

<b>Title:</b> The Patents, Trade Marks and Designs (Address for Service) (Amendment) (EU Exit) Rules 2020 <b>IA No:</b> BEIS030(F)-20-IPO <b>RPC Reference No:</b> RPC-BEIS-IPO-5012(1) <b>Lead department or agency:</b> Intellectual Property Office <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>						
	<b>Date:</b> 16/10/2020						
	<b>Stage:</b> Final						
	<b>Source of intervention:</b> Domestic						
	<b>Type of measure:</b> Secondary Legislation						
	<b>Contact for enquiries:</b> Janette McNeill Janette.McNeill@ipo.gov.uk						
<b>Summary: Intervention and Options</b>				<b>RPC Opinion: GREEN</b>			

Cost of Preferred (or more likely) Option (in 2019 prices,2020 base year)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Non Qualifying provision
£124m	£23.6m	-£2.7m	

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

Once the transition period ends, UK attorneys will no longer have the right to represent before the EU Intellectual Property Office. The UK IPO currently requires an EEA address for service (AfS) for applications for trade marks, designs and patents. Unless the UK makes changes to rules governing the AfS to remove the ability to use an AfS in the EEA, this gives rise to an asymmetry between the positions of UK and EU IP legal representatives. As the proposed change requires legislation, it is necessary for the government to act.

**What are the policy objectives of the action or intervention and the intended effects?**

This policy change is intended to prevent an asymmetry that will come into effect once the transition period ends, between the positions of UK and EU IP legal representatives. To do so, it is necessary to remove the ability of businesses to use an EEA AfS within the UK jurisdiction. IP professionals should see an increase in the amount of work they are commissioned to do relative to the 'do nothing' option, as all those seeking UK protection of IP rights will need to use a UK AfS. The indicators of success will include all new applications for IP rights having a UK AfS, and an increase in the proportion of non-UK applicants instructing a UK based attorney.

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

Do nothing: maintain the right to use an EEA AfS before the IPO. It would have no impact on those, mostly non-UK, business applicants who prefer to use an EEA AfS. Those businesses who seek protection of their rights in the EU as well as in the UK are likely to wish to use a single EEA AfS as this covers both areas. Preferred option: to make legislative changes to remove the option of using an EEA AfS, so restricting AfS to the UK and Channel Islands. This prevents the introduction of an asymmetry in the position of UK and EU IP representatives. AfS is governed by legislation. There is therefore no non-regulatory option.

<b>Will the policy be reviewed? No If applicable, set review date: N/A</b>					
Does implementation go beyond minimum EU requirements?			N/A		
Is this measure likely to impact on international trade and investment?			No		
Are any of these organisations in scope?		<b>Micro</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A		<b>Non-traded:</b> N/A

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

Signed by the responsible: MINISTER  Date: 16/11/20

# Summary: Analysis & Evidence

# Policy Option 1 (Preferred)

Description: Amend the law to remove the option to use an EEA AfS, restricting AfS to UK/Channel Islands  
**FULL ECONOMIC ASSESSMENT**

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) ((£28.3m))		
			Low: £19.3m	High: £37.2m	Best Estimate: £28.3m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		Optional	Optional

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

The main affected groups will be non-UK applicants for IP rights without a UK address. These costs have not been monetised as they do not fall within the scope of this impact assessment.

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

There will be some administrative costs to the IPO in order to implement the AfS changes, such as changing forms and online information. These are likely to be limited and have been accounted for within the IPO's budget for administrative changes related to the UK's departure from the EU. There may be some costs to multinational UK businesses who currently manage their IP portfolio outside the UK. This has not been monetised on proportionality grounds given a lack of information and the relatively small number of consultation responses citing this as a problem.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	£3m	£19.3m
High	Optional	£5m	£37.2m
Best Estimate		£4m	£28.3m

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

UK attorneys will benefit from representing non-UK applicants before the IPO. Three behavioural scenarios have been modelled to demonstrate the range of possible impacts if applicants choose attorneys, use PO boxes or forgo applying in different proportions. The benefits are comprised of the profits to law firms and PO boxes, plus VAT. Profits are used to give the net benefit to UK firms.

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

UK attorneys will benefit from representing non-UK rightsholders in contentious proceedings from trade marks and designs. Legal fees can range from tens of thousands to hundreds of thousands of pounds for cases progressing to a full trial. There will be an estimated 1311 affected trade mark oppositions per year, and 38 cancellation cases for existing IPO trade marks and designs, and 259 cases per year after 2024 for EUIPO comparable rights.

<b>Key assumptions/sensitivities/risks</b>	<b>Discount rate</b>	3.5
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The volume of applications for trade marks, designs and patents to the IPO will be at 2019 levels for the 10-year period. The IPO will receive additional applications from applicants who would previously have applied to the EUIPO. Assumption of all with a UK address or representative, and 25% of others. Three arbitrary scenarios have been specified to model the potential behaviour of applicants given the uncertainty surrounding this.

## BUSINESS ASSESSMENT (Option 1)

<b>Direct impact on business (Equivalent Annual) - £2.7m</b>		
<b>Costs:</b>	0	<b>Benefits:</b> £2.7m
		<b>Net:</b> - £2.7m

## **Evidence Base**

### **Problem under consideration and rationale for intervention**

Once the transition period relating to the UK's departure from the EU ends, an asymmetry will be created between the positions of UK and EU IP legal representatives. After the transition period, UK attorneys will not be able to represent applicants for trade marks and designs before the European Union Intellectual Property Office (EUIPO), except for actions pending at that date. The EUIPO is an EU agency, at which a single application to register a trade mark or design covering the whole of the EU can be made. Applicants are required to provide an address for service (AfS) when applying for a registered right in order to receive correspondence. UK applicants for trade marks and designs at the EUIPO will not be able to use UK AfS. UK applicants will need to use European Economic Area (EEA) AfS, and EEA attorneys. Following the end of the transition period, the UK element of all the EU rights will be preserved by creating UK trade mark and design rights recorded on UK registers. These are then referred to as 'comparable rights'.

UK Intellectual Property law does not require applicants to appoint a representative to prosecute an application at the IPO. However, currently applicants must provide an EEA AfS for correspondence and for the servicing of documents; this applies equally to any representative they do appoint. To prevent the introduction of asymmetry the UK IPO's rules governing AfS will be amended to remove this reference to the EEA. This means that any AfS will need to be within the UK or Channel Islands. This will apply to new applications, new hearing requests and new requests to initiate proceedings at the UK IPO.

As part of our commitments under the Withdrawal Agreement, the IPO is converting over 2 million EU trade marks and designs to UK domestic rights once the transition period ends. The change to AfS rules cannot apply to these comparable rights for a period of 3 years after the end of the transition period.

Although the background to this issue is specific to trade marks and designs, the potential for an asymmetry also applies to patents. The change therefore applies to patents. It will also apply to any actions before the IPO relating to unregistered designs. This policy change ensures consistency between the rights to keep them in step with each other, and is in line previous amendments when the UK-only AfS rules were extended to cover the EEA.

Patents may be filed at the European Patent Office (EPO), but this is not an EU body. It examines and grants applications for patents according to an international treaty, the European Patent Convention, which has members including non-EU states such as Switzerland and Turkey. Patents granted by the EPO become, in effect, national patents of whichever member states the applicant has selected.

### **Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)**

Our assessment is that the net impact on business of this policy will be below £5 million per year (the RPC de minimis threshold). The policy brings a benefit to the UK economy and we do not expect it to impose costs on the vast majority of UK businesses. There is a clear articulation of the channel of expected impacts for the UK economy, with the most significant benefit being monetised and a detailed description of the possible scale of benefits which are not monetised. We have been transparent about the strength of the evidence on which estimates depend and have conducted sensitivity testing.

The IPO has conducted a 'call for views' consultation in order to provide evidence of stakeholder support for the policy which yielded over 1,000 responses which were overwhelmingly positive.

A small number of responses in the call for views noted that multinational businesses may bear some administrative costs if they currently do their IP work in the EEA rather than the UK. Although this does not represent all of the firms that may be affected by this, it represents a very small, non-representative sample of responses. Given a lack of information and the relatively small number of responses citing this as a problem, it would have been disproportionate to attempt to further monetise these impacts.

## **Description of options considered**

There are two policy options: do nothing or restrict AfS to UK/Channel Islands by removing EEA AfS. As AfS requirements are determined by legislation, there are no non-regulatory options which prevent the introduction of an asymmetry between UK and EU businesses.

1) **Do nothing.** This would allow businesses to continue use an EEA AfS, which is often an IP attorney. It would have no impact on those, mostly non-UK, businesses who prefer to use an EEA AfS. Those businesses who seek protection of their rights in the EU as well as in the UK are likely to wish to use a single EEA (non-UK) AfS (again often an IP attorney), as this covers both areas. This option fails to achieve prevent the introduction of an asymmetry in the position of UK and EU IP legal representatives. The IPO conducted a light touch consultation on AfS via a 'call for views'. The call was published on 27 July and ended 14 August. The IPO received over 1000 responses. Over 95% of respondents to the call for views were supportive of changing the current AfS rules to UK/Channel Islands only. Only 4.2% of respondents were against the IPO changing the current EU/EEA AfS framework, i.e. doing nothing.

2) **Restrict AfS to UK/Channel Islands** by removing reference to EEA AfS from the legislation. The impact on most UK businesses is likely to be minimal, as most of them already have a UK AfS. There may be a negative effect on those holders of UK rights or future applicants who currently use an AfS outside the UK because they are managing an international portfolio of rights. For example, some UK businesses currently manage their IP portfolio outside the UK, so this change would require them to move this aspect of their business to the UK or to manage it via a UK address. These are likely to be larger businesses who were not supportive of this change in the call for views. This option prevents the introduction of an asymmetry in the position of UK and EU IP representatives.

Other intellectual property offices also restrict their address for service requirements to national addresses, for example, Australia. Others go somewhat further and expect non-national applicants to use representatives qualified in the home nation, such as Germany and the United States of America.

Changing from an EEA to a UK AfS would cause some current filers without a UK place of business to use a UK based attorney to meet the new filing requirements. This is likely to increase business to UK attorneys and would mitigate some of the losses that the UK profession will suffer as a result of being unable to represent before the EUIPO at the end of the transition period.

The Trade Marks Rules 2008 already contain provisions on AfS which can be amended to remove the references to the EEA/EU.

During consultation, respondents suggested that reciprocity could be maintained on an individual country basis (including those EEA member states not making use of EU membership) if adequate arrangements for service of legal proceedings on the foreign AfS can

be assured, without the need to apply to the court for leave to serve out of the UK jurisdiction. However, the focus of the current proposal is limited to making specific changes to the geographical area to which the current AfS rules apply. This precludes consideration of other issues at this point.

## **Policy objective**

This policy change is intended to prevent an asymmetry that would otherwise come into effect once the transition period ends, between the positions of UK and EU IP legal representatives. To do so, it is necessary to remove the ability of businesses to use an EEA AfS within the UK jurisdiction.

This measure may also help to mitigate for some of the loss of business to UK IP attorneys no longer able to represent clients or be used as an AfS before the EUIPO after the end of the transition period. It may also help offset similar problems for UK patent attorneys, who say that they are already losing business to EU attorneys. UK attorneys will no longer be able to represent clients before some EU national patent offices after December, such as France, whereas EU attorneys are currently able to represent clients before the EUIPO, EU national offices, as well as the UK IPO.

Indicators of success will include all new applications for IP rights having UK AfS and an increase in the proportion of non-UK applicants instructing a UK based attorney.

## **Summary and preferred option with description of implementation plan**

The preferred option is to require applicants for registered rights at the IPO to provide a UK or Channel Islands address for service. The preferred option will be given effect by means of secondary legislation. It will take account of the Withdrawal Agreement by ensuring that transitional provisions are in place for those rights copied to the UK registers from those of the EUIPO. It will also not apply to those rights which are already registered or granted in the UK, and which have no proceedings issued against them.

By removing the option to have an EEA AfS and restricting it to a UK or Channel Islands address only, the preferred option will prevent the introduction of an asymmetry in the position of UK and EU IP representatives. It will also address representatives' concerns about the loss of business because they will no longer be able to act as an AfS or represent their clients before the EUIPO.

The preferred option will come into effect at the end of the transition period. It is the responsibility of the UK IPO to ensure that the new rules on AfS are correctly applied. There is no scope to trial this because the change can only be brought into effect by means of legislation. It also prevents the introduction of an asymmetry between UK and EU IP businesses and the change has substantial support from representatives.

## **Monetised and non-monetised costs and benefits of each option (including administrative burden)**

### **Option 0 Do Nothing**

The counterfactual in this scenario is that applicants can use an EEA AfS when applying for a registered right at the UK IPO. This represents no change from the status quo so there are therefore no associated costs or benefits within the scope of this analysis.

Although it is anticipated that UK businesses will lose business following the UK's departure from the EU associated in particular with the EUIPO, this impact assessment is evaluating only the impact of changing the AfS requirement. Any costs or benefits associated with UK's

departure from the EUIPO are out of scope and are therefore not considered within this impact assessment.

Within this impact assessment, it is assumed that the IPO will receive additional applications that would have previously gone to the EUIPO. This is a wider consequence of EU exit and is unrelated to the policy decision being considered, as following the end of the transition period applicants will only be able to secure trade mark or design protection in the UK through the IPO.

We need to estimate how many applicants we may get after the transition period as a starting point for our analysis. To do this we need to estimate the switching behaviour of current EUIPO applicants seeking UK trade mark and design coverage. The volume of applicants estimated is 25% of EUIPO applicants in 2019 without a UK address or representative. This estimate is discussed in both the Monetised Benefits and Risk and Assumptions sections.

Without this proposed change, these additional applicants to the IPO without a UK address or representative would be able to continue to use an EEA AfS. These applicants would not need to change their behaviour by using a UK representative or PO box, as the IPO would only require an EEA AfS. The need for these applicants to make a UK application is unrelated to the AfS changes being considered. There would therefore be no behavioural change required of these applicants as a result of this policy change.

### **Option 1: Remove the ability of applicants to IPO to use an EEA address for service**

Under this proposal, AfS requirements would change from EEA to UK and Channel Island addresses for all patents, trade marks and design applications, and also new hearings requests and new proceedings. The AfS changes on the patent side are to meet the overarching objectives, and to ensure consistency of rules across rights. AfS requirements will also affect litigation proceedings related to unregistered designs.

This section considers the costs and benefits of this policy change. The benefits have been divided into monetised and non-monetised. UK legal services providers and the taxpayer are anticipated to be the main beneficiaries of the AfS changes. As applicants will require a UK AfS when applying to register a right at the IPO, it is likely they will instruct a UK attorney or establish a PO box address. The monetised benefit section estimates the benefit to the UK economy from the anticipated applications that to the IPO that will require a UK attorney or PO box.

The UK legal sector is also expected to benefit from representing rightsholders in contentious proceedings. This has not been monetised; however, the volume of affected cases has been estimated. Transition impacts have also been acknowledged but not monetised.

### **Costs**

The costs of this change will be borne by foreign applicants and owners of IP rights who do not have a UK address or representative so will have to employ a UK attorney or set up a PO box address.

The call for views noted that multinational businesses may bear some administrative costs if they currently do their IP work in the EEA rather than the UK. In the call for views, only 5 firms cited this as the reason for being against this policy intervention. Although this does not represent all of the firms that may be affected by this, it represents a very small, non-representative sample of responses. For UK firms, they should be able to use an existing head office address used for other regulatory purposes to comply with the new requirements at

minimal cost. Given a lack of information and the relatively small number of responses citing this as a problem, it would have been disproportionate to attempt to further monetise these impacts.

To be consistent with the Green Book and wider government approach, this impact assessment focuses only on costs and benefits to the UK. We neither consider nor attempt to quantify the costs of this policy to non-UK businesses, since they are not in scope for analysis.

## Monetised Benefits

The main beneficiaries of this policy change are expected to be the UK legal services industry and the taxpayer. Applicants without a UK address will need to instruct a UK attorney or set up a UK PO box. The taxpayer would be expected to benefit from extra VAT payments received by the exchequer versus the counterfactual. These VAT payments are included since they accrue as a result of payments for legal services but via non-UK applicants.

A model has been developed to estimate the impact of this over a 10-year period from 2021-2030. The model considers the expected fees that will be received from applications for IP rights. UK legal firms will also receive additional income from representing clients in contentious proceedings; however, these have not been monetised due to uncertainty on costs of legal disputes.

The assumptions<sup>1</sup> within the model are as follows:

1. The volume of applications for trade marks, designs and patents to the IPO will be constant at 2019 levels for the 10-year period.
2. As applicants can no longer apply to the EUIPO to gain coverage for their rights in the UK, we anticipate the volume of applications to the IPO will increase. It is assumed that all applicants with a UK address or representative will apply to the IPO, as well as 25% of the remaining applicants. This volume is assumed to be constant over 10 years. This assumption is based on an estimate from internal modelling conducted by the IPO.

The applications that the IPO would expect to receive prior to EU exit are considered separately in the analysis from those incoming from applicants who would previously have applied to the EUIPO.

Of the applications to the IPO, only those without a UK address or representative would be affected by the change in AfS requirement. As a proportion of total applicants to the IPO in 2019, those without a UK AfS or representative made up 5% of applicants for trade marks, 14% for designs and 4% for patents.<sup>2</sup> The total applications affected per year are therefore estimated to be 4012 trade marks, 4007 designs and 743 patents.

As noted above, an assumption is made on the volume of applicants who would previously have applied to the EUIPO who make a separate application to the UK IPO after the transition period. Those with a UK address or representative are already compliant, so will not need to take any action to change address or change representation as a result of this measure. However, those without will have to employ a UK attorney or set up a PO box. It is assumed that all these expected incoming applications will be affected. In 2019, the EUIPO received 121,994 trade mark and 74,701 design applications without a UK address or representative.

Assuming that 25% of these applicants will make a separate application to the IPO, the IPO will receive an estimated 30,500 trade mark applications and 18,675 design applications per year.<sup>3</sup> This assumption is based on estimated volumes of applications for internal IPO forecasting

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<sup>1</sup> Assumptions are stated in further depth in a later section of this impact assessment.

<sup>2</sup> IPO Internal administrative data

<sup>3</sup> Source: EUIPO application volumes, IPO Internal administrative data.

which were constructed for operational reasons. Due to the uncertainty of future applicant behaviour, arbitrary scenarios which extrapolate from existing trends were constructed. The proportions of applicants are based on 2019 levels. We have chosen to use the central scenario for this modelling.<sup>4</sup>

Following the end of the transition period, the UK will still receive granted patents from the European Patent Office (EPO), which is a non-EU institution. For the sake of clarity, it is worth restating that only patent applicants applying directly to the UK IPO will be affected by the AfS change. Those UK applicants applying for a patent at the EPO will be unaffected by this policy change.

It is not possible to predict the behaviour of applicants once the AfS changes have come into force, there is considerable uncertainty around the response. There are not similar policy changes we can use to calibrate these assumptions to reduce uncertainty. It is not possible to predict how many applicants will choose to instruct an attorney, opt to set up a PO box address or forgo applying for IP protection in the UK entirely. In order to mitigate for this uncertainty, different behavioural scenarios have been included in the model to show the range of possible impacts. The scenarios we considered are outlined in the table below, giving the percentage of applicants who will choose each option. As mentioned elsewhere, these are not based on evidence, but their purpose is to demonstrate the possible fee income impacts for the range of outcomes.

<b>Scenario</b> (assumptions)	<b>High</b>	<b>Central</b>	<b>Low</b>
Attorney % use	80	60	40
PO % use	20	35	50
Discouraged applicants (%)	0	5	10

Table 1. Scenario assumptions.

For the Central and Low scenarios, a proportion of applicants choosing to forgo applying was included. Although these proportions have been decided arbitrarily, the aim is to acknowledge the possibility that some applicants may be disincentivised to apply for IP protection due to the additional administrative work required. Given that the cost to an individual applicant of the change is relatively modest we assume that those disincentivised will be concentrated more heavily towards the marginal or less- profitable applicants. We assume that this policy change is unlikely to have either a substantial negative impact on the rate of innovation or change the future availability of goods and services.

Attorneys will often charge fixed fees for a trade mark or design application as it is a straightforward process. A sample of fees charged by 9 firms was taken, resulting in an average fee of £358.22 charged for a trade mark application in 2 classes.<sup>5</sup> On average, trade mark applicants apply in 2 classes. The range of fees was between £200 to £600. For designs, assuming a single application, the average attorney fee charged is £331.67, with a range of £210 to £900.

Patent applications are considerably more complex, and the fees charged can be much more variable depending on the complexity of the application, this makes use of an average less accurate and any estimates using this subject to more uncertainty. However, in the absence of another metric, we use the average value of around £4000.

<sup>4</sup> The possible scenarios are discussed further in the Risks and Assumptions section.

<sup>5</sup> Sample taken from publicly available data on firms' websites.



The above figures represent the revenue received by an attorney per case. For the EANDCB calculations, the net profit is required to take account of the cost to businesses of providing the service. Having considered the available evidence base for profit margins for similar firms we found 2 potential sources, the PwC Annual Law Firm's Survey 2019<sup>6</sup> and the Law Society Financial Benchmarking Survey 2019<sup>7</sup>. Having considered the relative merits, we decided to apply an average profit margin for mid-size law firms of 23% as our estimate.

It is possible to set up a PO box address in the UK for £20. It is assumed in the model that applicants will choose the cheapest option. As information on profit margins of PO box firms is not publicly available, the ONS national average rate of return for the service sector of 15.5% has been used as a suitable proxy.<sup>8</sup>

To estimate the benefit of these applications to the UK economy in each scenario, the volume of applications affected by the AfS change is multiplied by the average cost of an attorney or PO box using the given proportions in each scenario. The profit margin is then applied. Table 2 provides an example of the breakdown of the calculation for trade marks applications the IPO would expect to receive. The full results for the year 2021 are given in Table 3 below.

Behaviour	Volume	Fees £	Proportion	Total Revenue £	Total Profit £
Attorney	2,407	358.22	60	862,312	198,312
PO Box	1,404	20	35	28,084	4,352
Not Applying	200	-	5	0	0
Total	4,012	-	100	890,397	202,685

Table 2. Breakdown example of calculations for IPO trade marks in central scenario. Figures may not sum due to rounding.

Scenario	Low(£m)	Central(£m)	High(£m)
IPO TMs	0.1	0.2	0.3
IPO Designs	0.1	0.2	0.2
IPO Patents	0.3	0.4	0.5
EUIPO TMs	1	1.5	2
EUIPO Designs	0.6	0.9	1.1
Total	2.2	3.2	4.2

Table 3: Modelling outputs; profits for law firms and PO boxes multiplied by estimated volume of applications of each type. Note: Figures may not sum due to rounding.

<sup>6</sup> PwC Annual Law Firm's Survey 2019. Top 51-100 firms in the UK profit margin on average 22.9% in 2019. <https://www.pwc.co.uk/industries/law-firms/pwc-law-firms-survey-report-2019.pdf>

<sup>7</sup> Law Society Financial Benchmarking Survey 2019, sample of 210 practices from across England and Wales, concentrated in the mid-market, with a combined turnover of over £1.1billion, had a median net profit margin of 23.2%. Firms providing these services are likely to be mid-market or smaller firms within the legal sector. <https://communities.lawsociety.org.uk/Uploads/d/n/v/lms-financial-benchmarking-survey-report-2019.pdf>

<sup>8</sup> ONS Service sector PNFCs net rate of return (%) 2019.

<https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/profitabilityofukcompanies/latest>

The benefits to the taxpayer of the 20% VAT on the additional legal fees is also calculated. The results are then summed together and then discounted to find the present value using a standard discount rate of 3.5% and adjusted for inflation at 2019 prices.

## Results

As the costs of the introduction of the AfS requirement will be paid by foreign IP right applicants, the policy is a net benefit to UK legal firms and taxpayers.

For the average annual benefits and net present value, the profits to legal firms and PO boxes plus VAT are included. The net present social value includes the revenues to the legal firms and PO box companies, as well as tax benefits to the exchequer. The revenues are included as the costs to the firms of providing the services, such as staff costs, rent and IT services etc will be a benefit to the wider economy. The final results are given in Table 4 below.

<b>Average Annual Benefits per year (excl Transition, Constant Prices)</b>	£m
<b>Low</b>	2
<b>Central</b>	3
<b>High</b>	4
<b>Total Net Present Value over 10 years (Present Value)</b>	
<b>Low</b>	19
<b>Central</b>	28
<b>High</b>	37
<b>Total Net Present Social Value over 10 years</b>	£m
<b>Low</b>	85
<b>Central</b>	124
<b>High</b>	163

Table 4: Net Social Value per year and summed over 10 years. 2020 base year

## Non-monetised Benefits

UK attorneys will also benefit from advising applicants without a UK address or representative on contentious matters. These impacts have not been monetised for several reasons. Firstly, the fees charged by attorneys are not publicly available as they are market sensitive. The fees charged for a case will differ based on the nature and complexity of the dispute, as well as how long it takes. This combined variation in case type and fees charges makes inference of an average cost of contentious matters work difficult, and the results would be subject to a very wide margin for error. A 'one size fits all' approach to assuming a fixed fee per case is therefore not appropriate due to this uncertainty. Legal fees can range from tens of thousands to hundreds of thousands of pounds for cases progressing to a full trial.

Rather than monetising this impact, the number of relevant cases has been estimated for trade mark oppositions, and for invalidations/revocations for trade marks and design invalidations in order to acknowledge the scale of the benefit to UK legal services firms.

<b>Legal Proceeding</b>	<b>UK IPO Case Volume (from 2021)</b>	<b>EUIPO Comparable Rights (from 2024)</b>
TM Opposition	1311	N/A
TM Revocations/Invalidations	28	210
Design Invalidations	10	49

Table 4: Estimated annual case volumes.

The AfS requirement will affect trade mark oppositions. Before registration, trade marks are published in the Trade Marks Journal. Third parties can begin opposition proceedings to prevent a trade mark being registered. These proceedings will generally require legal representation. The rate of oppositions as a proportion of total applications was 3.8% in 2019. This is multiplied by the trade mark applications that will be affected by the AfS change to find the number of affected oppositions, which is estimated to be 1311. Cases progressing to a hearing are likely to result in higher fees charged. In 2019, 3% of oppositions progressed to hearing, so the model estimates that around 35 oppositions would progress to hearing.

Designs are published once they are registered (unless the applicant seeks an exception for this), so there is not an equivalent opposition process prior to registration for designs. Both trade marks and designs can be challenged once they have been registered. For trade marks, the challenge can be a revocation or an invalidation, and designs can be challenged on the basis of an invalidation. Similar methodology has been used to estimate the volume of cases for trade marks and designs.

These legal challenges are against rights that are on the register. Following the end of the Transition Period, the rights on the IPO register will be comprised of existing IPO registrations and the comparable rights from the EUIPO that will migrate onto the IPO register on 1<sup>st</sup> January 2021. As a condition of the Withdrawal Agreement, the AfS requirement cannot affect the EUIPO comparable rights until 1<sup>st</sup> January 2024.

In 2019, the revocations and invalidations filed at the IPO Registrar represented 0.7% of trade mark applications<sup>9</sup>. Applying this to the proportions of affected applications, there will be an estimated 28 cases per year relating to existing UK IPO trade marks. Assuming that this rate of revocation will be consistent for the EUIPO comparable rights, there will be an estimated 210 cases per year. These cases will only represent a benefit to UK attorneys after 2024 when the AfS requirement becomes applicable to these rights.

This methodology is also applied to design invalidations. In 2019, the design invalidations filed at the IPO Registrar represented 0.3% of design applications.<sup>10</sup> There will be an estimated 10 affected cases per year relating to existing UK IPO designs, and 49 cases per year after 2024 for EUIPO comparable rights. There could also be legal challenges related to unregistered designs which UK legal firms will benefit from representing. These represent a small number of cases and generally UK AfS are used. Figures specific to unregistered rights have therefore not been included in the calculations.

For the EUIPO comparable rights, the rate of revocation and invalidation challenges is likely to taper off after a few years given the volume of rights on the register will not be added to. However, the size of the UK IPO register is expected to increase so UK legal firms are likely to continue to benefit from representing contentious proceedings.

<sup>9</sup> IPO Facts and Figures 2019 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/888845/Facts-and-figures.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/888845/Facts-and-figures.pdf)

<sup>10</sup> IBID

These estimates are based on the assumption that case volumes are the same as in 2019, so are likely to be subject to a margin of error and give an indication only of the scale of cases that may be affected by this policy change.

Patents have not been included in the analysis of contentious proceedings as the UK will remain a member of the European Patent Office, which is a non-EU institution. Patent applicants can apply to the EPO, and once a patent is granted it comes onto the register in each individual state. The IPO therefore has EP(GB) patents on the register. UK attorneys will still have rights of representation before the EPO and will be able to address legal disputes through EPO channels. The AfS requirement will not change this. Only 4% of patent applications made directly to the IPO (not through the EPO route) did not have a UK representative or address in 2019. The volume of contentious patent cases is likely to be negligible.

The additional cases will be heard at the IPO Registrar, with a very small proportion progressing to a hearing. This is unlikely to have an impact on resolution times.

### **Transitional Impacts**

The changes will come into place immediately on 1 January 2021. The application process to acquire a registered right will not change, there will just be a different address requirement. There will be a three year phase in for the comparable rights from the EUIPO, so the change in AfS rules will only apply to those rights from 1 January 2024.

The UK IPO will need to make changes to forms and online information, as well as communicate and advertise these changes. These are likely to be limited and have been accounted for within the IPO's budget for administrative changes related to the UK's departure from the EU. The AfS requirements will not apply to currently pending applications or existing disputes.

### **Risks and assumptions**

1. The model assumes that the volume of applications for trade marks, designs and patents to the IPO will be at 2019 levels for the 10-year period. It is difficult to forecast the volume of applications for IP rights, however designs and patents applications have displayed consistent behaviour over last 20 years. Trade mark applications have fluctuated more, however assuming a fixed level is a conservative central assumption when there is uncertainty in the future path of volumes.
2. The model assumes that the proportion of total applications to the UK IPO that did not have a UK address or representative in 2019 will remain consistent over the 10-year period.
3. As applicants can no longer apply to the EUIPO to gain coverage for their rights in the UK, we expect an increase in volume of applications to the IPO. It is assumed that all applicants with an existing UK address or representative will apply to the IPO, as well as 25% of the remaining applicants.

This assumption is based on estimated volumes of applications for internal IPO forecasting which were constructed for operational reasons. Due to the uncertainty of future applicant behaviour, arbitrary scenarios which extrapolate from existing trends were constructed. The proportions of applicants are based on 2019 levels. We have chosen to use the central scenario for this modelling. This volume is assumed to be constant over 10 years.

The possible scenarios of which applicants from 2019 are predicted to apply following EUIPO departure are as below:

- Low – GB applicants only.
- Central Low - GB applicants or agent.
- Central – GB applicants or agent + 25% of those remaining
- Central High - GB applicants or agent + 50% of those remaining
- High - GB applicants or agent + 100% of those remaining

It is acknowledged that this is strong assumption. There is a high degree of uncertainty around the future behaviour of applicants and UK trade mark applications are unusually volatile at the moment. For example, trade mark applications were 50% higher in July 2020 than in July 2019, and these levels themselves were 13% higher than July 2018.

We are working to improve the accuracy of predicted trade mark application volumes and better understand the drivers of demand.

4. The possible behavioural scenarios of whether applicants will choose to instruct an attorney, set up a PO box or forgo applying are decided arbitrarily. There is uncertainty around the decisions that will be made, so the model accounts for this by offering a high, central and low scenario to demonstrate the possible fee income impacts. It is acknowledged that this assumption has no supporting evidence and is a core assumption within the analysis.

There are no obvious risks to UK businesses associated with this policy.

### Impact on small and micro businesses

As part of the Call for Views, respondents were asked to provide the size of the business they were employed by. Table 5 shows the proportion of responses broken down by business size.

No. of employees	Frequency	Proportion of Total	Not Supportive/Not Very Supportive Frequency	Proportion of Total
1	29	3%	2	7%
2 - 10	96	9%	9	9%
11 - 49	156	15%	9	6%
50 - 249	497	49%	11	2%
250+	238	23%	11	5%
Total	1016	100%	42	4%

Table 5: Size of business of Call for Views respondents. Proportion of businesses who answered that they were Not Supportive or Not Very Supportive. Note: Figures may not sum due to rounding.

Small and micro businesses are defined as having below 49 employees, which made up 28% of total respondents to our call for views. We have included a breakdown of responses by size of business. 99.3% of all businesses in the UK are small and micro businesses according to the latest business population estimates.<sup>11</sup> The call for views responses cannot therefore be considered representative.

The proportion of small businesses not in favour of the changes is slightly higher than the sample average, however as a proportion of total responses it makes up a small percentage. 93% of small and micro businesses were in favour of the policy change. The proportion of small businesses that were either not supportive or not very supportive of the AfS changes was 6%,

<sup>11</sup> BEIS (2020), Business population estimates for the UK and regions, [link](#)

which is slightly higher than the average of 4% for all respondents. For micro businesses (10 employees or under), on average 8% were not supportive or not very supportive of the changes.

The reasons small and micro businesses gave for not being in favour of the changes were that their operations in Europe would be affected by the changes. In reviewing the responses by small businesses, none highlighted that burdens were due to their size. Some of the responses were from non-UK firms so would be out of scope of consideration.

### **Wider impacts (consider the impacts of your proposals)**

There are unlikely to be unintended consequences of this policy on UK businesses, provided the costs of legal services remain the same. We do not expect that fees charged to existing clients will increase as a result of this new demand for services. This is because there is an anticipated loss of UK legal services work representing UK clients at the EUIPO related to EU Exit meaning there should be spare capacity within the sector.

### **Monitoring and Evaluation**

The IPO will continue to monitor the volumes of applications for registered rights to observe any changes following the UK's departure from the EUIPO.