



ACID RESPONSE TO EXHAUSTION OF IP RIGHTS' CONSULTATION

Anti Copying in Design welcomes the opportunity to respond to the Government Consultation on Exhaustion of IP rights.

About Anti Copying in Design (ACID)

Anti Copying in Design (ACID) was founded in 1997 and is the UK's leading design and intellectual property campaigning organisation. It is a forward-thinking membership trade association for designers and manufacturers; a not-for-profit organisation funded by membership fees.

For nearly a quarter of a century, ACID has been a consistent voice calling for design law reform and influential in providing evidence to support many of the IP and design reforms which have taken place in the UK before and since the Hargreaves Review. ACID spearheaded a UK campaign for the introduction of criminal sanctions for the intentional infringement of both registered and unregistered designs. This campaign resulted in a partial success with the criminalisation of intentional of a registered design (included in the 2014 IP Act). ACID continues to campaign for intentional infringement of unregistered designs to attract criminal sanctions as the ultimate deterrent against copying.

ACID is also a member of the Alliance for Intellectual Property (IP) which is a UK-based coalition of 20 trade associations and enforcement organisations with an interest in ensuring intellectual property rights receive the protection they need and deserve. Its members include representatives of the audio-visual, music, video games and business software sectors, as well as sports industries, branded manufactured goods, publishers, authors, retailers, and designers. ACID's CEO Dids Macdonald, OBE., is a Vice Chair of the Alliance for Intellectual Property and a member of the IP subgroup of the Creative Industries Council.

Exhaustion of IP rights – current status quo

The status quo is the UK's current unilateral participation of the EEA regional exhaustion scheme, without reciprocation. This means that parallel imports from the EEA into the UK are permitted. IP rights in goods first placed on the market in the EEA are considered exhausted in the UK and can be imported into the UK without the right holder's permission. However, goods exported from the UK will need right holder's permission as the IP on these goods is not currently considered exhausted by the EEA Member States.

ACID's approach to the Exhaustion of IP rights

We have consistently pointed out the weaknesses in design laws in the UK and this extends to design law globally with inconsistencies in protection and term. It is therefore particularly important that UK's exhaustion system supports fair and equitable market conditions.

Whereas for all the other IP rights the main campaigning issues concern enhancements to existing laws or trying cut back the scope of proposed defences, in the case of design laws, the argument is about preserving existing protection or seeking parity with other IP rights. Just within the last year because of Brexit we have seen the loss of protection for unregistered

design protection within the 27 member states of the EU where a design has first been made available to the public in the UK. The challenges regarding unregistered design right in the context of exhaustion of IP rights are characterised by Government below. It is worthy of note that the majority of the UK's designers rely on unregistered design rights, and this is a key factor, we believe, in the Government highlighting this as a potential issue.

Although the principle of exhaustion of IP rights affects all the four main IP rights, there may be a particular interaction with unregistered design rights. Protection arising from an unregistered design depends on where the design was first disclosed. If a design is first disclosed in the UK, it is protected as an unregistered design in the UK. However, in that same case, first disclosure in the UK means the design is not considered new by the EU and so it is not protected as an Unregistered Community Design (UCD). The opposite is also true (i.e. a design first disclosed in the EU, gains protection as an UCD, but is no longer considered new in the UK and so is not protected as an unregistered design in the UK).

This means that there may be an issue relating to how exhaustion of IP rights works with respect to unregistered designs. For example, if a product which is protected as a UCD in the EU is first put on the market in the UK, the rights in that good may not be considered exhausted in the EEA. Therefore, permission from the rights holder would be needed to parallel export the good from the UK into the EEA, despite the product not being protected as an unregistered design in the UK. Another complication is that UCDs are an EU right, so protection as a UCD does not extend to EEA countries, whereas the exhaustion of IP rights regime for other IP rights does extend to EEA countries.

This issue does not appear to apply to copyright because protection is automatic and there is no requirement for the work to be new, so copyright protection can be obtained in all the territories. The issue also does not appear to apply to registered rights (patents, trade marks and registered designs) because there is the opportunity to apply for these rights in other territories due to grace periods and priority periods.

If a national regime was chosen, parallel trade across borders would be limited and so this issue is unlikely to occur. Should any other regime be chosen, this issue is likely to continue to occur.

International Exhaustion

ACID is intent on focusing on what impact any change to the exhaustion regime will have on UK design businesses (or brand owners) specifically. We urge that a balance is struck in global trade that does not damage UK design. For example, protecting UK businesses and giving UK consumers access to cheap goods at the cost of UK design businesses and brand's IP.

E.g., where international exhaustion would affect a UK design business when it manufactures and sells its designs (or licenses the manufacture and sale of its designs by someone else) in other countries and where there is a significant price differential with the UK (or some other factor such as a client relationship to protect).

Consequences of International Exhaustion

Under the international exhaustion regime, IP rights would be considered exhausted in the UK once they had been first put on the market in any other country. They could be parallel imported into the UK from any other country in the world without the right holder's permission. An international regime would continue to allow imports from the EEA countries, but this would be extended to cover any other country.

Areas identified in the government [impact assessment document](#) as areas of potential costs to rights holders of a move from the status quo to the international regime include the following potential results:

- *A negative impact on the incentives to innovate, create and invest in R&D. If IP rights holders believe their returns could be limited in the UK market, they may invest less than they otherwise might have in ideas, new products, and services for the UK.*
- *Limiting the strength and value of IP rights. It would limit the rights holder's scope to segment markets across countries and price discriminate between different countries. The removal of the restriction on the ability to parallel import would open the domestic market to greater competitive pressures and reduce or constrain their ability to increase prices. This increased competition and impact on prices would particularly affect sectors which currently face significant parallel importation from the EEA.*
- *Rights holders responding by choosing to strengthen their distribution chain with stronger contractual arrangements or vertical integration with downstream distributors. Such changes are likely to lead to an increased cost of managing their supply chain particularly in the short term.*

The impact assessment document goes on to note that, if international exhaustion is implemented, *"In the long run, consumers and some importing businesses and businesses that rely on goods with IP as source of their supply chain may gain from a move to an international regime from the current unilateral regime, whilst rights holders may lose"*.

The impact assessment document also notes that "The UK's main trading partners (excluding the EEA countries) in the main have an international exhaustion regime for IP rights, with some reservations for certain goods and IP rights" (see page 6 of doc for more details).

Regional exhaustion of rights

ACID supports the retention of the status quo on the exhaustion of rights, namely regional exhaustion. Designers and brand owners have developed their businesses around the principle that once a design or a branded product is put on the market within the UK/EU territories, the intellectual property rights in it are exhausted. This has created a level playing field within the European region. However, a business which markets its products outside the UK and EU is not currently deemed to consent to the subsequent import of those products into the UK and it can use its intellectual property rights to prevent the inward flow of its goods.

The famous litigation involving Levi Strauss and Tesco is a classic example of a brand owner preventing the importation into the UK and sale of its products which were put on the market in the USA and subsequently imported into and sold in the UK. The Court held that Levi Strauss had not consented to the import and sale of its products anywhere other than the USA when it placed its jeans on the market there, even though the same products could be found for sale in the UK. Tesco was found to have infringed Levi Strauss' UK trade mark rights.

Whilst changing this status quo would potentially give consumers access to cheaper imported goods from abroad, it is not just about protecting the luxury goods market or a narrow industry sector. The UK design industry contributes £85.2 billion to the UK's annual GDP. Altering the status quo by adopting an international exhaustion regime would interfere with the investment of UK designers in producing good designs.

Take the example of a UK design business which manufactures and sells its designs in a country outside the European region (or which licenses a manufacturer to manufacture its designs and sell them in that country) at a price which accords with market forces in that country which does not impact on the designer's UK business. Under the principle of international exhaustion, those same products could be purchased in the foreign country and then imported into the UK and sold at a lower price than the UK RRP by anyone without infringing any UK intellectual property rights in the designs or any UK trade mark rights.

That would undermine the investment which the designer has made in producing the design and the reputation and allure of its brand because there would be no control over the importation and sale of its own designs under its own brand at lower prices and outside the distribution structure which the UK

business has put in place for the sale of its products to ensure that those products are sold in an environment and in a way which protects the integrity of the design or brand (such as in the example of Levis jeans being sold in a supermarket). Designers could face competition in relation to their own products, not just similar products of other designers. This would have an impact on the designer's ability to invest in creating new designs.

The impact would not only be on design businesses with a foreign manufacturing capability or licensing network. It would equally influence a UK designer who produces an exclusive, bespoke range of products for a foreign client for that client to sell in their own country. The designer could find those designs being imported and sold in the UK which would undermine the designer's relationship with its client.

Further Observations:

- IP right's holders in the UK may face increased competition if there are no restrictions on parallel imports from any other country in the world. That said, they will already face that difficulty to some extent with there being no restrictions on parallel imports from EEA countries under the status quo.
- The status quo seems a strange approach – obviously it may be familiar given the UK's recent departure from the EU and EEA and for that reason may seem to make sense, retaining long established trading ties etc. But when looking forwards it seems odd to draw a distinction between the EEA and the rest of the world if it is predominantly based on the past, particularly when this is not a reciprocal arrangement? No doubt though that in the short term the status quo would result in the least disruption but that doesn't necessarily mean it is for the best in the long term.
- Our ACID members based in the UK may not feel that this issue is not be pivotal to their business. If they create and market in the UK they can retain control of their brand, because it will not be put on the market elsewhere first. However, they might face complications when looking to licence internationally, for example, as there may be a loss of control over pricing and marketing in different regions.
- An international regime would seem to facilitate the acceleration of cross-border movement of IP and its related products and services. Overall it will only benefit big business, and businesses sourcing IP from abroad as components of products or part or a larger supply chain.

Recommendation

Whereas all things being equal, we would have wished for national exhaustion, we understand and accept the fact that national exhaustion is incompatible with the Northern Ireland Protocol so we will urge UK+. We oppose international exhaustion.

ACID's submission to this consultation has been supported by our Legal Affiliates. Kelly Hudson of McDaniels Law, Gavin Llewellyn, Stone King, Boulton, Howard Kennedy, KounoupiasIP and Taylors. Dids Macdonald, OBE., CEO of ACID, Nick Kounoupias, ACID IP Director and Chief Counsel