Response on behalf of the Intellectual Property Lawyers Association ("IPLA") to the UK Intellectual Property Office Open Consultation entitled "UK's future exhaustion of intellectual property rights regime"

Introduction: The IPLA and their members' interests in intellectual property law

These comments are made on behalf of the Intellectual Property Lawyers' Association ('IPLA'). The IPLA is a representative body for law firms in England, Scotland, Wales and Northern Ireland with substantial practices in Intellectual Property (IP) litigation, and who wish to lobby for improvements in IP law and practice. Around 60 firms are members of the IPLA. The vast majority of IP litigation in the UK is conducted by these member firms. Member firms' clients range from the largest to the smallest businesses.

Our members represent IP rightsholders and traders from all sectors of industry, from start-ups to multinationals. Accordingly, we consider that we are well placed to make constructive comments in relation to the issues raised in this consultation. Moreover, we have a particular interest in ensuring that any changes to the current exhaustion of IP rights regime provides legal certainty, as far as reasonably possible.

Given the broad spectrum of clients that our members represent, there is no united view as to which of the proposed exhaustion regimes is favoured. We are also unable to respond to questions that would assist the government to assess the costs and benefits of each of the exhaustion options being considered in the consultation. Nevertheless, we are supportive of due consideration being given to the economic and legal impact of any changes to the regime.

In the circumstances, we have focused this response to legal observations and, in particular, to providing observations in relation to question 17.

***Question 17*: Do you have any views on the government's assessment that the Northern Ireland Protocol will mean that the regime ultimately selected by the UK government will need to allow parallel imports into Northern Ireland from the Republic of Ireland and other EEA countries?**

The reason for this question is explained in the consultation document as follows:

> ***Interaction with Northern Ireland Protocol***
>
> *The government does not consider a national regime to be reconcilable with the Northern Ireland Protocol which preserves the position that parallel goods may move from the Republic of Ireland and other EU member states into Northern Ireland without restriction. The option of a national regime is therefore only included in this consultation for completeness and to gather what evidence is available on economic impact.*
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> **…**

Feasibility of options

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Based on the outline of the different options discussed in this document, the government believes there are three options that are more readily reconcilable with the Northern Ireland Protocol. These are: (a) a continuation of the unilateral regime that came into force on 1 January 2021, otherwise known as the UK+ regime; (b) an international regime; and (c) a mixed regime.

It is also explained in the Impact Assessment as:

Scope of the analysis

…

The government does not consider a national regime to be readily compatible with the Northern Ireland Protocol. This option is included in this consultation for completeness and to gather what evidence is available on economic impact.

…

Option 2: National regime

…

The government considers that any trade of goods between Northern Ireland and the Republic of Ireland must take into account the principles of the Northern Ireland Protocol. In addition, movement of goods within the UK will involve additional complexity to take into account the principle of unfettered access for goods.

The consultation documents do not explain the basis for the government's assessment, but from subsequent discussions with the IPO in various fora, we understand that the concern is based on Article 7(1) which reads:

Article 7 Northern Ireland Protocol
Technical regulations, assessments, registrations, certificates, approvals and authorisations

1. Without prejudice to the provisions of Union law referred to in Annex 2 to this Protocol, the lawfulness of placing goods on the market in Northern Ireland shall be governed by the law of the United Kingdom as well as, as regards goods imported from the Union, by Articles 34 and 36 TFEU[1].

[1] The Treaty on the Functioning of the European Union

This in turn cites Articles 34 and 36 TFEU which read as follows:

Article 34 TFEU

Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

Article 36 TFEU

The provisions of Articles 34 and 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

We note that it is these provisions of the TFEU which give rise to the doctrine of IP exhaustion in the EU (*Deutsche Grammophon*[2] and subsequent case law).

We think it is also relevant and necessary to consider Article 5(5) of the Northern Ireland Protocol:

Article 5 Northern Ireland Protocol
Customs, movement of goods

…

5. Articles 30 and 110 TFEU shall apply to and in the United Kingdom in respect of Northern Ireland. Quantitative restrictions on exports and imports shall be prohibited between the Union and Northern Ireland.

Finally, under the Trade and Cooperation Agreement, at Article IP.5, the parties subsequently agreed:

Article IP.5: Exhaustion

This Title does not affect the freedom of the parties to determine whether and under what conditions the exhaustion of intellectual property rights applies.

Unlike the Trade and Cooperation Agreement, there is nothing in the Northern Ireland Protocol explicitly about exhaustion of IP rights.

[2] *Deutsche Grammophon Gesellschaft mbH v Metro-SB Grossmarkte GmbH & Co. KG* [1971] ECR 487

The EU's clear belief is that exhaustion between the EU and Northern Ireland is not required by the Protocol. This is the current approach now being applied in the EU, where IP rights are not exhausted for goods put on the market outside the EU absent unequivocal consent by the rightsholder to their import into the EU (following *Silhouette*[3] and *Davidoff*[4]). The EU Commission explains this in at footnote 9 of its Notice to Stakeholders dated 25 June 2020 entitled "Withdrawal of the United Kingdom and EU Rules in the Field of Exhaustion of Intellectual Property Rights":

> *While the Protocol on Ireland/Northern Ireland provides that certain rules of the EU acquis in respect of goods apply to and in the United Kingdom in respect of Northern Ireland, it does not provide for the exhaustion of intellectual property rights in the EU in cases where a good has been legally put on the market of Northern Ireland.*

Therefore, the EU Commission clearly believes that the free movement of goods wording in Article 5(5) does not require exhaustion. This is in line with the approach taken by the Court of Justice to similar language in the 1972 EEC-Portugal Agreement (before Portuguese accession to the EU), which was found not to require exhaustion in *Polydor*[5]. In that decision, the Court of Justice did not consider similarity of terms between the EEC Treaty and the 1972 EEC-Portugal Agreement to be a sufficient reason for transposing to the latter the case law from the former, particularly given the objectives of the EEC Treaty as contrasted to the 1972 EEC-Portugal Agreement.

Two questions thus arise:

(a) Is the EU wrong on Article 5(5) of the Northern Ireland Protocol and, if so, what are the consequences for exhaustion of rights in the EU for goods put on the market in Northern Ireland?

(b) If not, does Article 7(1) of the Northern Ireland Protocol mean that the UK has agreed to greater restrictions on its freedom than the EU, such that the UK bound itself to IP exhaustion in Northern Ireland but the EU did not similarly bind itself?

On the first question, there is clearly a risk that the EU is wrong and that Article 5(5) does require exhaustion in the EU for goods put on the market in Northern Ireland. That issue will have to be considered if such goods are imported into the EU and the rightsholder seeks to enforce its rights. If so, the EU would have to change its approach (and, rather than restricting it to goods put on the market in Northern Ireland, this might sensibly lead to a negotiated agreement which would either restore the reciprocal status quo of exhaustion between the

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[3] *Silhouette International Schmied v Hartlauer Handelsgesellschaft* [1998] Case C-355/96, ECLI:EU:C:1998:374

[4] *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others* [2001] Case C-414/99, ECLI:EU:C:2001:617

[5] *Polydor Limited and RSO Records Inc. v Harlequin Records Shops Limited and Simons Records Limited* [1982] Case 270/80, ECR 00329

UK and EU or would prohibit exhaustion reciprocally and give rightsholders the right to object to such parallel imports in either direction).

Pending such a determination, however, it would seem strange for the UK to assume that it doesn't have the freedom to do what the EU can and make its own decision on exhaustion. It would also have been strange for the UK to agree to such freedom in the TCA if the UK had already tied its hands in the Protocol in respect of Northern Ireland in circumstances where the UK would not countenance a different exhaustion regime in the rest of the UK (even if the Northern Ireland Protocol requires exhaustion, this is only for Northern Ireland and would not prohibit enforcement of IP rights in the rest of the UK).

On the second question, it would appear that the parties intended the broader rules on "movement of goods" to be in Article 5 and those on technical assessments etc. to be in Article 7. Article 7(1) appears primarily to be making it clear that the UK is responsible for determining technical assessments etc. for goods put on the market in Northern Ireland, with the caveat that goods imported from the EU must be allowed under Articles 34 and 36 TFEU (which, as indicated above, don't themselves lay down technical assessments etc. but provide limits on when such technical assessments etc. are permissible). It is curious that Article 7(1) doesn't simply cross-refer to the obligations under Article 5(5) and it is not clear if there is any policy reason why the caveat to Article 7(1) should be broader than the positive obligation under Article 5(5), unless the UK intended to be more tightly bound than the EU. It may reflect changes in drafting not being reflected properly throughout the Northern Ireland Protocol.

The Northern Ireland Protocol is new and has yet to be the subject of judicial scrutiny, which may identify and resolve quirks of drafting. Such scrutiny would, under the current Northern Ireland Protocol, be subject to ultimate control by the CJEU. In the meantime, this clearly leaves room for a range of opinions and legal risk.

One option available to the government is to assume either that the EU is wrong on Article 5(5), or that Article 7(1) places greater limitations on the UK than on the EU, and take no risk by restricting its policy choice accordingly, denying itself the option to take the same decision on exhaustion that the EU has taken as regards the UK (refuse IP exhaustion of goods imported from the other party).

A second option is to make the appropriate policy decision for the UK now – whether that is national, UK+, international or mixed – and, if the issue genuinely arises in future (and if the Northern Ireland Protocol is not amended to clarify the position in the meantime) seek to negotiate a new solution with the EU at that stage. For those purposes, it would be helpful to rely on Article 5(5), rather than Article 7(1), given the former provides reciprocal obligations on the EU. Indeed, in any renegotiation of the Northern Ireland Protocol, it might be useful to make it clear that the UK did not intend to take on greater restrictions unilaterally for Northern Ireland under Article 7(1).

A third option is to wait to make the policy decision once the issue on the Northern Ireland Protocol has been clarified. That avoids the risk of having to revisit the policy decision later.

Another reason making this third option attractive is that, since the decisions in *Silhouette, Sebago*[6] and *Davidoff*, the exhaustion debate in Europe is fairly settled and in a state of tranquillity (which appears to have transcended across all IP rights).

A review of parallel import cases which have made their way to a determination in the English courts over the past 10 years confirm this. Some decisions concern remedies and have nothing to do with substantive law. The rest are mainly intra-EU disputes concerning re-packaging rather than the legitimacy of importing into the UK products first put on the market outside the UK.

What this case analysis highlights is that, whatever one might think of the status quo, stakeholders appear to know where they stand and there is a high-level of legal certainty. A change in the regime – however well merited economically, politically or otherwise - will almost certainly lead to a period of legal uncertainty with an attendant cost to business. Should it be helpful to the UK IPO, we are happy to share our more detailed analysis on recent case law.

Finally, it may assist to briefly consider the historical position. Historically, English law generally adopted a doctrine of implied consent, a principle dating back to 1871 and the Court of Appeal decision in *Betts v Willmott*[7] (a patent case). Thus, on sale, the purchaser acquired the whole of the property and could do with it as they wished absent post sale restrictions. Whether one classes the old regime as a doctrine of exhaustion or not does not matter, the result was the same: it regulated what right the original supplier of goods had to exert further control over dealings in them.

The doctrine was also applied to trade marks and passing off, but the courts applied it inconsistently and the Courts were, in appropriate circumstances, prepared to limit the doctrine (contrast the decision in *Revlon*[8] with that in *Colgate Palmolive*[9]). Similarly, English courts were willing in *Polydor*[10] to limit the application of the *Betts* doctrine in copyright cases. The consequence being a lack of clarity and coherence as to approach across IP rights, with each case being fact dependent.

As already indicated, the IPLA does not wish to present a view on which is the appropriate policy decision on exhaustion, as the evidence is not available to the IPLA. Moreover, its members represent clients with a range of interests on exhaustion. However, the IPLA is concerned that the government does not unnecessarily fetter itself when making such a policy decision and that it gives due consideration to the impact of all options. Moreover, whatever

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[6] *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA* [1999] Case C-173/98, ECLI:EU:C:1999:347

[7] *Betts v Willmott* (1871) LR 6 Ch App 239

[8] *Revlon v. Cripps & Lee* [1980] FSR 85

[9] *Colgate-Palmolive Limited and Another v. Markwell Finance Limited and Another* [1989] RPC 497

[10] *Polydor Ltd. v. Harlequin Record Shop* [1980] FSR 362

decision is ultimately made by the government, and in the event that the regime is revised, we urge that it lead to greater legal certainty with express codification for all IP rights.

The Intellectual Property Lawyers' Association
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