

UK government faces challenges over future exhaustion of IP rights regime

Brexit created 'one way door' policy for parallel imports, say AA Thornton partners Ian Gill and Dan Byrne

The UK government needs to be clearer about who it is seeking to protect when adopting its future exhaustion of intellectual property rights regime, while also making the most out of the flexibility provided by Brexit, according to Ian Gill and Dan Byrne, partners at AA Thornton.

Since the UK officially exited the European Union at the start of this year, the UK has decided to unilaterally participate in the European Economic Area's exhaustion scheme – meaning that IP rights for goods first placed on the market in the EU are considered exhausted in the UK, but goods first placed on the market in the UK are not exhausted in the EU.

“This is sometimes referred to as a one way door where [parallel imports] from the EU can come into the UK but not the other way round,” said Gill, speaking at Global Legal Post's Anti-Counterfeiting World Law Summit last week.

Earlier this month, the UK government launched an open consultation on what exhaustion regime it should adopt in the future. Gill says the government has outlined four potential options. The first is to continue the current regime – the unilateral granting of exhaustion for EU-based goods but with no reciprocity.

“This is branded by the UK government as UK+, which suggests we're getting something more when in fact we're giving something away – the right to parallel import from the UK into the EU,” said Gill.

The second option is a national regime where there will be no automatically permitted parallel imports into the UK. The third is an international exhaustion regime – which prior to joining the EU was historically the UK's preferred option for trade marks – and the fourth option is a mixed regime where parallel imports will be allowed under specific circumstances which mirrors other significant economies outside of the EU which do not adopt a universal approach for all IP rights.

For Gill, the obvious solution would be a national regime given that Brexit was 'all about regaining control of the UK borders'. However, the government has ruled out adopting a national regime because it believes it is incompatible with the Northern Ireland Protocol, which it considers allows for parallel goods to move from the Republic of Ireland into Northern Ireland without restriction. If that assertion is correct, says Gill, then that rules out national exhaustion for any IP rights and also any mixed regime that treats goods differently.

When putting in place its own exhaustion regime, the EU ruled out an international regime because it would likely harm economies within the region. Fellow AA Thornton partner Dan Byrne says arguments against an international regime include, among other things, lower

returns for IP owners which would deter investment in new brands or encourage businesses to retire certain products, potentially leading to reduced quality and choice for consumers. It can also impact the ability of consumers to detect counterfeits in the future as imported goods are likely to have different packaging, meaning consumers are less likely to pick up on potential fakes.

Meanwhile, arguments for international exhaustion mainly boil down to the fact it can lead to cheaper goods for consumers.

“That then becomes a policy question of investment versus lower prices,” said Byrne.

To answer that question, the government needs to be more explicit around who should benefit from the new regime.

“You can’t look at the future of this issue without first trying to understand who is being protected by the rules on exhaustion of rights,” said Gill. “Is it consumers, is it manufacturers, or are there other groups in play?”

The UK government believes that unilaterally allowing parallel imports from the EU is the least costly for businesses while also maintaining current levels of choice for consumers – ostensibly the best of both worlds – but this analysis is really consumer focussed as the businesses who are mentioned are the consumers of goods sourced from the EU. The government specifically highlights the NHS as an example, which is a major purchaser of medicines from the EU where it is able to buy at a lower cost, says Gill.

A 2012 study by Deloitte showed that countries which impose restrictions on parallel imports tend to leave domestic consumers worse off. For instance in Australia, restrictions on parallel imports for books led to consumers paying roughly 10% more.

Yet, while consumers might get a better deal from relaxed rules around parallel imports, that doesn’t help businesses which invest time and money in marketing products and providing after-sales support only to see parallel importers ‘free-riding’ on those investments, says Gill.

So what is the best way forward? Gill believes the UK government has incorrectly ruled out a national or mixed regime due to the Northern Ireland Protocol. The protocol is designed to avoid a hard border on the island of Ireland, but a national regime doesn’t necessarily conflict with that given that in most cases parallel imports are challenged when they are sold, not at the point of entry.

“Arguably it is possible to have a national regime or a mixed regime without creating a hard border,” Gill said. Byrne added that a European Commission Notice to Stakeholders of 25 June 2020 suggests that the EC does not consider that the Northern Ireland Protocol prevents national exhaustion. The speakers invited attendees of the conference to respond to the government consultation if they had perspectives or opinions to share using this link: [UK’s future exhaustion of intellectual property rights regime - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/uk-future-exhaustion-of-intellectual-property-rights-regime)

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