

Intellectual Property Bill 2013–14 **IP Federation position on Clause 3 (qualification criteria)**

Introduction

The IP Federation represents IP intensive companies in the United Kingdom – a list of members is attached. Our member companies are extensively involved with IP in Europe and internationally. Not only do they own considerable numbers of IP rights, but they are affected by the activities and IP rights of competitors.

Clause 3 of the Intellectual Property (IP) Bill 2013–2014

We wish to make the following submissions on Clause 3 of the Intellectual Property (IP) Bill 2013-2014 (unregistered design right (UDR) qualification criteria):

1. We strongly oppose the amendments as currently proposed in Clause 3 of the Bill.
2. It is our collective view, as explained in **Annex A**, that the present reciprocity provisions on UDR in the CDPA 1988 are well considered. The existing provisions on UDR offer UK manufacturers protection from unfair competition, encourage reciprocity and support UK innovation.
3. The amendments as currently proposed would eliminate reciprocity and this will damage UK manufacturing industry in those sectors such as general engineering where UDR is important. UK manufacturers would be strategically disadvantaged as they can no longer manufacture even for export to countries where there is no protection for their own functional designs.
4. The scenarios as set out in **Annex B** illustrate a number of likely damaging consequences of enacting the current proposals in Clause 3 of the Bill into law.
5. It appears from the explanatory notes* to the Intellectual Property Bill that this extension of UK UDR was not intentional and that control over who is able to claim UDR was to be retained to ensure reciprocal protection for UK designers.

* Clause 15 of the Explanatory notes of the Intellectual Property Bill [HL].

6. The Impact Assessment (IA No: BIS 0361) conducted by the UK IPO states that the policy objective was "to provide a clear, consistent and equitable legal framework for the protection of designs". The proposed amendments however are **not** equitable and will strategically disadvantage UK manufacturers.
7. We do not agree with the assertions in the Impact Assessment that the costs of the proposed changes will be negligible to business nor that it will introduce legal certainty.
8. In order to prevent this negative impact, we have proposed changes to the current drafting of Clause 3 in **Annex C**. These changes will protect the beneficial system of reciprocity and will avoid disadvantaging British businesses.

Further comments on Clause 3 of the IP Bill (qualification criteria)

The amendments as currently proposed in clause 3 of the bill would extend UK UDR, for the first time, to companies such as Chinese (non-HK), Japanese, Korean, and US companies[†]. These countries were previously excluded from such ownership in the CDPA 1988 for the good policy reason that the national laws of their own countries of registration did not offer a comparable right to UK companies.

The changes currently proposed in the bill would amount to a strategic disadvantaging of UK-registered companies manufacturing in the UK, including -

- not only those engaged in manufacturing fashion and consumer goods to attractive designs, but also
- those engaged in general engineering because of the importance of functional designs which are covered by UK UDR.

Companies manufacturing in the UK for export to a country without the same level, extent, or duration of protection (*i.e.* most countries in the world) could easily find themselves in the position where the sale in the export territory or the possession of the product by the customer was not an infringement of any right of their Chinese, Japanese, Korean, or US competitors, but the manufacture in the UK is. The obvious way of avoiding the problem would be, if possible, to offshore the manufacture either to the customer country or to any other country where the manufacture could not be blocked.

IP Federation
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[†] HK is covered by SI 1989 No 1294. The only other territory with significant manufacture listed in the SI is New Zealand.

Annex A – the Present Reciprocity Provisions

The present reciprocity provisions on UDR are well considered and should be retained.

Present Law

Under the current law UK UDR only extends to corporate bodies who are formed under the law of part of the UK or another qualifying country and who have in a qualifying country a place of business at which substantial business activity is carried out.

The current law therefore excludes UK UDR protection from foreign corporate bodies if their own countries do not offer comparable rights to UK companies.

Parity exists as the manufacture of UK functional designs is permitted in foreign countries where there is no reciprocal UDR protection and UK companies can manufacture the functional designs of foreign corporate bodies if no reciprocal protection is given.

Proposed Law

If the changes to clause 3 of the IP Bill are enacted UK UDR will be extended to the functional designs of corporate bodies formed in countries who offer no reciprocal protection for UK functional designs.

UK manufacturers will not be able to manufacture in the UK either for the UK domestic market or for export. UK manufacturers are disadvantaged as they can no longer manufacture even for export to countries where there is no protection for their functional designs.

However UK originating functional designs can be freely copied and manufactured by foreign corporate bodies in their own country as there is no reciprocal protection.

Parity no longer exists and UK manufacturers are strategically disadvantaged with additional hurdles being introduced to the manufacture of functional designs in the UK.

Conclusion

UK UDR was introduced by Government to offer protection to more utilitarian and functional designs.

If there is value in offering protection to functional designs then reciprocity needs to be maintained. Reciprocity encourages other countries to introduce laws protecting UDR in return for protection in the UK.

Only when UDR is recognised globally will true parity exist that will benefit all those involved in the design and manufacture of functional articles.

If the proposed amendments to clause 3 proceed and reciprocity is lost then there will be no motivation for other countries to adopt UDR protection and UK Companies manufacturing in the UK will remain strategically disadvantaged.

Annex B – Illustrative Scenarios of Damaging Consequences

IMPACT ON UK GROWTH AND THE ECONOMY

The manufacturing facilities of both small and large UK-based engineering companies will be seriously impaired by extending UK UDR to foreign corporate entities. Careful consideration would need to be given to the location of manufacturing facilities as the manufacture of functional articles in the UK will be inhibited. This would negatively impact on the UK economy through significantly reduced contributions to UK GDP, taxes, investment, R&D and skills, reduced innovative and competitive performance of UK businesses, and reduced employment for engineers in the UK. This would not be consistent with HMG's industrial strategic vision for the UK as set out in the Government's sector industrial strategies.

DUAL SOURCING

Dual sourcing of functional components is carried out by large engineering companies to maintain a competitive supply chain and ensure continuity of supply.

Dual sourcing not only benefits the large manufacturing company but also the significant number of small businesses who form these supply chains.

Large manufacturing companies have to take great care when dual sourcing functional articles in the UK to ensure that UDR is not infringed.

Full and accurate records have to be maintained of any communications between the parties through all stages of the design process to mitigate the risk and cost of any litigation relating to the resulting designs.

The extension of UK UDR to foreign corporate entities adds a further impediment to the manufacture of functional components in the UK for UK based manufacturing companies, both small and large.

UK based manufacturing companies will now need to assess and navigate through the UDR rights of foreign corporate entities.

IMPACT ON SMALL ENTITIES

A significant number of small businesses in the UK are supported through the supply chains of the major UK manufacturing-based companies. Moving design and manufacturing offshore would negatively impact on the survival and growth of small businesses in the UK. It would further be sensible and more attractive commercially to source functional designs from businesses outside of the UK where the copying of functional designs is lawful.

ADDITIONAL BURDEN, RISK AND COST TO UK BUSINESS

To mitigate the real risk and cost of litigation, UK businesses (large and small) will need to ensure that they keep full and accurate records of all stages of their design processes. This will incur internal costs and introduce an additional burden on to UK businesses, especially small businesses with limited resource.

Annex C – Proposed Amendments to Clause 3

Amendments to Clause 3 of the Intellectual Property Bill 2013-2014 (un-registered design right (UDR) qualification criteria) are proposed. Accordingly, in the draft bill as presented on 9 May:

3(1), which would omit “person by whom and” in S. 213(5) should be deleted, and S. 217 and S. 220 amended as follows:

217. - (1) In this Part -

“qualifying person” means -

- (a) an individual habitually resident in a qualifying country, or
- (b) a person formed under the law of a qualifying country and who has in any qualifying country a place of business at which substantial business activity is carried on.

(2) References in this Part to a qualifying person include the Crown and the government of any other qualifying country.

(3) In this section “qualifying country” means -

- (a) the United Kingdom,
- (b) a country to which this Part extends by virtue of an Order under section 255,
- (c) another member State of the European Economic Community, or
- (d) to the extent that an Order under section 256 so provides, a country designated under that section as enjoying reciprocal protection.

(4) In determining for the purpose of the definition of “qualifying person” whether substantial business activity is carried on at a place of business in any qualifying country, no account shall be taken of dealings in goods which are at all material times outside that country.

220. - (1) A design which does not qualify for design right protection under section 218 or 219 (qualification by reference to designer or employer) qualifies for design right protection if the first marketing of articles made to the design -

(a) is by a qualifying person and takes place in the United Kingdom, another country to which this Part extends by virtue of an Order under section 255, or another member State of the European Economic Community.



IP Federation members 2013

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. Its Council also includes representatives of the CBI, and its meetings are attended by IP specialists from three leading law firms. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

AGCO Ltd
Airbus
ARM Ltd
AstraZeneca plc
Babcock International Ltd
BAE Systems plc
BP p.l.c.
British Telecommunications plc
British-American Tobacco Co Ltd
BTG plc
Caterpillar U.K. Ltd
Delphi Corp.
Dyson Technology Ltd
Element Six Ltd
Eli Lilly & Co Ltd
ExxonMobil Chemical Europe Inc.
Ford of Europe
Fujitsu Services Ltd
GE Healthcare
GKN plc
GlaxoSmithKline plc
Hewlett-Packard Ltd
IBM UK Ltd
Infineum UK Ltd
Johnson Matthey PLC
Merck Sharp & Dohme Ltd
Microsoft Limited
Nokia UK Ltd
Pfizer Ltd
Philips Electronics UK Ltd
Pilkington Group Ltd
Procter & Gamble Ltd
Renishaw plc
Rolls-Royce plc
Shell International Ltd
Smith & Nephew
Syngenta Ltd
The Linde Group
UCB Pharma plc
Unilever plc
Vectura Limited