Exhausted by Brexit? Impact on Import and Export of IP-protected Goods in UK

When IP-protected goods are placed on a particular market by, or with the consent of, the IP right holder, there is a generally accepted legal concept worldwide that the corresponding IP rights are '*exhausted*' at least in the market in question. This means that the owner of the IP rights cannot subsequently rely on them to prevent the further distribution or resale of those goods within the relevant market.

This exhaustion, however, is not absolute in that it can be specific only to particular jurisdictions. For example, in Europe, once an IP right owner places a protected product on the market anywhere in the European Economic Area (EEA), or has authorised a third party to do so, the IP right owner cannot subsequently assert their IP rights to prevent those goods from being resold or imported to other parts of the EEA. This allows for '*parallel imports and exports*' within the EEA, which represent the import and export of IP protected goods by secondary market actors, after their initial placement on the market with consent of the IP right holder. However, IP right holders may still be able to prevent further distribution or resale of the goods outside the EEA, dependent on the law of the territories in question.

This briefing provides an overview of how the UK's departure from the European Union (EU) and the EEA impacts exhaustion of rights for IP-protected goods imported into or exported from the UK and potential future changes to the current position.

Imports to EEA from UK

As of 1 January 2021, the UK is no longer part of the EEA and, as such, any goods placed on the market in the UK after this date are not considered exhausted throughout the EEA. Accordingly, an IP right owner can enforce its IP rights against any IP-protected goods exported from the UK into the EEA, even if the products were placed on the market in the UK by the IP right owner, or with their consent.

It is therefore important to check that the consent of any necessary IP right holder has been obtained before goods are imported into the EEA from the UK.

Imports to UK from EEA

Unlike the change in position with goods imported to the EEA from the UK, the stance on goods imported into the UK from the EEA currently remains as it was before Brexit. Specifically, IP rights are exhausted in the UK for goods placed on the market in the EEA by or with the consent of the IP right holder. Therefore, such IP-protected products can be freely imported into the UK from the EEA without seeking the consent of the IP right holder.

Imports to UK from third countries

The situation regarding the import of IP-protected goods from third countries differs depending on the IP right in question.

For patent protected goods, the long-held principle of implied license (*Betts v Willmott* [1871] 6 Ch App 239) still applies. This means that the patent rights in a product are exhausted in the UK when, subject to any express contrary agreement, a patent protected product is placed on the market anywhere in the world by, or with the consent of, the patent owner.

As for goods protected by trademarks, copyright and/or designs, the European Court of Justice (as it was then called) decided in *Silhouette v Hartlauer*, (C 355/96) that it was not open to Member States to provide for international exhaustion, and as such imports of such goods into the EEA from a third country are not permitted absent the express consent of the IP right holder. This decision currently constitutes '*retained EU case law*' under the European Union (Withdrawal) Act 2018, and thus is still in principle applicable in the UK.

Consultation about UK's future regime for exhaustion

The UK has recently opened up a consultation regarding the future approach to exhaustion of rights in the UK.

In doing so, it has commented on four potential regimes:

(a) a national regime;

(b) a continuation of the unilateral regime that came into force on 1 January 2021, otherwise known as the UK+ regime;

(c) an international regime; and

(d) a mixed regime.

Notably, the government has ruled out adopting a '*national*' regime, which would prevent free export and import of goods from any country, because this is deemed inconsistent with the Northern Ireland Protocol, which requires parallel imports into Northern Ireland to be permitted from Ireland and other EEA countries.

The continuation of the unilateral regime is essentially the '*do nothing*' option and continue to allow parallel imports from the EEA, while parallel exports from the UK to the EEA could still be prohibited by IP rights holders. This option is considered to be the least costly for UK businesses relying on parallel imports from the EEA, but could significantly hamper UK businesses which rely on parallel export to the EEA.

The international regime would provide that the IP rights in any product would be exhausted in the UK as soon as that product was placed on the market by, or with the permission of, the IP right holder. This regime would provide freer reign to parallel importers, increase competition and increase customer choice. However, this comes at the cost of weakening IP rights in the UK and potentially leading to consumer confusion, because it could allow the free import of goods that were intended for other countries. The international regime, however, would not necessarily permit parallel export from the UK, as allowability of parallel export is dependent on the exhaustion regime of the jurisdiction where the goods are being exported to.

The mixed regime is the most complex of those outlined and involves different approaches to the exhaustion of rights depending on the goods, sector and/or type of IP rights involved. This would allow for tighter restrictions on heavily regulated industries, such as the pharmaceutical sector. The main drawback of the mixed regime is that it may result in overly complex scenarios, for instance, where products are protected by multiple types of IP rights, and there are different exhaustion regimes for each of those rights.

The Secretary of State indicates in the Consultation document that "*the choice of a new regime will be a difficult and possibly contentious one*" and that "*the government does not have a preferred option or the UK's future exhaustion regime*". Accordingly, it is unclear which of the potential regimes is the most likely to be adopted. What is certain, however, is that it will be a significant challenge to balance the interests of the concerned parties.

The consultation is open until 31 August 2021.

For more information, please contact:

Martin Jackson - mjackson@jakemp.com

Jimmy Nicholls - jnicholls@jakemp.com