Regulatory Policy Committee

The Patents, Trade Marks and Designs (Address for Service) (Amendment) Rules 2020

Department for Business, Energy and Industrial Strategy

RPC rating: fit for purpose

The impact assessment (IA) is now fit for purpose following the Department's detailed response to the RPC's initial review. As first submitted, the IA was not fit for purpose.

Description of proposal

Once the EU exit transition period ends, UK attorneys will no longer have the right to represent clients before the EU Intellectual Property Office (EU IPO). The UK Intellectual Property Office (IPO) currently requires a UK or EEA address for service (AfS) for applications for trademarks, designs and patents. The proposal is intended to achieve the Government's stated policy aim that there be no continuity of approach unless the EU reciprocates. Since there is no reciprocity, the proposal is to remove the ability of applicants to the IPO to use an EEA AfS, restricting AfS to the UK and Channel Islands.

Impacts of proposal

The proposal will primarily affect non-UK applicants for trademarks, designs and patents, as these are unlikely to be using a UK AfS already. These applicants will need to instruct a UK attorney to represent them before the UK IPO or set up a UK PO box. UK attorneys will benefit from an increase in demand for their services.

The IPO models this benefit over a 10-year period, 2021 to 2030. This assumes that the existing volume of applications for trademarks, designs and patents to the IPO will be constant at 2019 levels. As applicants can no longer apply to the EU IPO to gain coverage for their rights in the UK, the IPO anticipates that 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 per cent of the remaining applicants. To measure the benefit to business per application, the IA uses data on the average fee received by attorneys from applications for IP rights and applies the proportion of this estimated to be profit. Overall, the IA's central scenario estimates an average benefit of £2.7 million per year to UK business.

Quality of submission

The IPO has revised the IA in response to the RPC's initial review.

Red-rated points at initial review

In particular, the IPO has made a substantive change in relation to the lead RPC comment:

Use of fees to measure the benefit to business for BIT purposes

The RPC commented that the use of fees charged by UK legal businesses for their services (or PO box fees) to calculate business benefits for business impact target (BIT) purposes would appear to overstate the benefits by omitting the costs of providing this service. The IPO has now used evidence suggesting that around 23 per cent of attorney fees is business profit, reducing the estimated annual benefit from around £12 million to £2.7 million.

Cost impact to UK-based businesses who manage an international portfolio of rights

The RPC noted that the IA did not quantify potential impacts on UK-based businesses which might prefer to use a (non-UK) EEA AfS because they manage an international portfolio of rights. The IA now provides further explanation for why this potential impact is expected to be very small and disproportionate to monetise (page 4 and pages 6-7).

Benefit arising from cases presented at the UK IPO that would otherwise have been presented at the EU IPO

The RPC noted that the IA must explain and justify its counterfactual to demonstrate that this benefit arises from the proposal and not (solely) from the UK leaving the EU. The IA now clarifies that part of the increase in UK IPO business arising from cases transferred from the EU IPO is a consequence of EU exit itself. The revised IA provides additional explanation of its approach and assumptions, in particular the assumption that 25 per cent of applicants who would have applied to the EU IPO previously would make a separate application to the UK IPO after the transition period (pages 7-8 and 12-13).

Other points at initial review

The IPO has also helpfully changed the IA in response to the other comments in the RPC's initial review:

Impact of applicants choosing not to proceed with applying for IP protection in the UK

The IA now provides a more extensive description of how it estimated the proportion of applicants who will choose to forgo applying for IP protection in the UK and explains why it does not expect this to lead to significant negative impacts (page 8).

Reciprocity on an individual country basis

The IA now addresses more explicitly responses from consultation suggesting that reciprocity could be maintained on an individual country basis, if adequate arrangements for service of legal proceedings on the foreign AfS can be assured. The IA states that the focus of the current proposal is limited to making specific changes to the geographical area to which the current AfS rules apply, and that this precludes consideration of other issues at this point. (pages 4-5).

Wider impacts on businesses using legal services

The IA now includes further description of wider impacts, explaining why it does not expect fees charged to existing business clients to increase along with demand for UK attorney services (page 14). It also explains why it considers it unlikely that case resolution times will increase (page 12).

Based upon the revisions to the IA, in particular the adjustment to the equivalent annual net direct cost to business (EANDCB) figure resulting from using profit, rather than revenue, to measure the direct business impact, the RPC can confirm the assessment as being fit for purpose.

The IA would benefit from providing additional evidence or supporting argument in some of the above areas, in particular regarding impacts on UK-based businesses which manage an international portfolio of rights and deterred applications for IP protection. On *reciprocity on an individual country basis*, the IA would benefit from explaining why a bilateral arrangement, in which the UK and another country agree to accept AfS in each other, does not constitute a change in the geographical area to which AfS rules apply.

The IA would also benefit from the following:

- Considering further the significant variation in attorney fees for patent applications, taking account of attorneys ranging from sole traders to being in large partnerships, in its estimates of the range of potential impacts.

- Whether the proposal will also bring additional work for IP paralegals.

- in the 'wider impacts' section:
    - any implications on competition from restricting the size of the market for patent lawyers; and
    - any potential implications for trade deal negotiation with the EU.

Additional points

The RPC considered two further methodological issues. It has concluded that the IA's treatment is, in this case, acceptable in respect of the following:

Counterfactual and BIT classification for EU exit-related measures

The IA estimates impacts against a do nothing counterfactual. Given that the costs fall (mainly) on non-UK businesses and the benefits accrue mainly to UK legal businesses, this results in a net direct benefit to business. The IPO originally classified the proposal as a qualifying regulatory provision. The IPO's treatment of the case is consistent with this being a 'post-exit' rather than 'transition-exit' measure. Better Regulation Framework guidance on the latter suggests a counterfactual of continuing existing arrangements and possible non-qualifying (EU exit) BIT classification. The present guidance does not cover post-exit measures, although it is reasonable to presume that such measures would be considered domestic policy decisions and, therefore, expected to qualify unless they fell within another BIT exemption (such as *de minimis*). Given the above, the IPO's approach appears to be reasonable in this case.

The IA acknowledges that UK legal firms will lose business representing cases at the EU IPO but correctly excludes this impact as a consequence of EU exit rather than an impact of the proposal. The RPC notes that the business impacts presented in the IA are only a fraction of the entirety of post-exit impacts on UK business in this area, measured against the continuation of existing arrangements.

'Resources used to comply with regulation'

Where legal (or other) businesses provide goods or services to businesses necessary for the latter to comply with new regulatory requirements, RPC guidance is that the benefit to the legal business of providing this service should not be used to offset the cost to the business subject to the regulation (see '*resources used to comply with regulation*' in RPC case histories).[1] The benefit to business in the present IA appears similar, but distinct, in that the proposal does not introduce new regulatory requirements that increase demand for legal services, but rather narrows existing requirements so that these services effectively need to be provided by UK, rather than EEA, legal businesses. As noted above, the cost to businesses of this change falls largely on non-UK businesses. On the basis that the proposal does not align clearly with existing case history examples in this area, the approach in the IA presently appears to be reasonable in this case.

Departmental assessment

Classification	Qualifying regulatory provision (initial) Non-qualifying regulatory provision – *de minimis* (final)
Equivalent annual net direct cost to business (EANDCB)	-£12.0 million (initial) -£2.7 million (final)
Business net present value	£23.6 million
Overall net present value	£124.0 million

RPC assessment

Classification	Under the framework rules for the 2017-19 parliament: non-qualifying provision (*de minimis*) To be determined once the framework rules for the current parliament are set

[1] https://www.gov.uk/government/publications/rpc-case-histories-other-bit-methodology-issues-march-2019

EANDCB	-£12.0 million (initial) -£2.7 million - *de minimis* (final) To be determined once the framework rules for the current parliament are set
Small and micro business assessment	Not required (de minimis)

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