

Insights

ASYMMETRIC EXHAUSTION OF RIGHTS BETWEEN EU27 AND UK SET TO BEGIN AT THE END OF THE TRANSITION PERIOD ...BUT FOR HOW LONG?

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As the end of December 2020 approaches, IP owners preparing for the end of the transition period need to be aware of the changes being made to the exhaustion of IP rights regime, to: (i) avoid being caught off guard and inadvertently exhausting their IP rights in both the EU27 and the UK; (ii) manage supply chain issues and the permissions required to move protected goods across the UK/EU border; and/or (iii) monitor parallel imports of goods protected by a rights-holder's IP rights into and out of the UK and EEA.

At present, pending the outcome of EU-UK negotiations and based on the Intellectual Property (Exhaustion of Rights) (EU Exit) Regulations 2019 (the "**Regulations**"), the UK is preparing for a so-called 'asymmetric' exhaustion of IP rights.

Practically speaking, this means:

- Goods protected by IP rights which are placed on the **UK market** by, or with the consent of, the IP rights-holder after 31 December 2020 may no longer be considered exhausted in the EEA so that any person exporting these goods from the UK to the EEA will need to consider whether they need the rights-holder's consent to do so.
- Goods protected by IP rights which are placed on the **EEA market** by, or with the consent of the IP rights-holder after the transition period will continue to be considered exhausted in the UK.

This asymmetry will therefore require rights-holders to monitor closely when and where protected products are put on the market in the UK and the EEA, and exercise a greater degree of oversight of distribution networks. For example, for distribution agreements currently covering both the UK and the EU27, if the same distributor is to remain distributor for both newly separate territories, the IP rights-holder may want to exercise more control over arrangements for new product launches in both territories and / or consider entering into separate agreements in respect of each territory.

Following 1 January 2020, anyone exporting IP-protected goods **to** the EEA from the UK will need to assess whether additional permissions are required to export the goods. From a practical

perspective, do you have processes in place to support the additional administration likely to be required and can your supply chain absorb any delays consequent on seeking additional permissions? Some business models may also become less viable in consequence of this new market partitioning.

IP rights-holders should also be closely monitoring supply chain movements to establish if goods are moving from the UK to the EEA without the necessary permissions in place and could move to limit parallel exports from the UK.

When the UK was part of the EU, it was also subject to the jurisprudence governing how the EU member states could provide for international exhaustion. As the CJEU held in a number of cases, given the harmonisation of rules governing the functioning of the European single market, a single member state could not unilaterally provide for international exhaustion without undermining the rationale for a single market. The Regulations are silent on the issue of parallel imports into the UK from third countries and given the concepts of Retained EU Law introduced by in the UK under the European Union (Withdrawal) Act 2018 (which include pre-existing EU case law of the CJEU) the current position on international exhaustion in the UK will remain unchanged after the end of the transition period until the question is revisited by the appropriate UK national court (or Parliament).

The signs are that this position will not remain the status quo for long however, as the UK government has indicated that, after 1 January 2021, the UK will have “an opportunity to decide what its permanent exhaustion regime should be” and has flagged that a formal consultation will be launched early in 2021.

It appears that the temporary asymmetry created in the UK in respect of these arrangements for the exhaustion of rights will assist, at least in part, UK businesses who carry on parallel importation from the EU27 by ensuring that they will not be automatically infringing on 1 January 2021 where they have not obtained additional consent from holders of the relevant UK rights. This will assist (for the time being) in keeping the gate open to the EU27 beyond 1 January 2021 and will preserve one aspect of frictionless importation from Europe. The measures will also have the benefit of maintaining any favourable price points gained from imported goods, subject of course to any additional duties imposed, which is some good news for the UK as a net importer of goods.

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