

## “Simplification” can lead to design right abuse: The Intellectual Property Act 2014, and amended first ownership provisions



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The **Intellectual Property Act 2014** (the 2014 Act) received Royal Assent on 14 May 2014 and will be implemented via a series of commencement orders over the coming months. One commencement order, which will be effective **1 October 2014**, “simplifies” the rules on first ownership of UK unregistered design right. Where other rules do not apply, the first ownership provisions provide for vesting first ownership in a relevant person who first markets articles to the design. **Michael Jaeger** and **Nick Wallin** explain how product designers may be shocked by the implications of this “simplification” in the law<sup>1</sup> – and find that someone quite unexpected has become the first owner of “their” design right.

### Introduction

UK unregistered design right is an often overlooked IP right. Created by the Copyright, Designs, and Patents Act 1988 (CDPA 1988), it provides protection for the “shape and configuration of the whole or any part of an article”<sup>2</sup>. It has been particularly powerful because it allows the definition of the scope of the right to be crafted *ex post facto* to a particular infringement situation. The scope for this protection may be somewhat reduced with the deletion by the 2014 Act of the ability to define “any aspect”<sup>3</sup> of the shape or configuration of an article as the design in which design right is claimed. However, the new definition still allows for the important *ex post facto* definition of the shape or configuration of any part of an article to catch an alleged infringement.

The recent case of *Kohler-Mira Ltd v Bristan Group Ltd*.<sup>4</sup> illustrates the flexibility of UK design right. Relating to the design of electric showers, the only rights found to be infringed were a subset of the various *ex post facto* scoped UK design rights, whilst the corresponding Community Registered Designs were held not infringed. With such a potentially flexible right, and one which arises automatically, careful consideration needs to be undertaken to ensure that such rights accrue to the correct person or entity. The changes introduced by 2014 Act, however, particularly to qualification for UK design right by virtue of first marketing, may, we believe, bring some unforeseen consequences.

### The law prior to 1 October 2014

UK design right is a “qualifying” system, where design right only subsists if a relevant person meets certain relevant criteria. This is similar to copyright; however, because the

qualifying requirements are much more restricted, these are far more relevant in practical terms than in relation to copyright. Firstly, where the design is made in the course of employment or pursuant to a commission<sup>5</sup>, the employer/commissioning company had to be a qualifying person by virtue of it being formed under the law of, and having an eligible place of business in, a “qualifying country”<sup>6</sup>. The qualifying countries are EU member states and other countries which have reciprocal arrangements with the UK<sup>7</sup>. Secondly, where the designer is not employed or commissioned he/she must have been a “qualifying individual”, meaning a citizen or subject of<sup>8</sup>, or an individual habitually resident in, a qualifying country.

The third route to qualification is where neither the employer/commissioner nor the non-employee/non-commissioned designer meet the qualification requirements. In this case section 220 CDPA provided that UK design right will nevertheless subsist in an original design if the double requirement (i) that an article made to the design was first marketed in a qualifying country and (ii) that the first marketer was “exclusively authorised” to put such articles on the market in the UK, is met. It is important to note that in this case section 215(4) CDPA provides that it is the first marketer which is the first owner of the UK design right, **not** the company or individual who created the design.

### The problem with “exclusively authorised”

The problem with the “exclusive authorisation” requirement is that it is very strictly defined. S220(4) CDPA states: “exclusively authorised” refers:

- (a) to authorisation by the person who would have been first owner of design right as

designer, commissioner of the design or employer of the designer if he had been a qualifying person, or by a person lawfully claiming under such a person, and  
(b) to exclusivity capable of being enforced by legal proceedings in the United Kingdom.

It is often the case that a non-EU manufacturer will distribute products in the EU using a local distributor and that company will be the only distributor for the entire EU. In practice, the company is a *de facto* exclusive distributor. However, whether the company is legally an exclusive distributor – with the right to bring proceedings even against the non-EU manufacturer in respect of supplies in the UK, such that design right arising by first marketing would accrue to it, remains open in the absence of a formal agreement between the parties. It might be argued that, in fact, the local company is simply a sole distributor, with no cause of action against the non-EU manufacturer if that company distributes its products itself. In the absence of a formal exclusivity agreement it may be very difficult to prove in hindsight that the relationship between the parties had the necessary element of exclusivity to allow design right to arise.

## The solution – remove the “exclusively authorised” criterion

Under the new law which will come into effect on 1 October 2014, the above problem is addressed by removing the requirement that the first marketer must be “exclusively authorised to put such articles on the market in the United Kingdom”<sup>9</sup>. Therefore, a design which does not qualify for design right protection by reference to its designer, commissioner or employer will qualify for design right protection simply if the first marketing of articles made to the design is by a qualifying person<sup>10</sup> and if that first marketing takes place in a qualifying country.

This ‘simplification’ of the ‘qualification by first marketing’ criteria will mean that design right will subsist in more original designs than under the old law. However, we think that the change may lead to curious consequences in some commercial scenarios, consequences which we believe are most likely unintended. To illustrate this point we set out below some different scenarios relating to new products, each having an original design. In each scenario the designing company is not a qualifying person.

### Scenario 1.

TV Co Ltd is a Korean company which designs and manufactures televisions. It has wholly owned subsidiary companies in the UK (TV Co UK Limited) and in Germany (TV Co Deutschland GmbH). The first worldwide marketing of TV Co Ltd’s latest model, the “Curve1”, takes place in the UK by TV Co UK Limited.

Q1. Who owns the UK design right in the design of the Curve1?

A1. Since the UK company TV Co UK Limited first market the Curve1 in the UK they own the design right in the

Curve1.

*Comment:* As TV Co UK Limited is a wholly owned subsidiary this is unlikely to have any commercial impact. No licence is required, as TV Co UK Limited owns the right.

### Scenario 2.

Once again we consider TV Co Ltd and its subsidiary companies TV Co UK Limited and TV Co Deutschland GmbH. This time, however, the first worldwide marketing of the Curve1 takes place in Germany by TV Co Deutschland GmbH.

Q2. Who owns the UK design right in the design of the Curve1?

A2. Since TV Co Deutschland GmbH, which is a body corporate formed under the law of a qualifying country, having a place of business at which substantial business activity is carried on, first markets the Curve1 in Germany, which is a qualifying country, it owns the design right in the Curve1.

*Comment.* In this case TV Co UK Limited does not own the design right even if its *raison d’être* is to exclusively distribute, *inter alia*, the Curve1 in the UK. Strictly speaking a licence is required from TV Co Deutschland GmbH to allow TV Co UK Limited to supply the Curve1 in the UK<sup>11</sup>.

### Scenario 3.

Staying with TV Co Ltd. and its subsidiary company TV Co UK Limited, we introduce TVsrUS HK, a company registered in Hong Kong which is unrelated to TV Co Ltd. On this occasion the first worldwide marketing of the Curve1, takes place in Hong Kong by TVsrUS HK.

Q3. Who owns the UK design right in the design of the Curve1?

A3. Hong Kong is a qualifying ‘country’ by virtue of having reciprocal arrangements for protecting UK rights under its own law<sup>12</sup>. Therefore for reasons similar to those stated in A2, TVsrUS HK owns the design right in the Curve1.

*Comment.* In this case TV Co UK Limited does not own the design right. More worryingly, TVsrUS HK can stop TV Co UK Limited from selling the Curve1 in the UK.

### Scenario 4.

Moving away from televisions, the Japanese company Pony Corporation designs and manufactures games consoles. It is about to market its latest model, the “XS5”, kicking off its worldwide launch in the UK. The XS5 is highly anticipated in the UK and advance stock has been distributed to many high-street retailers for a midnight launch to the waiting throngs. A manager at a local Mixons plc store ‘accidentally’ opens the doors to his shop ten minutes early and starts selling the first XS5s, much to the glee of those waiting patiently outside.

Q4. Who owns the UK design right in the design of the XS5?

A4. Since the UK company Mixons plc first market the XS5 in the UK they own the design right in the XS5.

*Comment.* In this case Mixons plc can seek an injunction against all other retailers selling the XS5 in the UK, thereby providing itself with exclusivity in the UK market.

## Notes

1. They may be even more shocked to know that there is only a passing mention of this change in the IPO's "Business guidance on changes to the law of designs" published on 30 June 2014 and which can be found here: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/323145/changes-to-designs-law.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323145/changes-to-designs-law.pdf)
2. CDPA s213(2)
3. 2014 Act, s1(1), (2)
4. [2013] EWPC 2
5. Note that the law on commissioned designs will also change on 1 October 2014 pursuant to s. 2(1)(a) and (b) of the 2014 Act, whereby a qualifying commissioned designer will be the first owner of a design right in the absence of an agreement to the contrary.
6. "a place of business at which a substantial business activity is carried on" (CDPA s217(1) – amended by the 2014 Act, but not in that respect)
7. The countries with reciprocal arrangements with the UK are: Anguilla, Bermuda, British Indian Ocean Territory, British Virgin Islands, Cayman Islands, Channel Islands, Falklands Islands, Gibraltar, Hong Kong, Isle of Man, Montserrat, New Zealand, Pitcairn, Henderson, Ducie and Oeno Islands [St Helena, Ascension and Tristan da Cunha], South Georgia and the South Sandwich Islands Turks and Caicos Islands.
8. Note that the law on a qualifying individual will also change on 1 October 2014 pursuant to s3(1) of the 2014 Act, whereby the requirement for an individual is that he/she is habitually resident in a qualifying country.
9. 2014 Act, s3(4) with the effect that s220 CDPA reads (**showing the amendments**):
  - (1) A design which does not qualify for design right protection under section 218 or 219 (qualification by reference to designer, commissioner or employer) qualifies for design right protection if the first marketing of articles made to the design –
    - (a) is by a qualifying person ~~who is exclusively authorised to put such articles on the market in the United Kingdom~~, and
    - (b) 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 Union].
  - (2) If the first marketing of articles made to the design is done jointly by two or more persons, the design qualifies for design right protection if any of those persons meets the requirements specified in subsection (1)(a).

...

~~(4) In subsection (1)(a) "exclusively authorised" refers –~~  
~~(a) to authorisation by the person who would have been first owner of design right as designer, commissioner of the design or employer of the designer if he had been a qualifying person, or by a person lawfully claiming under such a person, and~~  
~~(b) to exclusivity capable of being enforced by legal proceedings in the United Kingdom.~~
10. i.e., as stated above, (a) an individual habitually resident in a qualifying country, or (b) a body corporate or other body having legal personality which (i) is formed under the law of a part of the United Kingdom or another qualifying country, and (ii) has in any qualifying country a place of business at which substantial business activity is carried on.
11. Editor's note: it is possible this could even have a tax consequence
12. See footnote 7 above.
13. S. 263(2) CDPA provides that references to marketing in relation to an article, are to its being sold or let for hire, or offered or exposed for sale or hire, in the course of a business.

## Scenario 5.

Why-o-why Co Ltd. is a Chinese designer and manufacturer of mobile phones. Their ground-breaking "Universe6" phone has been secretly developed and manufactured prior to its long-awaited unveiling and launch. Charley Bates is a UK sales executive for Why-o-why's arch rival Shoka. Whilst visiting the head office of one of his customers he notices that a careless delivery operative dropped some Universe6s and takes the opportunity to 'familiarise' himself with the new model. Since Charley does not want to be seen with one of his competitor's handsets, he passes the Universe6s to his friend, Bill Sykes, who runs an online phone shop<sup>13</sup>. Bill then offers phones for sale prior to the launch of the Universe6.

Q5. Who owns the UK design right in the design of the Universe6?

A5. Since Bill Sykes is an individual habitually resident in the UK and he first markets the Universe6 in the UK on his business' website, then he (or his business) owns the design right in the Universe6.

*Comment.* Charley then encourages Bill to injunct the launch of the Universe6 and that year Charley gets a bumper bonus due to the increase in sales of Shoka's newest model.

## Summary

From a review of the new law it appears that the relaxation of the requirement for a qualifying first marketer to be 'exclusively authorised' may lead to curious situations where a qualifying person can obtain exclusivity without explicit authorisation to do so from the product designer. As outlined above, this leaves UK design right open to abuse by unscrupulous parties as well as parties acting in good faith, who may acquire UK design right by the mere offer for sale of a new product in the course of business. For example, the recent trend to make products available for pre-order, which would be considered 'first marketing', could hand an online retailer an unintentional monopoly. This spectre of third parties snapping up UK design rights should be of great concern to all companies from non-qualifying countries, who will need to ensure that they have full control of the first worldwide marketing of their products. In particular, these companies should take one of the following steps. Either they should ensure that the first marketing of articles made to the design takes place outside the qualifying countries, in which case no UK design right will subsist in the design of the article. Alternatively, where first marketing will take place in a qualifying country, these companies must be certain that only friendly parties become the owner of the UK design right in a controlled manner.

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