The Latest Proposals for Transitional Arrangements
Associated with the Repeal of Section 52 of the CDPA

1. Background

[1.1] The Enterprise and Regulatory Reform Act (the ERRA) received royal assent on 25 April 2013. Section 74 of the ERRA repeals section 52 of the CDPA.

[1.2] According to section 103(3) of the ERRA, the provision will 'come into force on such day as the Secretary of State may by order made by statutory instrument appoint.' Under section 100, 'The Secretary of State may by order made by statutory instrument make such transitional, transitory or saving provision as the Secretary of State considers appropriate in connection with the coming into force of any provision of this Act.' (emphasis added). Section 99 provides that:

> '(1) The Secretary of State may by order made by statutory instrument make such provision as the Secretary of State considers appropriate in consequence of this Act.
> (2) The power conferred by subsection (1) includes power—(a) to make transitional, transitory or saving provision; (b) to amend, repeal, revoke or otherwise modify any provision made by or under an enactment …' (emphasis added).

[1.3] A 'Call for Evidence' (hereafter '*Call (2013)*') on transitional provisions was issued on 16 October 2013, with a closing date of 27 November 2013. This was followed by a formal Consultation conducted between 15 September and 27 October 2014.

[1.4] The conclusions from the *Call (2013)* and consultation were set out in the Government response of February 2015 ('*Response*') (and the Impact Assessment of 16 December 2014 attached thereto, hereafter '*Impact Assessment Attached to Response*'). There, the Government accepted that some businesses and other interests needed a phase out period of 5 years, and thus proposed to delay bringing the repeal of section 52 into operation until 2020.

[1.5] The Government implemented this decision by SI 2015/641 on 10 March 2015, bringing the ERRA into force from 6 April 2020. (See Enterprise and Regulatory Reform Act 2013 (Commencement No. 8 and Saving Provisions) Order 2015).

[1.6] Following an application for judicial review made in May 2015 (the grounds for which are unfortunately not explained in the current consultation), the implementation instrument was

revoked on July 20, 2015. (See The Enterprise and Regulatory Reform Act 2013 (Commencement No. 8 and Saving Provisions) (Revocation) Order 2015).

[1.7] A further Consultation on transitional arrangements for the repeal of section 52 (the '*New Consultation*') was published on October 2, 2015. The *New Consultation* instead proposes that Regulations will now be passed bringing the repeal of section 52 into operation from April 28, 2016, some four years earlier than the initial *Response* proposed. It purports to create a transitional period, from the date of issue of the *New Consultation* paper until the effective repeal date, and it offers a limited 'depletion period' after repeal until October 28, 2016 during which existing stock may be disposed of in defined ways.

[1.8] The current (*New*) *Consultation* is problematic (either in terms of the policy pursued or its legality) in a number of respects which we elaborate in detail in this submission. In particular,

(i) it seems inadvisable to propose a transitional period that fails to take account of the acquired rights and legitimate expectations of *particular categories* of third parties;

(ii) it is poor policy to propose a 'transitional' period that begins with an administrative, rather than a legislative act;

(iii) it seems unlikely that the proposed depletion period will be sufficient to protect the interests of those who have made investments in reliance on the lawfulness of copying old designs.

Moreover,

(i) the *New Consultation* fails to explain how evidence which only months ago justified a transitional period of 5 years for some interests, now justifies a limited depletion period of a mere 6 months;[1]

(ii) the proposed modification of para 6 of Sched 1 of the 1988 Act and repeal of Regulation 24 of the Duration Regulations, SI 1995/3297, cannot, we think, be effected under section 99 of the ERRA. Whether, nevertheless, they might be justified under the European Communities Act turns on one's understanding of EU law, a topic none of the documents issued since 2012 have properly considered.

[1] In the *Impact Assessment Attached to the Response*, p. 23, the Government declared it had "taken an evidence-based approach to determine the transitional provisions." Presumably, the *New Consultation* has rejected an "evidence-based approach" in favour of a "risk-averse approach", that is, one which the Government thinks will at least avoid it incurring any liability under EU law, without judicial indication of the non-compliance of existing UK law with EU requirements.

Some of these objections might make the proposed changes as vulnerable to challenge by way of judicial review as SI 2015/641.

2. Principles to Be Considered when Devising Transitional Provisions

[2.1] The circumstances which gave rise to the decision to repeal section 52 of the CDPA were peculiar. They flowed from the decision of the Court of Justice in Case C-168/09 *Flos*, a decision that was certainly unexpected, and rested on a creative (and arguably incorrect) understanding of the interactions among the Term Directive, 93/98/EC, the Design Directive 98/71/EC and the Information Society Directive, 2001/29/EC. These origins go some way to explain the failure of the Government to consult properly before enacting section 74 ERRA, and also some of the confusion surrounding transitional matters.

[2.2] Nevertheless, Case C-168/09 *Flos* itself recognised that the 'principle that acquired rights must be respected' or 'the principle of legitimate expectations' are both 'among the fundamental principles of European Union law': [50]. The goal of transitional provisions is to bring a changed state of affairs into existence while doing the minimum to prejudice the existing rights, interests and expectation of third parties.[2] Importantly, it is not, as para [13] of the *New Consultation* suggests, that a transitional period 'may be lawful': rather failure to have such a period protecting those with such rights and expectations may violate fundamental principles of law and would therefore be unlawful.

[2.3] According to *Flos*, the goal is to secure the interests of 'persons who have already performed acts of exploitation in relation to designs within the public domain': ibid, [58].[3] As the Term Directive stated (in recital 27), 'Member States may provide <u>in particular</u> that [revival of copyright] may not give rise to payments by persons who undertook in good faith the exploitation of the works at the time when such works lay within the public domain.'

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[2] In the United States, a significant concern in developing appropriate rules to protect parties who have relied on the public domain status of works in which copyright was revived (following US adherence to TRIPS) was to avoid the restoration of copyright amounting to an improper "taking" contrary to the Fifth Amendment. We emphasise this parallel to remind the Government that an aggressive restoration of copyright in mass produced artworks (as is suggested in the *New Consultation*) is as problematic, perhaps more so, than a failure to repeal section 52 (especially given the doubts that have been expressed on the necessity to do so, absent a CJEU ruling on UK non-compliance).

[3] See also *Response*, [20], which offers a similar characterisation ("The issue is to balance the economic interests of businesses which have legally invested in the production and sale of designs under section 52 of the CDPA and those of right holders"); *Impact Assessment Attached to Response*, p. 12.

[2.4] The 'assessment of the compatibility of the length of that transitional period and of the category of third parties covered by the legislative measure must be carried out in the light of the principle of proportionality.' If a Member State protects vested rights and expectations via a transitional period, that transitional period should according to the *Flos* court be 'limited to what is necessary for them to phase out the part of their business that is based on earlier use of those designs or to clear their stock': *Flos*, [59].

3. Legitimate Expectations and Acquired Rights Relevant to Section 74 ERR

[3.1] In the case of an alteration in the law of copyright comprising the elimination of a defence (section 52) that permitted use of artistic works that have been industrially exploited after 25 years, the relevant third parties who have acquired rights or legitimate expectations include replica makers and dealers, book publishers, photographers and picture libraries, museums, film distributors, etc. They also include purchasers of replicas, copies and other derivative works that were, at the time they were made and disposed of, entirely lawful articles of commerce.

[3.2] Some of these parties will have 'acquired rights', understood specifically as vested property rights and intellectual property rights. In the latter category, are those who have created copyright-protected works based on the making of images of designed artefacts, or compilations of such images, when doing so did not require permission. For example, photographers and publishers of books that incorporate images of such designs, that reflect the exercise of skill, labour and judgment and/or their own intellectual creation will have acquired rights under UK copyright law.

[3.3] Other businesses will have 'legitimate expectations,' as a consequence of having developed business models, secured funding, entered into dealings (supply contracts, publishing arrangements, etc) based on

(i) the absence of any copyright for at least the last 58 years in pre-1957 designs (there being no indication until October 2015 that the Government intended to alter this situation);[4]

[4] *Response* p.6 ("The Government confirms its position that it will not repeal paragraph 6 of Schedule 1 of the CDPA…"). The idea that the Duration Regulations introduced such protection as of 1996 is speculative, to say the least. It seems never to have been contemplated that those Regulations would confer copyright on works in which none had ever existed under UK law.

(ii) the existence of the section 52 defence and its precursor, section 10 of the 1956 Act (initially applicable to all mass produced art works, but from 1968 confined to the period after 15 years from marketing, a period increased in 1989 to 25 years);

(iii) the Government's promise when consulting on the ERRA to accommodate existing interests in generous transitional provisions;[5] and

(iv) at least from February 2015 until July 20, 2015, the Government's decision to postpone entry into force of the repeal provision until 2020.[6]

[3.4] Recall, firstly, there was no consultation before the announcement in May 2012 of the plan to repeal section 52 in the ERR Bill. No-one appreciated that section 52 would need repeal prior to the ECJ decision in *Flos* (the Government having carefully sought and been given explicit permission to retain it by Article 17 of the Designs Directive, which remains applicable). Moreover, there was and remains considerable doubt as to whether *Flos* was rightly decided.

[3.5] Second, prior to and during the passage of the ERRA, the Government indicated that full consideration of affected parties, which would have revealed the hornets' nest of problems, was to occur when determining transitional provisions. Indeed in the *Call* (2013), p. 9, under the heading 'Current Situation,' the Government stated:

> 'The UK Government wishes to make it clear that section 74 of the ERR Act has not yet come into force. In other words, no decisions have been taken on how and when to implement the repeal of section 52 of the CDPA. As such, until the repeal comes into force, <u>it is lawful to make, import, sell and buy copies of artistic works that are older than 25 years and have been made through an industrial process</u>.'

Here the Government is not cautioning third parties that they are 'on notice' or should be cautious about investing. Quite the opposite: the Government was emphasising that until the effective date of repeal, third party acts would remain lawful.

[3.6] Third, having determined an appropriate period for transition (and allowed businesses to make decisions on that basis),[7] the Government revoked the initial Order on July 20, 2015, and is now

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[5] *Call*, p. 8 ("During passage of the ERR Act, the Government committed to consulting on how and when to implement the repeal and to publish a revised impact assessment.")

[6] Indeed, we are aware of counsel who were consulted in the period between the original Regulations (but before their revocation) to enable commercial decisions to be made by operators in relation to both pre- and post- 1956 designed artefacts.

[7] In *Response* (2015), p. 13, proposing to delay repeal until 2015, the Government observed that "the announcement of the transitional provisions in this document has provided some time for businesses to learn about the change, and at least begin to plan for it." As subsequent events proved, any such plans would prove

consulting again. It now, for the first time, proposes (subject presumably to submissions it receives in the course of consultation, unless that consultation is a sham) to bring pre-1957 designs into copyright.

[3.7] All these facts mean that businesses have developed and maintained 'legitimate expectations' that

(i) they could continue to deal in pre-1957 designs, indefinitely; and

(ii) that they would be able to continue to deal in other designs (that had been lawfully made under section 52) for a reasonable period of time *after the ERRA is brought into force*.

4. Shifting Analysis

[4.1] On 10 March 2015, the Government accepted that some businesses and other interests needed a phase out period of 5 years, and brought the ERRA into force from 6 April 2020: SI 2015/641, Reg 2, with an indefinite saving for lawfully made copies (Reg 3). It specifically rejected, as likely to cause 'disproportionate harm',[8] a 6 month 'transition'. It also concluded that a three year 'transition' would not 'be proportionate in the light of the evidence received.'[9] Despite the fact that there is no new evidence, in this *(New) Consultation* the Government now favours bringing the repeal into effect on April 28, 2016, with a 6 month 'depletion period' for disposal of stocks that would end on October 28, 2016. It has also failed to explain why what was inappropriate, disproportionate and harmful only a few months ago is now apposite. The legal principles, enunciated in *Flos* and broader European Union law, have not changed.[10] The facts have not changed.

5. Missing Analysis

[5.1] The Government highlights that it is important to takes 'the correct approach', and that is why it revoked the earlier SI.[11] Because the 'legitimate expectations' of reliance parties are entitled to protection as a matter of fundamental principle, this must be right. How, then, is this to be achieved? The *New Consultation* takes a very narrow view of the alternatives: Option 1 is 'do nothing,' and Option 2 is what is proposed (6 months 'transition' from *New Consultation*; 6 month

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to have been based on a mistaken premise – and the new provisions should recognise that the signals given by the Government suddenly changed only as late as the summer of 2015.

[8] *Impact Assessment Attached to Response*, p. 11.

[9] Ibid, p. 23.

[10] Cf. *New Consultation*, [11] ("the law requires a different approach to be taken"). But no guidance is given as to what was wrong with the previous legal analysis.

[11] *New Consultation*, para [9].

depletion period after implementation). Options that are no longer considered are the 5 or 3 year transitional periods (or longer depletion periods). More significantly, the Government has failed to consider approaches to transition that have worked well in the past that seek to protect the interests of individual reliance parties (Regulation 23 of the Duration Regs 1995, or the Copyright and Performances (Application to Other Countries) Order 2013).[12] Furthermore, the Government rejects, for a reason that of itself seems unsustainable, the possibility of different responses for different categories of reliance interest.

Protection of Individual Reliance Parties

[5.2] At the very least, the decision in *Flos* sets at the centre of the relevant considerations the need to secure the interests of 'persons who have already performed acts of exploitation in relation to designs within the public domain': ibid, [58].[13] A good example of a UK provision that is tailored in this way is Regulation 23 of the Duration Regulations 1995 (introduced when term was extended from life plus 50 years to life plus 70, and copyright revived in certain public domain works). Apart from Regulation 24 (discussed below at para. [10.1], which operated in addition to Regulation 23), these sought to protect parties who had already relied on the public domain status of a work. Regulation 23 states:

> (2) It is not an infringement of revived copyright in a work—
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> (a) to do anything after commencement in pursuance of arrangements made before 1st January 1995 at a time when copyright did not subsist in the work, or
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> (b) to issue to the public after commencement copies of the work made before 1st July 1995 at a time when copyright did not subsist in the work.

[5.3] These provisions were made under principles consistent with those stated in *Flos* (and indeed the ECJ decision in *Butterfly Music*): the first clause deals with reliance generally, the second

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[12] SI 1995/3297, Reg 23 and 24; SI 2013/536, Reg 8.

For even more imaginative ideas, see US Copyright Act, section 104A (dealing with restoration of copyright following the Uruguay Round Agreements Act, including provisions on giving notice of intent to enforce restored rights on reliance parties, and offering such parties protection.) For a description of these, see http://copyright.gov/circs/circ38b.pdf The US law deploys a combination of requirements, including (i) issuance of notice of intention to enforce, either directly or via the copyright registry; (ii) grace period to sell off stock of 1 year from notice; (iii) broader exemptions for the benefit of reliance parties who created derivative works, subject to payment of compensation; (iv) immunity from liability of reliance parties to actions for statutory damages and liability to pay attorney's fees; (v) withholding of injunctive relief where it would be disproportionate. The use of multiple devices in combination is one way to reflect the varied set of legitimate interests and expectations that the law ought to protect and goes some way to ensuring individual justice.

[13] See also *Response*, [20], which offers a similar characterisation ("The issue is to balance the economic interests of businesses which have legally invested in the production and sale of designs under section 52 of the CDPA and those of right holders"); *Impact Assessment Attached to Response*, p. 12.

specifically addresses depletion of existing stocks. They have not, to our knowledge, been challenged, and while they received some criticism during the process of adoption in 1995, those criticisms were found wanting and the provisions have proved workable.

[5.4] This is not to say that we agree with every reading that every court has offered of these provisions. In *Sweeney v Macmillan and Rose* [2001] EWHC (Ch), Lloyd J, at [57], explained that while 'arrangements' within paragraph (2)(a) above are 'not necessarily limited to arrangements by way of contract,' nevertheless 'they must be of some degree of solidity or certainty, such that it can be said that acts done later are done in pursuance of the arrangements.' On the facts of the case, he held that the work of a James Joyce scholar, Danis Rose, in producing a 'readers' edition' of Joyce's *Ulysses*, which had been begun in 1993 (when *Ulysses* was in the public domain, Joyce having died in 1941), but for which no publishing contract was agreed until August 1996 (by which time copyright had revived), was not covered by Regulation 23(2)(a). That provision, Lloyd J explained, was 'not so wide as to extend to anything done after commencement in consequence of <u>anything at all which has been done, or any steps of any kind taken</u>, with a view to exploiting the work in question, before 1 January 1995.' Thus, preliminary discussions with publishers were not sufficiently concrete, and the work Rose had put in to preparation, even if vast and the bulk of the work required for the edition, could not be described as 'arrangements.' In so holding, Lloyd J was influenced by the view that Rose's work would not be sterilised, because Regulation 24 ensured he was entitled to a compulsory licence on payment of a reasonable royalty. In our view, the decision is unduly restrictive, given Rose's 'legitimate expectations.'

[5.5] Given this, perhaps a preferable model is provided by the Copyright and Performances (Application to Other Countries) Order 2013, SI 2013/536, Regulation 8. This applies when existing works come to be protected by so-called 'springing' copyrights as countries newly join the international copyright system. Under this Regulation, protection is offered to a person who 'has incurred any expenditure or liability in connection with' a relevant act; and began in good faith to do the act, or 'made in good faith effective and serious preparations to do the act', at a time when the act did not infringe. That person is permitted to do or continue to do the relevant act, even though it has (for others) become one requiring authorisation. However, the person may be 'bought out' if the copyright holder offers and pays reasonable compensation. The concept of 'effective and serious preparations' is one that is used elsewhere, most notably in section 64 of the Patents Act 1977, where it protects prior secret users of an invention from prejudice that might result from the grant to a third party of a patent that covered the secret acts that occurred before the day of application

for the patent. It has been the subject of some case-law. It is also not dissimilar to the test, 'preparations of a substantial nature', employed in the Republic of Ireland to protect 'reliance parties' when copyright was revived in 1995.[14]

[5.6] If this same approach (endorsed in slightly different form in Regulation 23 of the Duration Regulations 1995 and Regulation 8 of the Copyright and Performances (Application to Other Countries) Order) were adopted for the purposes of repeal of section 52, a trader faced with a claim to infringement would need to establish that the copies were made at the relevant time, or in pursuit of arrangements made before the change in law. There would however be no cut off point for sales if the copies were made at a time when copyright did not subsist, or in pursuit of such arrangements.

[5.7] It is not clear why the 2015 *(New) Consultation* has not considered doing what previous Governments have thought appropriate, but it is instructive to consider the difference between the approach taken in 1995 (and 2013), and that which is now proposed. Why should someone who had planned and made arrangements to publish a book of images of pre-1957 Scandinavian designs have to (i) abandon the project or (ii) sell off copies within 6 months (as the 2015 *(New) Consultation* will likely require), when in 1996 a person doing the same thing with a book of hitherto public domain Scandinavian poems would have been able to benefit from provisions that allowed them to go ahead and publish not just a print run, but <u>whatever was contemplated</u> at the time the arrangement were made?

[5.8] A provision similar to Regulation 23 of the 1995 Regulations or Regulation 8 of the 20123 Regulations seems especially appropriate in a situation such as that presented by section 74 ERRA.

<u>Differentiation Between Different Categories of Reliance Party</u>

[5.9] Of course, while protecting individual reliance parties seems to be the <u>very minimum</u> that transitional provisions need to achieve, it might be appropriate to develop certain rules applicable to particular categories of reliance party. That is, it might be appropriate to provide the marketplace

[14] Article 14(1)(a) of the European Communities (Term of Protection of Copyright) Regulations, 1995, SI 158 of 1995, provides that any person who before the 29th October 1993 undertook the exploitation of a work or made preparations of <u>a substantial nature</u> to exploit such a work at a time when such work was not protected may continue to carry out such acts of exploitation and shall not be liable to the owner of the copyright as revived. Article 14(1)(b) imposed a good faith requirement for such acts undertaken after 29 October 1993 and before implementation.

with certain clear signals through the adoption of more bright-line rules (for example as to how long after the law came into force sales of hitherto unmarketed goods may occur) provided these rules are proportionate. In formulating such rules, appeal may be made to categories of reliance party. This certainly seems to be what the Court in *Flos* envisaged, when it observed that the 'assessment of the compatibility of the length of that transitional period and *of the category of third parties covered* by the legislative measure must be carried out in the light of the principle of proportionality.'

[5.10] The Court of Justice implies that 'proportionality' requires a careful analysis in relation to different categories of reliance party.[15] It would be appropriate for transitional rules to be nuanced, as far as possible, to reflect variations in investment and product cycles of different types of users of public domain design. In addition, as the 'legitimate expectations' of producers of pre-1957 designs are likely to be very different from those that only fell within section 52, one would expect to see distinct transitional provisions. Of course, it would not be proportionate if such rules became so complicated that they themselves increased costs (transaction costs, including legal advice).

(i) Replica Dealers

[5.11] It is easy to see that there is a real distinction between 'replica importers' and other users of designs (publishers, museums, etc), both in terms of business cycles and the effects of preserving these interests on the beneficiaries of the repeal of section 52 (the copyright holders, such as Vitra, Cassina, Knoll, Stokke and so on). If a replica dealer imports replica furniture designs e.g. from China, all that is required is likely to be clearance of stock.[16]

(ii) Replica Makers

[5.12] The Government has recognised that there are some parties in the UK that manufacture replicas of public domain designs, or designs left unprotected under section 52 of the CDPA. If so, there will have been wholly different levels of investment in plant, tooling up, supply of materials, etc., compared with the investment made by a replica dealer. With respect to this category of reliance party, protection should therefore be afforded both for acts of preparation and allowing

[15] Case C-60/98, *Butterfly Music srl v. Carosello Edizioni Musicali e Discographiche srl* [1999] ECR I-3939, [2000] 1 CMLR 587 (highlighting that distinct provision may apply to different classes of person in objectively different situations).
[16] Supply contracts tend to be 2-3 years: *Impact Assessment attached to Response*, p. 15.

disposal of stocks. Moreover, once section 52 is repealed, the effect of a very short term 'depletion' period is likely to impact more on a maker, than a dealer: a dealer has time to sell off, but a maker needs to locate a dealer who has a desire for further stock.[17]

(iii) Publishers

[5.13] Publishers (for example, of art works) who incorporate images of designs in their works are in a quite different situation. Their investment calculations are based on sales from particular printing (and perhaps even reprinting).[18] In some fields of publishing, the period to recoup investment can be rather lengthy (often a substantial proportion of sales occur after 5 years). At the same time, the images of now-protected designs are likely to be a component of a (what US law would call a derivative) work, and damage to the primary market for resale of works of applied art is unaffected by those who deal in or utilise two-dimensional images. With respect to persons falling within this category, protection should therefore be afforded both for acts of preparation and allowing disposal of stocks.

[5.14] The Government's statement (at para [20] of the *New Consultation*) that it need not deal differently with users of two-dimensional images differently from those of replica makers and retailers because the Court did not indicate that this was necessary in *Flos* is an unsatisfactory basis on which to ignore these distinctions. This is for the obvious reasons that (a) the issue was not relevant in *Flos*; (b) the issue was not raised in *Flos*; (c) the general principles espoused in *Flos* imply the opposite, i.e. that are careful analysis of particular interests is required.[19]

[5.15] The Government may want to consider the distinction between copies and original derivative works. US treatment of revived works under section 104A of the US Copyright Act makes an important differentiation between works that were mere copies and derivative works. One basis for so doing is that the original derivative work attracts a copyright of its own: an 'acquired right', as opposed to a mere 'legitimate expectation.' This is a property right that would be significantly

[17] Similar points were made by Professor Eugene Volokh in the General Agreement on Tariffs and Trade (GATT): Intellectual Property Provisions, Joint Hearing before the Subcommittee on Intellectual Property and Judicial Administration of the House Committee on the Judiciary and the Subcommittee on Patents, Copyrights and Trademarks of the Senate Committee on the Judiciary, 103d Cong., 2d Sess., p. 120 (1994) (available at: http://babel.hathitrust.org/cgi/pt?id=pur1.32754065782702;view=1up;seq=184) , p. 174.

[18] These interests are explained in *Response* (2015), p. 21.

[19] A similar conclusion is reached at p. 21 of the earlier *Response* (2015), but without relying on *Flos*, though the explanation offered there is of the sort "the Government did not think it appropriate to differentiate because it does not regard differentiation as appropriate."

prejudiced by the proposed modifications to the law (with possible issues arising under Article 1 of the First Protocol to the ECHR). A similar distinction to that in section 104A would be worth considering, and might provide a relatively simple categorical distinction that would offer proportionately greater protection of the reliance interests of publishers of works that incorporate two-dimensional images.

(iv) Sellers of scond-Hand Goods

[5.16] In the original Regulations, regulation 3 offered a broad saving in relation to all copies lawfully made before the repeal of section 52 was to come into effect.[20] It therefore sought to secure the free circulation of goods already on the market, a policy consistent with the principle of the alienability of private property and the ethos of a market economy. According to its own publication in February this year, 'The Government has consistently expressed the view that any copies made, imported or sold under section 52 of the CDPA before it is repealed will be unaffected by the change in the law.'[21]

[5.17] For reasons that are difficult to understand, said to concern the licensing practices of designers (*New Consultation*, [17]), the Government has gone back on that approach. Instead all dealings in second-hand instantiations that occur after the relevant date in the course of business are said to be likely to become infringing: *New Consultation*, [22]. The basis for this proposition is not explained. It is not clear the statutory basis on which the copies can be said to be 'infringing.' [22] Nor can we deduce any reason why they should be as a matter of policy. The 2015 *Impact Assessment*, at p. 16, says this point will 'be covered in guidance' but also asks whether 'it should be in legislation.' The answer to that question is clear: a principled protection of second-hand sellers needs to be dealt with in transitional legislation.

[5.18] Moreover, the substance of what is currently suggested is in fact too narrow. The 'acquired rights' of a purchaser of lawfully made 'replica' copies of designs (either in which no copyright

[20] Reflecting the policy decisions in *Response* (2015), p. 15.
[21] *Response*, p. 15.
[22] Does the IPO believe these instantiations will *become* infringing copies under section 27 of the CDPA? According to section 27(2) "An article is an infringing copy if *its making* constituted an infringement of the copyright in the work in question," so these copies do not appear to be infringing copies. The copies in question will have been lawfully made. See also Sched 1, para. 14(3). If it is thought that section 18 would apply, in so far as the copies were never hitherto put into circulation in the EEA *with the consent of the right owner*, it is not obvious how or why a distinction is to be made between businesses and other second-hand sales. Cf *Response* (2015), p 15 (the reasoning is difficult to follow).

subsisted, under the 1911 Act, or made under section 52 CDPA and its precursor, section 10 of the 1956 Act, either before or after its 1968 amendment), are property rights in tangible objects, and include the right (or at the very least the legitimate expectation) to sell those objects. If the Government believes that, after April 2016, sale of such an object by a business is indeed an infringing act, then this undermines the capacity of any person to sell such an object other than through private sale – no business will purchase such an object for resale (and, indeed, no charity shop would accept it). The implication is that the Government regards limiting alienability of such property to private transactions is an appropriate way to protect that property holder's acquired rights. Clearly, it is not.[23] Consideration should be given to reinstating the clause that allows the continued circulation, whether through private sale, gift, or sale by charities and businesses, of material lawfully made and marketed before any changes.

(v) Pre-commencement Instantiations of Images

[5.19] A fifth categorical distinction that a 'proportionality' analysis demands relates to the treatment of legacy (pre-commencement) versions of two dimensional images of designs. These include second-hand books and other artefacts bearing images of designs in circumstances where those images were made lawfully (because permission was not required), but in relation to which, after repeal of section 52, copyright may affect. It may be that, unless transitional provision is made, any subsequent unauthorised resale is an infringement under section 18 (while under the Government's proposed position, this will be so if it is in the course of business). Technically, this will transform most second-hand bookshops into infringers, as well as lots of charity shops. Yesterday, for example, one of us purchased a 'Millers Guide' jigsaw puzzle from an RSPCA charity shop, the puzzle depicting a large number of Clarice Cliff (d. 1971) pottery designs (designs from the 1930s and 40s for which, because of section 22 there would have been no copyright protection under the Copyright Act 1911, a position preserved by paragraph 6 of Sched 1 of the 1988 Act). The proposed change in the law would make any such transaction occurring after October 2016 illegal. Can that be right? Is that really what the Government intends? Is the goal not just to subject every publisher to review the illustrations in their works, but also every secondhand bookshop and charity shop? In our view, this is clearly a situation where legitimate expectations/acquired rights demands a rule permitting the indefinite circulation of such lawfully made material.

[23] In *Flos,* the Advocate-General stated, at [AG68], "To my mind that therefore means that the copyright enjoyed by the Arco design cannot be relied on against Fluida lamps which were manufactured and sold on the market before that date."

(vi) Section 52 Reliance Parties and Sched 1, para 6 Reliance Parties

[5.20] As far as we understand the *New Consultation*, no distinction is proposed between section 52 reliance parties and those who have relied on the complete absence of copyright in pre-1957 designs. However, that seems clearly problematic for the following reasons:

(a) There was no copyright in pre-1957 designs, whereas section 10 of the 1956 Act, like section 52 of the 1988 Act, offered only a 'defence' permitting particular conduct;

(b) Users of post-1957 designs have been 'on notice' since the enactment of the ERRA in April 2013 that some sort of action could eventually limit their freedom of conduct. Users of pre-1957 designs had hitherto been given no hint that a change was afoot and therefore formed their own views about the risks of relying on para 6 of Schedule 1; and

(c) Users of pre-1957 designs received positive assurance as recently as February 2015 that no action would be taken to change their freedom to act.[24]

Blanket Transition

[5.21] In some circumstances, a blanket transition period, such as that proposed in the March SI, might be justifiable. But we think the Government is right to rethink the proportionality of a blanket 5 year transitional period, as this was not focussed on the interests of those with acquired rights and legitimate expectations. It simply delayed implementation. In fact, it would have allowed new entrants (people who had not already performed acts of exploitation) between the date of issue of the Regulation and the date of its coming into force.[25]

[5.22] However, a short blanket provision, say of up to 12 months, could well be proportionate: it seems unlikely that any actors would establish businesses (for example, importing and dealing in replicas) for such a short period. But we agree that 5 years, untailored, arguably went beyond what was necessary and proportionate if one reads *Flos* as the Government has done.

[5.23] Moreover, the Government should not forget that it retains a level of discretion to determine the scope of protection of copyright in designs under Article 17 of the Design Directive and Article 96

[24] Leaving interested parties to assess their own legal position.

[25] It had already been pointed out to the Government that this would be problematic: Response, p. 14 (para beginning "Right holders and designers…").

of the Design Regulation. Importantly, it could, for example, introduce a limitation in relation to any two dimensional graphic reproductions of a three dimensional object that had been mass produced. This could take the form of a specific definition of 'reproduction' in section 17, a defence in Chapter III of the CDPA, or even a statutory/compulsory licence.

6. The Period of Transition

[6.1] According to *Flos*, the transitional period should be 'limited to what is necessary for them to phase out the part of their business that is based on earlier use of those designs or to clear their stock': *Flos*, [59]. *Phasing out* part of a business is a consideration that must be treated as a distinct consideration from a clearance of stock.[26] The approach adopted in March 2015 arguably went beyond the literal terms of *Flos*, in so far as it was concerned with ensuring that these businesses also had time to develop new business models.[27] The concern with ensuring time to develop new alternative business models ('phasing in') rather than 'phasing out' old ones thus may have been misplaced (or, if not irrelevant, overemphasised).[28] However, there is no reason to think that the Court in *Flos* was purporting to offer an exhaustive account of relevant considerations, and we think it is not *acte claire* that such considerations of 'phasing in' would be necessarily regarded as irrelevant.

7. Inappropriate Reliance on the Consultation Date to Trigger Rights and Immunities

[7.1] A transitional period that starts with a date of consultation, as para [14] on the *New Consultation* suggests, seems problematic given the principle of 'legitimate expectations.' Indeed, it is not a 'transitional period' at all, because Section 52 is still in force (as in para 6 of Sched 1 of the CDPA), and honest businessmen are perfectly entitled to continue to invest and make decisions on that basis.[29] Attempting to characterise a consultation as setting the beginning of a transitional period is self-contradictory: by definition a consultation may result in a range of outcomes.[30] A

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[26] The latest *(New) Consultation* seems only concerned with issues relating to stock. In this respects it seems to adopt an approach that is inconsistent with *Flos*.

[27] *Response* (2015), p. 19 ("a 5 year transition period … is necessary to allow affected businesses to adapt and create viable alternative business models.")

[28] For conflation of the two criteria, see *Impact Assessment Attached to Response*, p. 14.

[29] See *Call (2013)*, 9 (Until the repeal comes into force it is lawful to make, import, sell and buy copies of artistic works that are older than 25 years and have been made through an industrial process"). But cf. *New Consultation*, [18], that treats goods produced or acquired after the Consultation as not even benefitting from the "depletion period."

[30]Indeed, a sensible reader would develop no "expectations" – legitimate or otherwise – from a consultation document such as this one that lacks sufficient clarity, coherence or explanation. The *Impact Assessment*

consultation does not change the law.[31] A 'transitional period' by definition begins *when the law is changed*, not before that change. In this respect it is notable that Advocate-General Bot in *Flos* referred approvingly to 'a transitional period starting from the date of entry into force of the provisions transposing Directive 98/71…' ([AG69]).

[7.2] Of course, it may be possible to establish other dates as relevant 'cut offs'. One consideration is clearly to avoid opportunistic behaviour – in particular, stockpiling of lawful copies before the law comes into force in the hope that these will be freely exploitable afterwards. Such behaviour which is explicitly designed to undermine the change in the effect of the law does not appear to require protection under the fundamental principle of protection of acquired rights and legitimate expectation. Where the legal change is underpinned by European legislation that clearly articulated the change, as with the Duration Directive, 93/98, key dates would be the adoption of the Directive and the date of *required implementation*. Thus, in general, the UK's Duration Regulations treated the key 'cut off' as 1 July 1995 as the relevant date from which to determine which 'arrangements' or 'copies' would not attract liability once the transition has occurred.[32] The Irish transitional provisions treated likewise treated the key dates as 29 October 1993, the date of adoption of the Directive, and 1 July 1995, the date of implementation.

[7.3] In general, then, these precedents suggest that 'cut off' dates tend to be chosen on the basis of legislatively articulated, public events, that inform potential beneficiaries of a transitional provision that such a transition will occur. The Term Directive announced on 29 October 1993 that a change should occur by 1 July 1995. Therefore, it might have made sense to differentiate between reliance parties who did acts before October 1993, those who did acts between that date and 1 July 1995, and those who did acts thereafter. The Irish, for example, only protected reliance parties who had made arrangements between 1993 and 1995 where they had acted in ignorance of the EU

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indicates, at 7, that the consultation is a means by which the Government seeks to ascertain costs and benefits, evidence which one would have thought was crucial to deciding what the appropriate provisions were to be.

[31] Cf. *New Consultation*, para [16].

[32] As already noted, Regulation 23 also referred to 1st January 1995 in relation to "arrangements". This date seems to have been chosen as an arbitrary cut off. In *Sweeney v MacMillan*, at [52], Lloyd J stated "I have no idea why a different cut-off date was applied for the arrangements according to which paragraph applies. Nothing turns on the difference, since it is not suggested that anything done between January and June 1995 makes a difference to whether the publication of the Reader's Edition is within regulation 23." Here it is worth noting that 1 January 1995 does not seem to have related to the consultation on implementation of the Directive, which had begun on 5 December 1994.

legislation.[33] The UK legislation, being late, adopted the implementation date as the appropriate cut off (with one, unexplained, exception).

[7.4] There are good reasons grounded in fundamental principles of justice why legislation, rather than a consultation, should operate as the commencement of the transition. Legislation, of course, carries with it the assumption that the people are expected to know the law.[34] Matters are a little more complex here, given the manner in which the change has or will come about. Nevertheless, obvious public, legislative acts to which one might appeal are 25 April 2013 (the date of the ERRA) and the date of any SI adopted, such as April 28, 2016. Treating the former date as a 'cut off' seems difficult to justify given the legitimate expectations generated afterwards, in particular after legislative action in March 2015 and the mixed and somewhat chaotic signals given over the period as a whole.

[7.5] We understand that there is a danger that an extended transition offers the possibility of opportunistic behaviour (amassing large stocks before the transition date, with a view to undermining the anticipated legal change). Nevertheless, the date of a 'consultation' seems an unusual and probably inappropriate cut off. It is a purely administrative act of the executive branch.[35] One cannot assume that relevant parties knew or were aware of it. The particular circumstances surrounding the repeal of section 52 makes the approach proposed especially inappropriate.[36] The transitional period should thus begin whenever the regulation bringing repeal of section 52 comes into force. Only then is there a concretely determined, public, *legislative* act. Prevention of opportunistic behaviour might be achieved by indicating that the reliance parties must have behaved in good faith.

8. **The Depletion Period**

[33] Such a party was required to "prove that he or she was not aware, and had no reasonable grounds for suspecting, that copyright in the work or other matter concerned would be revived by virtue of these Regulations or any other enactment."

[34] Though as the fate of SI 2015/641 demonstrates, third parties might be advised to take care in relying even on legislative indications as to when Acts will be brought into force.

[35] It seems even more unjustifiable to start the transitional period at the "start date" of the consultation, as if all affected parties will have had notice of this, and organised to read it and receive appropriate advice as soon as it was issued.

[36] *Impact Assessment*, 7 ("This period assumes that affected businesses have already started to change their business model…"). But there is a huge difference between planning to cease operations in over 4 years, in 2020, and in 6 months.

[8.1] What kind of 'grace period' is proportionate? In the light of what has been said above, we would not expect a single period to be appropriate, so that consideration might be given to differentiating between (i) (unauthorised but legitimate) copies in circulation already; (ii) stocks; and (iii) preparation to utilise artistic works made prior to implementation. We would also expect differentiation between vested, acquired rights (including copyrights vested in photographers and publishers) and legitimate expectations.

[8.2] The proposed depletion period of six months from April 28, 2016, is extremely short. The statement on page 16 of the *Impact Assessment* that this provides 'sufficient time' seems to fly in the face of all the evidence that the Government received and referred to in its *Response*, as well as that set out on p. 15, which appears to recognise the real problems with a 'fire-sale.' Holders of lawfully produced stocks have a legitimate expectation that they should be able to sell of stocks at market prices (under normal conditions).

[8.3] Given the evidence in *Response*, if a set period is thought appropriate despite the precedent of the term extension transition, a five year period would seem appropriate for depletion of these stocks. The effect would importantly be much narrower than the initial 2013 proposal of delaying implementation until 2020, as the only beneficiaries would be persons who actually had stocks of replicas (or derivatives) at a particular cut off date (say April 28, 2016).

9. Designs that Have Never Had Copyright

[9.1] Pre-1957 designs were never protected by copyright. The Government now appears to take the view that some such works should now be granted copyright for the first time under British law (even though these works have been unprotected for at least the last 59 years). It seeks to achieve this by amending paragraph 6 of Sched 1 of the 1988 to 'exclude articles protected by copyright in the EU at 1 July 1995.'[37]

[9.2] The choice of dates seems to suggest that the Government believes this was necessary to give effect to the EU Term Directive, though the *New Consultation* document does not come close to offering a convincing account as to this proposition.[38] The Term Directive did not harmonize the

[37] *New Consultation*, [24].

[38] The premise of the *New Consultation* (see paras [1], [5], [7]) is that section 52 limits or reduces "the term of copyright protection." However, section 52 is a defence in relation to certain acts. The effect is in many cases equivalent to a limitation of term, but the distinction is also important.

subject matter that copyright law was to protect, so it is difficult to understand how or why this criterion is regarded as relevant or required alteration to rules on subsistence.[39] The Government, presumably, does not believe that UK law must protect all 'works' that were protected in any EEA country on 1 July 1995 even if they do not fall within the closed list of subject matter in section 1 of the CDPA? Recall that most European countries operate 'open lists', protecting all 'works of the mind' or 'intellectual creations,' broad concepts which in some countries include such things as 'smells'.

[9.3] The language 'protected by copyright in the EU' would require consideration, for example, of the originality standard in different EU countries, a topic not formally harmonized today and certainly not harmonized as of 1 July 1995. Only 4 years previously, in the EC Green Paper on Designs, the Commission had recognised that it would not be possible to harmonize these aspects of copyright. Moreover, Article 17 of the Design Directive explicitly preserved the freedom of Member States to specify 'the conditions under which [copyright] protection is conferred.' Member States thus had for some time quite different standards of originality for these works. Indeed, the originality standard for designs under German law was itself revised by the German courts only within the past two years. If the reason for the Government's proposed change is really, as the *New Consultation* alleges, 'to provide more clarity to rightholders,' then it is suggested that requiring an analysis of the notoriously varied copyright protection offered in Member States at that stage is hardly likely to achieve that effect.

[9.4] Moreover, it is not at all obvious that these provisions of the CDPA, being primary legislation, can be amended in a statutory instrument designed to bring into force a provision of the ERRA. Under section 99 of the ERRA:

> '(1)The Secretary of State may by order made by statutory instrument make such provision as the Secretary of State considers appropriate <u>in consequence of this Act</u>.
> (2) The power conferred by subsection (1) includes power—(a) to make transitional, transitory or saving provision; (b) to amend, repeal, revoke or otherwise modify any provision made by or <u>under an enactment</u> …' (emphasis added)

[9.5] Consideration would need to be given as to whether amending the CDPA was a 'consequence of this Act.' Section 74 seems quite straightforwardly to repeal section 52 CDPA, and specifies

[39] It may be that *Flos* implies that Article 17 of the Design Directive required cumulation – and therefore recognition of copyright - even in situations where no copyright had ever existed. It is not at all clear what this had to do with the Duration Regulations. See further the comments of "one representative organisation" in *Response*, pp 5-6.

consequential amendments. It does not seem necessary, to achieve the purpose of the ERRA, to modify other provisions of the CDPA. (It might be that the Government actually thinks this is required as a matter of EU law, in which case implementation would be justifiable under the European Communities Act 1972. If this is the case, the Government should at least offer a full explanation of its understanding of the legal position under EU law).

[9.6] The creation of copyright in long-past works in which no copyright has ever subsisted is a question in relation to which the Government needs to spend much more time and care. Paragraph 6 of Sched 1 confirms that no copyright arises under the 1988 Act in an artistic work made before 1 June 1957 which was capable of registration and was mass produced (or intended to be mass produced). The Government assumes that if para 6 were repealed, copyright would subsist in such works. But is that correct? Paragraph 5 suggests not, as no copyright in pre-1957 designs subsisted in it 'immediately before commencement.' To create copyright in such works arguably requires a clause that states [something like] 'copyright shall henceforth subsist in artistic works which were created before 1 June 1957, and which, but for section 22 of the Copyright Act 1911, would have been protected under that Act.' Such a clause would also need to deal with issues of ownership. Moreover, the Duration Regulations do not give rise to copyright where none has ever subsisted.[40] Rather they extended or revived copyright, the latter where copyright had 'expired before 31 December 1995.'[41] The Government, even in the *Response*, seems to be very confused about this. It would be advisable to return to the drawing board, to seek legal advice, and to work out what it hopes to achieve and why.

10. Compulsory Licences under Regulation 24

[10.1] Finally, paragraph [26] of the *New Consultation* proposes repeal of Regulation 24 of the Duration Regulations. Paragraph 1 of that Regulation provided that:

> 'In the case of a work in which revived copyright subsists any acts restricted by the copyright shall be treated as licensed by the copyright owner, subject only to the payment of such

[40] See *Response*, p. 5 (para beginning "One representative organisation…")

[41] In contrast, the Term Directive states that "The terms of protection provided for in this Directive shall apply to all works and subject matter which were protected in at least one Member State on [1 July 1995]." The ECJ has not suggested that this requires Member States to alter their laws as to subject matter, as opposed to those with respect to term (though it may require the Member State to offer protection to individual subject matter that historically had not been protected: Case C-240/07, *Sony Music Entertainment (Germany) GmbH v. Falcon Neue Medien Vertrieb GmbH* (2009)). It is worth noting the distinct context of this decision, which related to related rights in phonograms, which were rendered subject matter under European law as a result of Arts 2, 7, 8 and 9 of Directive 92/100, and, of course, are explicitly referenced in Article 3(2) of the Term Directive, 93/98.

reasonable royalty or other remuneration as may be agreed or determined in default of agreement by the Copyright Tribunal.'

[10.2] It is not clear why this provision is relevant to the *New Consultation* at all. Repeal of section 52 does not revive copyright: it removes an existing defence. Repeal of paragraph 6 of Sched 1 of the CDPA (if effected in the way suggested above) might create new copyrights in existing works, but it would not *revive* copyright. It is not clear how Regulation 24 of the Duration Regulations applies at all.[42]

[10.3] Even were Regulation 24 of the Duration Regulations relevant, it would be absolutely inappropriate to repeal it in this reform. Such an action would have a range of unanticipated and surely unintended effects. This is because such repeal might affect all sorts of copyright materials where there has been revival. For sure, the 'classic cases' of revival under the Duration Regulations – works in which copyright had expired in the UK under the 'life plus 50' rule, but which were reived because they were protected under Germany's 'life plus 70' rule – will now have passed. As of 1996, a work whose author had died between 1925 and 1945 might have been revived, but such revived copyright will now have lapsed. However, the position in relation to photographs and films was much more complicated. None of that is relevant here. The *New Consultation* says it is aimed at 'creators of works of artistic craftsmanship, such as designers', rightholders and dealers in such works and 'replicas' as well as 'publishers, museums and educational establishments.' (p 3) The *New Consultation* paper is headed 'Consultation on the transitional arrangements for the repeal of section 52 of the Copyright, Designs and Patents Act 1988.' This is not the place to tamper with provisions that affect copyright holders who will never have bothered to glance at the *New Consultation*.

[10.4] These questions could be easily side-stepped by introducing a transitional provision offering a statutory licence to all those who have acquired rights or developed legitimate expectations before the repeal of section 52 (para. 6 of Sched 1, and other relevabnt provisions) comes into effect. Indeed, it is notable that the German transitional rules in 1995, like the US rules in section 104A, included such a provision. Paragraph 137f of the Law on copyright and related rights (*Gesetz über Urheberrecht und verwandte Schutzrechte*) of 9 September 1965 (BGBl. 1965 I, p. 1273), as amended by the Law of 23 June 1995, deals with revived rights, provides that 'Exploitation of the rights

[42] Cf. *Response*, p. 28 ("The Government believes that the existing provisions for compulsory licensing could allow some third parties to make use of licences"), though the analysis described at pp. 27-8 suggests a high level of confusion.

commenced prior to 1 July 1995 can nevertheless continue, in the context envisaged. Appropriate compensation must be paid for exploitation performed after 1 July 1995.'

Conclusion/Summary

[11.1] The proposed transitional provisions look highly problematic. We suggest that:

(i) The transitional provisions come into effect on April 28, 2016;

(ii) The rights acquired in good faith and legitimate expectations that exist by that date (as opposed to the date of the *New Consultation*) require due protection ;

(iii) The protection of these rights be by way of permission to continue those acts for a period that enables the reliance parties to recoup their investments;

(iv) For stocks of replicas (acquired in good faith), this should not require a 'fire sale', but offer a reasonable period in which to dispose of or deal in such replicas in the light of evidence provided by the industry (such evidence having been tendered in response to the 2013 Call);[43]

(v) Consideration be given to differentiating between two dimensional graphic representations of mass produced designed objects and the making, importation and sale of replicas;

(vi) That in the case of acquired rights, the Government also consider a statutory licence in default of any agreement that would allow new editions of existing publications after the reasonable recoupment period has passed;

(vii) That the Government consider using the freedom it retains to create exceptions (as opposed to transitional provisions) and whether this would be a preferable way to accommodate the significant objections being made by photographers, picture libraries and publishers to this change in the law.

[11.2] We would be happy to discuss these matters further with you in person, should you wish.

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20 December 2015

[43] We urge the IPO to go back to the evidence provided in response to the *Call (2013)* when formulating appropriate periods. There is no reason to be confident that all relevant parties had noticed that the 2015 Regulations had been revoked or had appreciated a new consultation was underway, or have the time and resources to make a further submission.