminal sanction in Germany applies to the national, as well as the European, registered right, as the proposed sanction does in respect of the UK. Another country governed by the same EU framework, which has criminal sanctions, Denmark, has confirmed that it has had no cases. Finland and Italy, which also have sanctions, are unable to provide figures at this time.

Germany also provides a more accurate working proxy than trade marks for forecasting UK design figures because German Design Law, which sets out that using a registered design without the owner's consent is a criminal offence, is similar to the offence as it is drafted in the Intellectual Property Bill. Indeed, the offence as set out in the IP Bill seems somewhat tighter in scope than German law, and so this may indicate that figures for the UK could be lower still. For example, unlike the IP Bill, German law does not seem to prohibit accidental or incidental use of a design under the offence. Also, whereas the IP Bill only attracts the intentional copying of a design, German law appears to refer to the wider action of infringing a design, because of reference to "overall impression", which is used in defining infringement.

Furthermore, the figures could be lower in the UK because of the relative difference in design activity between Germany and the UK. Design registrations in the UK are relatively modest at around 9% of that of Germany.¹⁵ For example, between 2006-2010, on average, there were over 65,000 annual applications in Germany (OHIM and national office) compared to just 8,700 annual applications (OHIM and national office) in the UK. This contrast is supported by other sources such as the EU Innovation Union Scoreboard which in 2010 showed Germany had 7.9 Community Design applications per €billion GDP (at Purchasing Power Parity), while the UK had only 2.4.

The only point upon which the comparison between the German and UK systems may suggest higher numbers in the UK is that it appears that only statutory authorities can bring prosecutions against design infringement in Germany, although any person or business may request that they do so. In the UK, the intention is that individuals or companies with adequate resources, as well as statutory authorities, will be able to prosecute cases of design theft. However, on balance, given that the UK offence covers a narrower scope of design activities than the German system we remain of the view that the German figures provide the most accurate working proxy available at this time.

We assume that the number of criminal proceedings in Germany, as a proportion of the total number of designs contained in applications, will be similar in the UK.

The tables below demonstrate the mean number of designs contained in applications (national office and OHIM) between the period 2006-2010 in both Germany and the UK. The mean number of designs contained in applications in Germany was approximately 65,300 in Germany and 8,700 in UK.¹⁶

Germany: The number of design contained in applications

Year	2006	2007	2008	2009	2010	Mean
DPMA	46,557	56,208	49,146	35,431	47,951	47,058.60
OHIM	16,736	18,380	20,078	17,623	18,250	18,213.40
Total	63,293	74,588	69,224	53,054	66,201	65,272

UK: The number of designs contained in applications

Year	2006	2007	2008	2009	2010	Mean
IPO	3,576	4,705	4,074	3,926	4,084	4073
OHIM	4,535	5,265	4,335	3,986	4,939	4612
Total	8,111	9,970	8,409	7,912	9,023	8,685

The table below illustrates the mean number of criminal proceedings resulting from design right infringement in Germany between 2009-2011. On average, there were 11 cases per year.¹⁷

Germany: Criminal proceedings for design right infringement

	2011	2010	2009	Mean
Criminal Proceedings	12	14	7	11

In Germany, we know there are on average 65,300 designs contained in applications each year and 11 criminal proceedings for design right infringement. We can calculate the proportion of cases that result in criminal proceedings:

e.g. $11 \div 65,300 = 0.000169$

¹⁵ BOP Consulting (2011) Design Economics, Chapter Four: Design Rights, an International Comparison

¹⁶ BOP Consulting (2011) Design Economics, Chapter Four: Design Rights an international comparison

¹⁷ DPMA Statistics

In the UK, there are approximately 8,700 designs contained in applications each year. Based on the German data, we assume the same proportion of designs contained in applications results in criminal proceedings for design right infringement. This would lead to approximately 1 criminal case a year:

e.g. $8,700 \times 0.000169 = 1.466$ criminal proceedings.

To ensure the estimation is conservative and to take into account that we are only using Germany as the best available proxy, the IPO assumes 1 criminal proceeding to be the low estimate. We have taken the central estimate to be the mid point of 6 criminal proceedings a year and the high estimate will be 11 criminal proceedings per year which assumes the same level as Germany.

Central Estimate = 6 criminal proceedings

Low Estimate = 1 criminal proceedings

High Estimate = 11 criminal proceedings

Using these estimates we can provide an estimation of the potential cost to government.

Costing these cases

The potential cost to the Crown Prosecution Service and HM Courts & Tribunals Service is difficult to estimate. Some design infringement cases are likely to be straightforward and therefore relatively inexpensive for government authorities to prosecute, while others have the potential to be more complex.

The number of design cases brought before criminal courts will be key to the recurring economic cost. We have assumed that the number of criminal cases will be broadly similar to the proportion of cases that reach criminal proceedings in Germany. A higher than estimated use of criminal prosecution (either by the state or private individuals) for design infringement will have the potential to increase costs.

The cost of criminal cases will arise from the cost of investigation, the cost of trials and the cost of enforcing any sanction imposed on the court. If criminal sanctions are introduced, Trading Standards Authorities (TSAs) and police constabularies will add design to the types of IP in which they are interested. Given the current local government and police budget constraints and previous conversations with TSAs, we think it is unlikely to increase the overall number of days that are devoted to IP investigations. This view was supported by responses to the Designs Consultation. The number of days invested by TSAs varies considerably between authorities, but the national average (per authority) is 85 days devoted by middle management, followed by 44 days of junior grades and 29 days by senior officers.

Criminal proceedings of Trade Marks are used to provide an indication of the proportion of cases that will go either to the Crown and Magistrates Court. We felt it appropriate to use UK figures here on trade marks, rather than German figures on designs, because of the differences between UK and German legal system. The proportionate split of cases between the Crown and Magistrates Courts are more likely to be a reflection of the national judicial system, rather than reflecting the specific nature of the IP right concerned. UK figures on trade marks were therefore considered to give a closer approximation to the handling of design cases in the UK courts, than German design cases. Using the volume of convictions in MoJ 2011 data¹⁸, we can find the percentage breakdown of the number of cases in the crown and Magistrates Court: 25% of convictions were made in the Crown Court (121), while 75% were made in the magistrates court (366). If we assume there would be the same percentage breakdown between proceedings as convictions (subject to assuming that the percentage found guilty in each court is the same), we assume 25% of cases proceed through the crown court and 75% through the magistrates court¹⁹. Assuming this percentage breakdown for trade mark proceedings is the same as design proceedings, we can make assumptions on the number and cost of design proceedings through the two courts:

¹⁸ MoJ statistics

¹⁹ Note that all proceedings commence at the magistrates court. Some cases will be dealt with entirely at this court ie. acquitted or convicted and sentenced. Some cases will go to the Crown Court for trial and some cases will be convicted at the magistrates but committed to the Crown for sentence. For the purposes of costs we disregard this last category on the basis that the main proceedings take place in the magistrates, and therefore that is where the bulk of the cost is incurred.

CPS Costs (2011/12 Prices)

Magistrates Case Costs (75% of proceedings):

- CPS prosecution pre-charge = £41
- CPS cost per defendant = £146
- Total cost per case = £187

Crown Court Costs (25% of proceedings):

- CPS prosecution pre-charge = £41
- CPS cost per defendant = £2,556
- Total cost per case = £2,597

Central Estimate:

- 6 criminal proceedings (4.5 in Magistrates Court. 1.5 in Crown Court)
- £187 x 4.5 Magistrates proceedings = approximately £840 per annum
- £2,597 x 1.5 Crown proceedings = approximately £3,900 per annum
- **Approximately £4,700 per annum**

Low Estimate:

- 1 criminal proceedings (0.75 in Magistrates Court 0.25 in Crown Court)
- **Approximately £800 per annum**

High Estimate:

- 11 criminal proceedings (8.25 in Magistrates Court 2.75 in Crown Court)
- **Approximately £8,700 per annum**

HMCTS Costs (2011/12 prices):

Magistrates Case Costs(75% of proceedings):

- Magistrates cost per session = £1,341 (300 minutes)²⁰
- Average time per 'Other indictable offences' case = 158.8 minutes
- $(158.8/300) \times £1,341 = £710$ per case

Crown Court Costs (25% of proceedings):

For cases that proceed to the Crown court, there will be an initial hearing in the Magistrates court:

- Average time per case for 'Committal for Trial' proceedings = 12 minutes
- $(12/300) \times £1,341 =$ approximately £54 per case

Crown Court:

- Crown costs per session (HMCTS) = £2,064 (300 minutes)
- Average hearing time for 'Committed for Trial ' cases = 184.52 minutes

²⁰ The timings quoted, are based on the time that a legal advisor is present in court. This is used as a proxy for court time. Please note that there may be a difference in average hearing times. Timings do not take into account associated admin time related with having a case in court. This could mean that costings are an underestimate. The timings are collected from February 2009, any difference in these timings could influence costings.

- $(184.52/300) \times \text{£}2,064 = \text{approximately } \text{£}1,269 \text{ per case}$

Total: $\text{£}54 + \text{£}1,269 = \text{£}1,323 \text{ per case}$

Central Estimate:

- 6 criminal proceedings (4.5 in magistrates court, 1.5 in crown court)
- $\text{£}710 \times 4.5 \text{ Magistrates proceedings} = \text{£}3,200 \text{ approximately per annum}$
- $\text{£}1,323 \times 1.5 \text{ Crown cases} = \text{£}1,980 \text{ approximately per annum}$
- **Approximately $\text{£}5,200 \text{ per annum}$**

Low Estimate:

- 1 criminal proceedings (0.75 in Magistrates Court 0.25 in Crown Court)
- **Approximately $\text{£}900 \text{ per annum}$**

High Estimate:

- 11 criminal proceedings (8.25 in Magistrates Court 2.75 in Crown Court)
- **Approximately $\text{£}9,500 \text{ per annum}$**

Unit Costs:

	Cost	Year of Cost	2011/12 Costs ²¹	Source:
CPS prosecution pre-charge cost (summons/prosecution)	£38	2008/09	£41	MoJ cost benefit framework for 2008/09
CPS cost per defendant (mags)	£137	2008/09	£146	MoJ cost benefit framework for 2008/09
CPS cost per defendant (crown)	£2,397	2008/09	£2,556	MoJ cost benefit framework for 2008/09
Magistrates (HMCTS)	£1,313	2010/11	£1,341	HMCTS Finance, 2010/11
Crown Court per session (HMCTS)	£2,021	2010/11	£2,064	HMCTS Finance, 2010/11
Annual Prison Costs	£28,000	2012/13	-	MoJ Analytical Services (MoJ)
Probation Service Costs	£2,700	2008/09	£2,758	Presented in 10/11 prices, MoJ cost benefit framework for 2008/09

Magistrates Court timing data:²²

Home office offence group	Code	Average time per case (minutes)
Other indictable offences	EW	158.8

Crown Court timing data:²³

	Code	Average Hearing Time	
		Minutes	Hours
Committed for Trial (either way cases)	CT	184.52	3.08

²¹ Assuming costs have increased in line with the HMT GDP Deflator (http://www.hmtreasury.gov.uk/data_gdp_index.htm)

²² MoJ Statistics

²³ MoJ Statistics

Legal Aid Costs (2011/12) Prices²⁴

The average cost for the 'Other offences of dishonesty' group in the Crown Court is in the region of £8,000 for 2011/2012. Every individual defendant in the Crown Court is eligible for legal aid. However, dependant on income, some individuals may have to pay a contribution. There is the risk that the dishonesty offences may be of higher value than is being assumed, in which case the actual case costs could be significantly higher than £8,000.

There is also a risk of there being a legal aid cost for cases which are dealt with the Magistrates court. As those likely to commit this offence are employees, they are unlikely to be eligible for legal aid. The average legal aid cost in the Magistrates court for the 'other indictable' offence group (to be consistent with the offence group used for Magistrates court timings and costs) is £398.

Central Estimate

- 6 criminal proceedings (4.5 in magistrates court, 1.5 in crown court)
- 4.5 x £8,000 = **approximately £36,000 per annum**

Low Estimate:

- 1 criminal proceedings (0.75 in Magistrates Court 0.25 in Crown Court)
- **Approximately £6,000 per annum**

High Estimate:

- 11 criminal proceedings (8.25 in Magistrates Court 2.75 in Crown Court)
- **Approximately £66,000 per annum**

Cost of Disposals

As to punishments, sentencing guidelines to magistrates dealing with trade mark offences are to use fines or community sentences for offences involving a small or middling volume of counterfeit goods, and to only consider custodial sentences if the individual has a central role in counterfeiting or has large volumes of counterfeit goods. Terms of imprisonment can range from 12 weeks at Magistrates Courts up to the maximum 10 years that a Crown Court might impose. This maximum penalty also applies to copyright offences.

From the 655 trade mark cases proceeded against in 2011, 487 (approximately 75%) were convicted. There were 492 sentenced for offences relating to "unauthorised use of Trade Mark etc in relations to goods".²⁵ There are 7 different outcomes:

- Absolute discharge (3 or 0.6%)
- Conditional discharge (36 or 7.3%)
- Fine (122 or 24.8%)
- Community Sentence (138 or 28%)
- Suspended Sentence (78 or 15.9%)
- Otherwise dealt with (8 or 1.6%)
- Immediate custody (107 or 21.7%)

²⁴ MoJ "Guidance for assessing the impact of a change in Criminal Law or Policy that impacts on the Criminal Justice System

²⁵ The number of offenders sentenced can differ from those found guilty as it may be the case that a defendant found guilty in a particular year, and committed for sentence at the Crown Court, may be sentenced in the following year.

Assuming 75% of the estimated 6 design proceedings result in convictions, there will be approximately 4.5 convictions. Using the percentage breakdown of the 7 different outcomes from trade mark cases, estimates for the cost to HM Prison and Probation services can be produced. Although we appreciate that it is not possible to have half a conviction given that we are assessing the costs and benefits over 10 years and the number of cases is small we felt it appropriate not to round up. Despite court cases occurring at an infrequent rate of one case every few years (e.g. 0.25 cases per year is equivalent to one case every four years),

Costs to HM Prison and Probation Services (2012/13 Prices):

Of the 492 sentences relating to “unauthorised use of Trade Mark etc in relations to goods”, 107 (22%) resulted in immediate custody. Continuing with the assumption that trade mark can be used as a proxy for design right infringement criminal cases, applying this percentage to design (22% of 4.5 convictions) would result in 1 sentence in immediate custody.

Annual prison costs are £28,000 and average custodial sentence is 5.7 months. With the assumption that half the prison sentence is served²⁶, costs to HM prison service would be £6,650 per sentence.

Central Estimate:

- 6 criminal proceedings (75% result in convictions = 4.5 convictions)
- 22% of 4.5 convictions result in immediate custody = approximately 1 immediate custody
- **Approximately £6,600 per annum**

Low Estimate:

- 1 criminal proceeding
- Since the proportion of cases that result in immediate custody is low, we assume there will be no cases with immediate custody in the low estimate.

High Estimate:

- 11 criminal proceedings (75% result in convictions = 8.25 convictions)
- 22% of 8.25 convictions result in immediate custody = approximately 2 immediate custody
- **Approximately £12,00 per annum**

The average custodial sentence is less than 12 months, so no extra costs to the probation services are expected. It should be noted that for cases longer than one year there will be probation costs in the region of £2,758 on average per person. However, we have not included these in our monetary costs given that we estimate the average sentence to be 5.7 months.

Community & Suspended Sentences (2011/12 prices):

Of the 492 sentences relating to “unauthorised use of Trade Mark etc in relations to goods”, 138 (28%) resulted in community sentence and 78 (15.9%) resulted in suspended sentence. These sentences are both assumed to result in a cost of probation for each sentence (£2,758 in 2011/12 prices).

Continuing with the assumption that trade mark can be used as a proxy for design right infringement criminal cases, applying this percentage to design ((28% + 15.9%) of 4.5 convictions) would result in 2 sentences of community or suspended sentences:

Central Estimate

- 6 proceedings (75% convicted = 4.5 convictions)
- 2 sentences (44% of 4.5 convictions) at £2,758 = **approximately £5,500 per annum**

²⁶ MoJ “Guidance for assessing the impact of a change in Criminal Law or Policy that impacts on the Criminal Justice System

Low Estimate

- 1 proceedings (75% convicted = 0.75 convictions)
- Since the proportion of cases that result in immediate custody is low, we assume there will be no cases resulting in community or suspended sentences.

High Estimate

- 11 proceedings (75% convicted = 8.25 convictions)
- 4 sentences (44% of 8.25 convictions) at £2,758 = **approximately £11,000 per annum**

Impact to IPO

It is extremely difficult to say what the impact on the demand for IPO's services is likely to be as a result of the introduction of criminal sanctions because there are too many uncertainties. It is possible that there may be an initial increase in demand as designers believe this gives them a better chance of defending their rights. Whether this would continue in the longer term is more uncertain: it is likely to depend on how many cases are prosecuted, how many are successful, what penalties are imposed, the cost (time, energy, resources) to designers themselves (as opposed to the costs on public prosecution bodies), and the initial diligence in making sure that the registered design is the same as the one the subject of the criminal prosecution. If there are increases in demand, the IPO has shown it is flexible enough to absorb them. For example, input for 2012/13 is currently up approximately 20% over 2011/12 with output being maintained. Any further increase in demand as a result of these specific measures is also likely to be absorbed because of plans to introduce a fully electronic environment. So the overall impact on the IPO is likely to be minimal.

Key Costs to Business

Businesses will not have to spend any more time than they do now understanding whether any of their actions might constitute infringement of registered or unregistered design. They currently need to understand this now so as not to become a party to civil litigation, and the test for whether an action is or is not a criminal offence will still fall within the scope of existing civil infringement. Those pursuing infringers e.g. individual businesses seeking to invoke criminal sanctions (instead of the existing civilian sanctions) against potential infringers are not likely to incur any more legal or administrative costs in pursuing one type of infringement related action over another, particularly as they may be able to seek the help of the enforcement authorities in pursuing their claims.

Two respondents to the Designs Consultation felt the threat of a criminal record may have a chilling effect on honest traders, for example defendants might settle from fear of receiving a criminal record or be pursued for apparent 'copying' activities which were in fact entirely legitimate. However, no evidence was provided to support this assertion and it was not raised by the majority of respondents. Given that the criminal sanction will only deal with blatant copying we expect the potential chilling effect of legitimate design to be negligible, especially as civil sanctions already exist. SMEs have been the main advocates in consultation of introducing a criminal sanction for design infringement; in fact it was their highest priority. Given that the chilling effect, if it were to occur, would impact most on this sector, we consider that they believe the benefits of the sanction far outweigh any minimal chilling effects.

Although firm evidence is not available, we think it unlikely that designers engaged in legitimate activities would fear falling under its shadow, not in the least because the criminal offence is tightly drawn, including a significant *mens rea* element, directed at deliberate and blatant "taking" of a design.. In particular, the criminal legal burden of proof – beyond all reasonable doubt – is an exceptionally high standard for prosecutors to meet in court. It is therefore very unlikely to impose direct or indirect costs on any firm or individual not engaged in deliberate or persistent infringement

We do not have any further UK evidence to be able to quantify any potential minimal chilling effects. However we can look to Germany which already has a criminal sanction for design infringement.

Germany is renowned for having a highly effective design system²⁷ that uses both civil and criminal sanctions. Although direct causality between Germany's use of criminal sanctions and their successful system is impossible to draw, we are able to show that Germany has ten times as many registered designs in the UK and it is unlikely that the criminal sanction has had an adverse effect on the number of registered designs²⁸, or on the strong innovation performance of German SMEs. This also reflects the experience in the UK in relation to other IP rights which have also been retrospectively subject to the introduction of a criminal sanction: though there is no quantitative evidence, the introduction of criminal sanctions for piracy and counterfeiting provides no indication whatsoever of a chilling effect on creativity (copyright) or brand development (trade marks) in the UK. Both are generally acknowledged to be in robust health with the number of trade marks applications at an historic high, according to unpublished figures from the IPO.

For any companies that are concerned about establishing whether they are infringing or not the Designs Consultation contained a proposal for an IPO run Design Opinions Service to provide designers and businesses with an opinion on whether their design is being, or itself, infringed upon a design; such a service would be accessible at relatively low cost. The costs and benefits of this opinion service are addressed in their own IA. All design opinions will also be published on the IPO website, which will mean that a case history of what is considered to be infringing will be built up. This will help to inform designers of the likelihood of criminal or civil sanctions, help to mitigate any chilling effects on legitimate designers, and will further act as a deterrent to blatant copying as more case histories are publicly and freely available. The introduction of the service will also provide SMEs with a better opportunity to pursue a dispute that they may otherwise not have been able to progress due to the costs, time and complexity involved in doing so.

Benefits

Benefits of Option 2

A new criminal offence for deliberate copying of UK and EU Registered Designs will create an additional method of enforcement and protection to the existing civil sanctions which are in place for design infringement. In addition to the reforms of the Patents County Court²⁹ and increased use of mediation services in design disputes this will reassure designers the design rights they acquire can be more easily protected and enforced than is currently the case. This carries a number of benefits:

- 1) Creating a coherent approach to the protection of intellectual property rights in the UK. For example, criminal gangs do not divide up the IP rights they plan to steal. A fake iPhone steals the Apple design as much as it does the trade mark and any copyright existing in applications stored on it. Extending criminal sanctions to designs therefore reflects the "suite" of theft that has occurred and forms a necessary weapon in the armoury of the enforcement authorities. At the moment UK customs, and Trading Standards Departments can only act upon a trade mark violation, and this only works if the trade mark is actually attached to the products in question.
- 2) Many respondents to the Designs Consultation felt criminal sanctions would level the playing field between small and big organisations. As a result of this increased confidence design registration will become a more attractive proposition to creators and fewer businesses will continue to rely, often without strategy and by default, on unregistered UK design right as they do now. This will help ensure UK businesses are not placed at a competitive disadvantage to their peers in other countries where design registration is used more extensively.

²⁷ According to the Innovation Union Scoreboard (2010), Germany had 7.9 and France 3.8 Community Design applications per €billion GDP (at Purchasing Power Parity), while the UK had only 2.4.²⁷

²⁸ IPO Design Economics, Chapter Three: Design Right Case Studies
<http://www.ipo.gov.uk/ipresearch-designsreport3-201109.pdf>

²⁹ Press release on Patents County Courts reform
www.ipo.gov.uk/press-release-20110614.htm

- 3) The introduction of criminal sanctions will bring registered design rights in the UK on a level with other European design leaders such as Denmark, Italy and Germany, where criminal sanctions are considered necessary to punish and deter those who deliberately copy for commercial gain. This will help the UK be viewed as a country which offers its business and designers the fullest range of IP protection possible. Analysis of the effect of criminal sanctions in these countries has not been possible as the data is not currently available, however we are able to observe that countries who have successful design industries often have a criminal sanction such as German and Denmark. Whilst we are not able to draw direct causal links this would suggest that there have been no adverse effects and that a more effective enforcement system fosters design innovation.
- 4) The view that criminal sanctions could have a deterrent effect on the copying of designs has been supported through contact with stakeholders over many years and was supported by the majority of respondents to the recent Designs Consultation. For example, respondents believed sanctions could place additional pressure on perpetrators to respond to requests to cease (thereby preventing further infringement) and provide a deterrent against any large well resourced business which takes a calculated risk that a smaller business will be unable to pursue a civil remedy because of the legal costs and time involved.
- 5) The introduction of criminal sanctions will place the protection of registered designs on the same level as other intellectual property, such as infringement of copyright and trade marks. This was a benefit which many respondents to the Designs Consultation called for. It will also address certain anomalies, such as the earlier example of a 3D object not attracting a criminal offence akin to that for copying a 2D design drawing.
- 6) Criminal sanctions could make the civil regime more effective, with companies more likely to respond positively to approaches under civil law (for example complying with notification letters and removing infringing materials) if they know an escalation of their activity may result in later criminal proceedings. This could bring a financial benefit to the State by leading to a reduction in the number of civil cases brought each year. It could also provide an incentive to large business to commission from companies who have registered their designs and therefore are a known and trusted entity. This could in turn promote economic growth in the UK and generate additional revenue to Government.

The monetary benefits to businesses are very difficult to estimate with any degree of accuracy given the number of variables, including such factors as the number of cases pursued, the potential loss avoided in each case, and the overall deterrent effect created. However, although criticised by one respondent to the consultation, one organisation representing SME designers (ACID)³⁰ has estimated, using a survey, that the cost of infringement to the design industry is around 5% of the total value of design to the UK economy. Based on the most recent estimates from NESTA of £15.5bn of the value of design investment in the UK, this equates to an annual cost of infringement of £0.775bn³¹. It is clear from the Call for Evidence, contact with stakeholders over a number of years, and responses to the consultation, that there is a belief in the designs industry that criminal sanctions would have a significant deterrent effect. As an illustrative example, if 10% of these costs were saved through the deterrent effect of new criminal sanctions, then there would be a £77.5m pa saving to business. However we have been unable to find robust evidence to estimate the extent of the deterrent effect.

Proceeds of Crime Act

³⁰ Anti-copying In Design – survey

www.acid.uk.com/acids-submission-survey.html

³¹ Please note that the calculations in the original ACID reference were incorrect: “The survey indicated a 5% loss which equates to £165,000 million based on Nesta 2010’s value of design to the UK economy of £33 billion”. Given that the survey response indicating that 5% loss of design value is still valid, then 5% of £33bn would be £1.65bn. The ACID calculation uses an estimate of UK Spending in design of £33.5bn for the year 2008. This estimate is taken from Haskell and Pesole (2011) “Design services, design rights and design life lengths in the UK”. A more recent estimate in NESTA (2012) “UK Innovation Index” suggests £15.5bn was invested in design in 2009 (1.1% of GDP). Using the same assumptions as the ACID estimate, a 5% loss as a result of IP infringement based on the new NESTA value equates to £0.775bn.

Under the Proceeds of Crime Act 2002 if a person has benefited financially from crime, including being involved in the sale and distribution of counterfeit goods, under the Act the Crown Court can order the defendant(s) to pay a recoverable amount equal to that from which they have criminally benefited and taken from any, or all, of their available assets. During 2010-2011 this resulted in £21.5m recovered for IP offences (www.ipo.gov.uk/ipcreport10.pdf). The money recovered was divided. Half of it went directly to HM Treasury, with the remaining half split in equal amounts between other parts of government: one third to the agency responsible for the collection of the monies (normally the Magistrates Courts); one third to the Financial Investigator (the relevant local authority); the final third to the prosecuting authority (which can be the police, or the same authority as the investigator). The ability to recover proceeds of crime in this way means the costs of prosecuting design cases may be partially offset.

Fines (2011/12 prices):

In addition to confiscations under the proceeds of crime act, there will be financial benefits to government through the enforcement of fines. With the assumption that trade marks are a proxy for design convictions and using the proportion of case in Germany as a proxy for the UK, fines have been calculated for criminal design convictions. The average fine in 2011 was £787 for the 122 (24.8% of total sentences) convicted for “unauthorised use of Trade Mark etc in relation to goods”³². The current assumption about the payment rate for fines is that 75% are collected³³. Assuming the same percentage of the design convictions will result in fines and the average fine is the same as that for trade mark, we can estimate the income government will gain:

Central estimate

(24.8% of 4.5 design convictions) x (75% of £787) = **approx £700**

Low Estimate

24.8% of 0 design convictions) x (75% of £787) = 0

High Estimate

24.8% of 8.25 design convictions) x (75% of £787) = **approx £1,200**

Victim Surcharges³⁴ (2011/12 prices):

Victim surcharges are paid by those sentenced and provide revenue to government. Victim surcharges are applied to: fines, conditional discharges, custodial sentences and community sentences. With the assumption that trade marks are a proxy for design convictions, and using the proportion of case in Germany as a proxy for the UK, victim surcharges have been calculated for criminal design convictions..

Fine:

- £20 victim surcharge for all fines.

Central Estimate: (24.8% of 4.5 design convictions) x £20 = **approximately £20 per annum**

High Estimate: 24.8% of 8.25 design convictions) x £20 = **approximately £40 per annum**

Low Estimate: 24.8% of 0 design convictions) x £20 = **0**

³² MoJ “Guidance for assessing the impact of a change in Criminal Law or Policy that impacts on the Criminal Justice System”

³³ Until recently the data available on the ‘payment rate’ of financial penalties was limited and based on the ratio between the value of fines imposed in one year and the value of receipts in the same year. This rate fluctuated yearly. The ratio of the value of fines collected to the value of fines imposed was around 65% in 2009/10 and around 75% in 2010/11 and around 85% in 2011. These can only be treated as approximate payment rates as not all the fines collected in a year will have been imposed in that year. Given this, we assume a baseline payment rate of around 75%.

³⁴ Based on the MoJ impact assessment “Victim and Witness Consultation Response”

Conditional Discharge:

- A £15 victim surcharge for all conditional discharges with an assumption of a 70% payment rate.

Central Estimate: (7.3% of 4.5 design convictions) x (70% of £15) = **approximately £3 per annum**

High Estimate: (7.3% of 8.25 design convictions) x (70% of £15) = **approximately £6 per annum**

Low Estimate: (7.3% of 0 design convictions) x (70% of £15) = **0**

Community Sentence:

- An adult community sentence at a flat rate of £60 with the assumption of a 60% payment rate.

Central Estimate: (28% of 4.5 design convictions) x (60% of £60) = **approximately £45 per annum**

High Estimate: 28% of 8.25 design convictions) x (60% of £60) = **approximately £85 per annum**

Low Estimate: 28% of 0 design convictions) x (60% of £60) = 0

Custodial Sentence:

- An £80 victim surcharge for custodial sentences with the assumption of a 40% payment rate.

Central Estimate: (21.7% of design 4.5 convictions) x (40% of £80) = **approximately £30 per annum**

High Estimate: (21.7% of design 8.25 convictions) x (40% of £80) = **approximately £60 per annum**

Low Estimate: (21.7% of design 0 convictions) x (40% of £80) = **0**

Total

- **Central Estimate = approximately £100 per annum**
- **Low Estimate = 0**
- **High Estimate = approximately £190 per annum**

Risks and Assumptions

Assumption	Risk
Costs to HMCTS	These are difficult to estimate. Some design infringement cases are likely to be straightforward and therefore relatively inexpensive for government to prosecute, while others could be complex.
Volume of cases	We have assumed that the number of criminal cases would be broadly similar to those arising in Germany.
Conviction rates	We are assuming broadly the same level of successful convictions as currently occur in criminal cases involving trade marks.
Appeals	We have not quantified the costs of any appeals involving design infringement cases.
Sentencing	Continuing with the assumption that trade mark can be used as a proxy for design right infringement convictions, the percentage of total convictions for trade mark has been applied to the estimated number of total convictions for design e.g. 22% of 92 convictions would result in 20 sentences in immediate custody. High and low variations (20%) in volume have been considered, however, if volumes vary significantly costs to HM Prison and Probation Services could be higher.

Police and Trading Standards costs	We are assuming that no new funding will be made available or needed to investigate design infringement. There is a risk that following introduction of any new criminal sanction the clamour by design owners and lobby groups for its use will compel local authorities to respond by increasing the resources available to investigate IP cases.
Legal Aid Costs	It is assumed that trade mark can be used as a proxy for the breakdown of cases between the magistrates and crown court. Assuming 100% eligibility for legal aid in the Crown Court and minimal eligibility in the Magistrates, there will be <u>4.5 cases at an average cost for the 'fraud and theft' offence group of £8,000.</u>

Direct costs and benefits to business calculations (following OIOO methodology)

Following the OITO methodology we consider the preferred option as in -scope of the OITO rule ("an OUT") but consider it to be zero net cost as any possible costs on legitimate business are negligible.

Impacts on SMES/micro businesses

Micro organisations and SMEs are within scope of these proposals. Some such businesses could be committing blatant or serial design infringement and may therefore be charged with any new offence. But many more such businesses are likely to benefit from being able to more easily pursue infringers of their own design rights.

Summary and chosen option with description of implementation plan

Introduce criminal sanctions for deliberate infringement of a UK or EU registered design. This will cover the unauthorised making, marketing, importing, or otherwise using a design for commercial gain. The offence will help reduce the scale of design copying and infringement in the UK whilst increasing protection for the holders of registered designs. Sanctions will enable designers to better commercialise their design property and contribute more effectively to economic growth in the UK.

Implementation

Subject to Government agreement, an appropriate legislative vehicle will need to be identified and used to create a new offence if that course of action is taken.

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 copyright reforms, including assessing whether benefits have been achieved and how policy or operations can be developed to realise benefits more effectively.

BACKGROUND

Summary of Monetised Costs (2011/12 prices)

Affected Group	Estimate	Approximate Costs
Police familiarisation costs (one off)	Central	£2,327,000
	Low	£1,861,600
	High	£2,792,400
CPS Costs	Central	4,700
	Low	£7,800
	High	£8,700
HMCTS Costs	Central	£5,200
	Low	£900
	High	£9,500
Legal Aid	Central	£36,000
	Low	£6,000
	High	£66,000
HM Prison	Central	£6,600
	Low	£0
	High	£12,000
Community & Suspended Sentences	Central	£5,500
	Low	£0
	High	£11,000

Summary of Monetised Benefits (2011/12 prices)

Affected Group	Estimate	Approximate Costs
Government - Fines	Central	£700
	Low	£0
	High	£1,200
Government - Victim Surcharge	Central	£100
	Low	£0
	High	£190

Background on other reform of the design IP framework being considered

We plan to make revisions to the Copyright, Patents and Designs Act 1988, and to the Registered Designs Act 1949. These revisions will remove anomalies; repeal anachronistic provisions; and “de-clutter” the regulations. The net effect of these revisions will be a significant simplification of the design IP framework, allowing it to be more easily understood and applied by design owning businesses. These changes are described in other Impact Assessments. These measures have been called for by businesses, but they will not significantly improve the ease with which design rights can be enforced.

But such reforms, while useful will not remove the anomaly that while criminal sanctions exist for trade mark and copyright infringement, no such sanctions exist for very similar design infringement. Such reforms will not offer design owners any greater prospect of successfully defending their registered design rights against deliberate infringers who do not fear civil cases being brought against them.