CIPA THE CHARTERED INSTITUTE OF PATENT ATTORNEYS

The UK's future regime for the exhaustion of IP rights Consultation Response Form

This response is made on behalf of the **Chartered Institute of Patent Attorneys**.

Members of CIPA advise businesses on all areas of intellectual property, including patents, registered and unregistered designs, registered trade marks and corresponding rights, confidential information and copyright. Client businesses come in all flavours and colours. Those seeking intellectual protection and exploiting intellectual property as owners, licensees, distributors and other users. And also those whose business may be affected by third party intellectual property protection, whether as users of goods or services covered by intellectual property rights, importers or exporters, distributors or resellers, or agents for such businesses such as internet and on-line advertisers or intermediaries.

Members represent clients who have a range of different interests in the impact of an exhaustion of rights regime.

There are however, several clear messages:

1. WHICH APPROACH:

a. It is strongly in the interests of intellectual property rights holders to have a national exhaustion regime, in preference to UK+, with an international exhaustion regime significantly behind both:

- A national regime allows intellectual property rights holders and their licensees or distributors to tailor their approach to development of and servicing a market for a product or service to specific jurisdictions and the consumers or businesses within those jurisdictions. They are in the best position to determine an optimum business model for their exploitation of rights.
- Introducing competition and "choice" from other markets imposes arbitrary constraint on their approach which are not necessarily beneficial to the consumer, and are likely to create market inefficiencies. The objective of intellectual property rights is to incentivise innovation (technical or marketing) by a reward derived from a degree of exclusivity.
- Consumers in a particular jurisdiction are in a position to determine whether they wish to pay an acceptable price for the benefits conferred by the innovations – for example in relation to brands, the investment in product or service design or innovation, or the consumer perception of value from a brand; or in relation to technical innovation the benefits conferred by the innovation.
- The position is clearly evidenced in relation to price and the difference between developing economies or those economies where consumers are less well off than in the UK. There, an efficient market may not work at the same price as would sustain an efficient market in a developed economy or where the average individual pay or business income is lower.

- There are clear examples in relation to availability of pharmaceuticals. If exhaustion, for example on an international level, is permitted, it may destroy the incentive for the innovator to supply pharmaceuticals to the low price economy at all, if they can then be imported into the higher price economy.
- Similarly, in relation to pricing of telecoms and IT innovations, the same issues of price differentials driven by local market circumstances can be seen (eg Unwired Planet International Ltd v Huawei Technologies Co Ltd [2017] EWHC 2988 (Pat) – licensing rates in China 50% of rest of world). Differentials in achievable pricing may simply result in loss of supply or inefficient service levels (for example where the local distribution network cannot be maintained.
- If there are market inefficiencies which lead to the potential for super profits in one jurisdiction relative to another, IP exhaustion is a poor (and economically inefficient) and idiosyncratic method of overcoming the market inefficiencies. That is particularly apparent in relation to economies which have wide differences.
- Where economies are closer in character there may be efficiencies to be obtain by increasing the scale of distribution which may to some extent offset the other market inefficiencies – and it is clear that the EU single market has historically created some significant benefits in the scale and ease of distribution. However, that is dependent on market convergence within a single market, the reverse of the position since withdrawal. Even in those circumstances one can see that the idiosyncratic impact needs to be protected against – see for example the pharmaceutical cases involving Spain (on accession to the EU) and Poland (local pricing controls).
- In addition in a diverging market or one in which the UK wishes to maintain the potential for divergence other factors may play a significant part. For example, similar issues may arise in other areas, such as food, where local incentives subsidise farming or farmland, which might particular have an impact in relation to the EU and UK+.
- It would be preferable and fairer to IP owners and consumers to use other mechanisms to combat market inefficiencies.
- In relation to UK+ there is one obvious divergence, namely the inherent size of the market. Asymmetric exhaustion means that distributors in the EU will have an inbuilt advantage or market size in relation to their pricing. That means that goods and services may flow more readily from the EU to UK with price advantage; the reverse flow will not be possible so that sales in the UK will not be supported by the potential market in the EU, leading to an incentive for distribution to be set up by IP rights holders in the EU rather than in the UK; and a disincentive to be a distributor in the UK compared to the EU, when addressing a smaller market at potentially higher prices. While this may be seen as an advantage to the consumer, the natural impact is that any price deficiency is reflected in some other aspect of the supply, such as service levels. Alternatively (or in addition) IP rights holders will be advised on means for created separate markets in

the absence of reliance of intellectual property rights. This will divert investment from innovation to creating "artificial" barriers to cross border trade.

- Accordingly, asymmetric exhaustion is seen as having significant potential disadvantages for the consumer as well as the IP rights holder (because it is a smaller market)leaving aside other factors.
- A further disadvantage for consumers and businesses supplying consumers of UK+ style exhaustion without a proper single market may be that on-line supplies may be made directly into the UK, while leaving consumers/businesses with a requirement to enforce in the EU – with IP owners having to rely on interpretation by the CJEU of IP rights infringement (eg from trade mark use or copyright infringement).
- CIPA therefore strongly supports a national exhaustion approach if this is possible, over UK+, for IP owners and believes that for consumers and distributors, other means of overcoming market inefficiencies should be considered before any encroaching on the scope of enformcement of IP rights.

2. IMPLEMENTING CHANGE:

a. No final decision should be made as to the exhaustion regime at present, as the impact of UK+ is still not clearly understood, and there may be reasons (including the European Union's view on the provisions in the NI Protocol which may affect the most appropriate choice for the future. We believe that the position is strongly in favour of saying that Article 7.1 of the NI Protocol does not preclude national exhaustion. The reasoning has been set out well by Guy Tritton and Katharine Stevens: simply, it is that Article 7.1 NI Protocol does not apply to Intellectual Property and was not intended to; and even if it is considered that it should apply, the reservation in Article 36 in relation to protection of intellectual property should apply because the UK is not in a single market with the EU (any longer) and the rights (eg trade marks) in question are UK rights to a harmonised EU right.

b. CIPA is in favour of permitting a reasonable period of time for business to adjust to any change in the now prevailing approach of unilateral exhaustion (UK+).

Different regimes may well mean that for any business, a different business model is appropriate, and businesses should be given a reasonable period of time to adapt their business models. Examples are reorganising their distribution arrangements or licensing models.

SECTION A

Parallel trade to and from the UK

Q1: Is there parallel trade[1] in your sector? ***Members advise on it.***

Q1a: If so, how do parallel imports from the EEA impact on your organisation in terms of (a) choice, (b) availability of supply and (c) competition in your marketplace? ***We do not have figures.***

Q2: If you are able to, please provide the current volume or value of total imports to your organisation in the UK. If possible, please estimate the percentage of the total imports accounted for by parallel imports? **N/A**

Q3: In your business, how do you exert control over supply chains? **N/A**

Q4: For your business or organisation, how do right holders become aware and seek to stop their products being parallel imported from outside the EEA without permission? ***In our experience with advice from local contacts in the jurisdiction in question. Obtaining proof is often very difficult for cultural and legal reasons.***

Q17: Do you have any views on the government's assessment[2] 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? ***See above. We believe the Government's assessment is wrong, and at least more pessimistic than is justified.***

SECTION B: Respondent information

Q1: Please give your name (name of individual, business or organisation):

Alasdair Poore, Chartered Institute of Patent Attorneys

Q2: Are you responding as an individual, business or on behalf of an organisation?

Organisation

a) Business – please provide the name of your business
b) Organisation – please provide the name of the organisation that you are responding on behalf of
c) Individual – please provide your name

Q2a: If you are a responding on behalf of an organisation, please tell us the name of the group and give a summary of the people that you represent.

Chartered Institute of Patent Attorneys ("CIPA").

The Chartered Institute of Patent Attorneys (CIPA) is the professional and examining body for patent attorneys in the UK, representing virtually all the 2,500 registered patent attorneys in the UK, whether in industry or in private

[1] The government defines parallel goods as goods that are lawfully manufactured by the rights holder or under licence and are lawfully first placed on the market then moved across territorial borders.
[2] The government considers that the Northern Ireland Protocol preserves the position of allowing parallel goods to travel into Northern Ireland from the Republic of Ireland and any other EU member state.

practice. Total membership is over 4,000 and includes judges, barristers, trainee patent attorneys and other professionals with an interest in intellectual property. CIPA represents the views of the profession to policy makers at national, European and international level, with representatives sitting on a range of influential policy bodies and working groups in the UK and overseas.

Members practice before the UK IPO and European Patent Offices (almost all as European Patent Attorneys), as well as advising on the relevant law and practice and, through relationships with foreign legal, patent, trade mark and intellectual property advisors, in other jurisdictions worldwide. Prior to withdrawal from the EU, many practised before the EUIPO in trade marks and designs, many UK firms also have offices or associations in the EU with a continuing practice before the EUIPO, and members continue to advise in all these areas.

Q3: ***N/A*** If you are an individual, which of the following statements best describes you?

a) Academic
b) Employer/employed in the private sector
c) General public
d) Law professional
e) Professional in another sector
f) Public sector official
g) Other – please specify:

Q4: If you are responding on behalf of your business or organisation, which of the following statements best describes your business or organisation? Please select all that apply

a) Academic institution
b) Distributor of goods
c) Distributor of licensed goods
d) IP rights holder
e) Manufacturer reliant on IP-protected goods
f) Retailer
g) Trade body representing 'IP rights holders'
h) Other – please specify: ***Professional body representing in-house and private practice legal and intellectual property advisors to:***
   a. ***all of a) to g)***
   b. ***others with an interest in the protection and commercial exploitation of the subject matter of IP rights such as innovators, investors, lenders, insurers, brokers, advertisers (including on-line advertisers and cross border advertisers), importers and exporters, etc.;***
   c. ***other businesses which may be affected by third party IP rights, and the actions of third party holders of IP rights, their licensees or distributors;***
   d. ***other users of IP rights***

Q5: If you are responding on behalf of a business or organisation, which of the following best describes your organisation?

a) UK only based organisation (if so, please specify whether your organisation's head office is based in England, Scotland, Wales or Northern Ireland).
b) Multinational organisation based in the UK (if so, please specify whether your organisation's head office is based in England, Scotland, Wales or Northern Ireland).
c) Multinational organisation based in an EEA country outside of the UK, which operates in the UK (if so, please specify the country your organisation's head office is based in).
d) Multinational organisation based in a non-EEA country outside of the UK, which operates in the UK (if so, please specify the country your organisation's head office is based in).
e) Other (please specify): ***UK based organisation (all UK), with international members, advising on business in the UK and internationally***

Q6: ***N/A*** If your business or organisation trades in IP protected goods, which one of the following best describes the destination of IP goods?

a) Trade with EEA countries only
b) Trade with non-EEA countries only
c) Trade with both EEA and non-EEA countries

Q7: ***N/A*** If your business or organisation trades in IP-protected goods, which one of the following best describes your organisation's trade?

a) Importer of IP-protected goods
b) Exporter of IP-protected goods
c) Importer and exporter of IP-protected goods (both finished goods and transformed goods)

Q8: Which one of the following best describes the sector of your business or organisation?

a) Agriculture, forestry & fishing
b) Automotive or Aerospace
c) Business administration
d) Civil society
e) Construction
f) Creative industries
g) Distribution
h) Education / Academia
i) Finance
j) Food and drink
k) Health (human or animal)
l) Information technology
m) Production/ Manufacturing
n) Public administration & defence
o) Retail

p) Transport & Storage
q) Wholesale
r) Other – please specify: ***Legal and professional advice in relation to intellectual property in all of a) to q)***

Q9: ***N/A***: is How many people work for your business or organisation across the UK as a whole? Please estimate if you are unsure.

a) Fewer than 10 people
b) 10–49
c) 50–249
d) 250–999
e) 1,000 or more

Q10: The Intellectual Property Office may wish to contact you to discuss your response. Would you be happy to be contacted to discuss your response? ***Yes***

Q11: **Lee.Davies@cipa.or.uk cc President@cipa.org.uk** If you are happy to be contacted by the Intellectual Property Office, please provide a contact email address.

Q12: Would you like an acknowledgement of receipt of your response? ***Yes***

Data table

In addition to the questions in this consultation, the government currently holds some of the information listed in this table but would welcome further information on these topics if it is available. If you are providing information in relation to this table, please mark any information to correspond to the numbered section as below and include attachments with your response form in your email to IPExhaustion@ipo.gov.uk.

	THE ECONOMY
i	Openness of UK economy to trade and the extent of trade in IP-protected products.
ii	Value of the IP-protected sector in the UK economy.
iii	Value and scale of parallel trade to the UK economy (including parties involved in parallel trade and effects on those parties).
iv	Prevalence of parallel importation in the UK economy (including number of affected businesses and number of jobs).
	CONSUMERS
v	Current welfare impacts on consumers from parallel importation: price, availability of choice, quantity and quality consumed.
vi	Opportunities for arbitrage based on UK consumer price levels in relation to the rest of the world.
vii	Potential impact on consumers following a change in the UK's exhaustion regime: change in price, availability of choice, quantity and quality consumed.
	BUSINESSES THAT RELY ON PARALLEL IMPORTS
viii	Transition activities and associated costs of moving to a new exhaustion regime, e.g. legal fees.
	PRACTICES BY RIGHTS HOLDERS
ix	Management of first sale of goods by rights holder (or licensee): information on supply controls or sale through wholesalers.
x	Costs of current controls on distribution channels (e.g. monitoring and legal enforcement costs).
	INTERNATIONAL COMPARISONS
xi	Evidence on impact in countries which changed exhaustion regimes (for example, change in the US on textbooks, change in copyright in Australia and New Zealand and change on pharmaceuticals in Switzerland).