EXPLANATORY MEMORANDUM TO

THE INTELLECTUAL PROPERTY (EXHAUSTION OF RIGHTS) (AMENDMENT) REGULATIONS 2023

2023 No. [XXXX]

1. Introduction

1.1 This explanatory memorandum has been prepared by the Intellectual Property Office, an Executive Agency of the Department for Science, Innovation and Technology, and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 These Regulations restate retained EU law ("REUL") deriving from certain directly effective rights arising under the Treaty on the Functioning of the European Union ("TFEU"), in particular from Articles 34 and 36, and the Agreement on the European Economic Area ("EEA Agreement") which concern the exhaustion of rights of the holder of an intellectual property right. The purpose of the regulations is to ensure the continued operation of the principle of the exhaustion of intellectual property ("IP") rights in the United Kingdom ("the UK's exhaustion regime") without making substantive changes to this policy area by addressing the failure of this law to operate effectively and other deficiencies as a result of the repeal of section 4 of the European Union (Withdrawal) Act 2018 ("the Withdrawal Act") by section 2 of the Retained EU law (Revocation and Reform) Act 2023 ("the 2023 Act") at the end of 2023.

3. Matters of special interest to Parliament

Matters of special interest to the Joint Committee on Statutory Instruments

3.1 This proposed affirmative instrument is being laid on 16th October 2023.

4. Extent and Territorial Application

4.1 The extent of these Regulations is England and Wales, Scotland and Northern Ireland.

4.2 The territorial application of these Regulations is England and Wales, Scotland and Northern Ireland.

5. European Convention on Human Rights

5.1 The Parliamentary Under Secretary of State (Minister for AI and Intellectual Property), Viscount Camrose, has made the following statement regarding Human Rights:

"In my view the provisions of The Intellectual Property (Exhaustion Of Rights) (Amendment) Regulations 2023 are compatible with the Convention rights."

6. Legislative Context

6.1 The law on the exhaustion of IP rights is set out in a number of pieces of domestic legislation (the "intellectual property enactments"), including the Trade Marks Act

1994, the Copyright, Designs and Patents Act 1988, the Patents Act 1977, the Registered Designs Act 1949, the Community Designs Act 2005 and the Intellectual Property (Exhaustion of Rights) (EU Exit) Regulations 2019 (S.I.2019/265), all of which rely on rights that were saved by section 4 of the Withdrawal Act (saving for rights, powers, liabilities etc under section 2(1) of the European Communities Act 1972) for their operation. The Regulations will restate rights that are considered to be REUL under definitions set out in the Withdrawal Act in order to ensure legal certainty and mitigate any unintended consequences associated with the repeal of section 4 of the Withdrawal Act on 31 December 2023.

6.2 The 2023 Act provides for the Secretary of State to restate REUL to preserve the effect of the current law. These Regulations are made in exercise of powers in sections 11(1), 11(6), 13(2), 13(3), 13(6), 13(7), and 20(1)(b) of the 2023 Act.

6.3 Section 11(1) provides the power to restate any secondary retained EU law. The definition of secondary REUL is defined in section 11(2), and it includes any directly effective rights that were saved by section 4 of the Withdrawal Act.

6.4 Section 11(6) provides that a restatement may, if the Secretary of State considers it appropriate, produce an effect that is equivalent to an effect referred to in sections 11(4) of the 2023 Act. These Regulations restate certain effects equivalent to the effects of the rights relating to the exhaustion of IP rights which were saved under section 4 of the Withdrawal Act.

6.5 Section 13(2) provides that a restatement can use different words or concepts from those used in the secondary REUL that is being restated and section 13(3) further provides that a restatement may make changes for the purpose of resolving ambiguity and facilitating improvement in the clarity and accessibility of the law (including by omitting anything which is legally unnecessary). These Regulations restate REUL relating to the exhaustion of IP rights in accordance with best UK legislative drafting practice; for example, in relation to the legitimate interest exception in section 12(2) of the Trade Marks Act 1994, using different words and concepts to restate the permitted derogation from Article 34 TFEU in Article 36 TFEU for the protection of industrial and commercial property.

6.6 Section 13(6) provides that regulations made under section 11 may codify in relation to a particular enactment, an effect equivalent to an effect which is produced, or would but for sections 2 to 4 of the 2023 Act be produced, in relation to the enactment by virtue of the principle of supremacy of EU law. These Regulations codify REUL relating to the exhaustion of rights in the intellectual property enactments deriving in particular from Articles 34 and 36 TFEU.

6.7 Section 13(7) provides that regulations made under section 11 may modify any enactment. These Regulations modify the intellectual property enactments.

6.8 Section 20(1)(b) provides that regulations made under section 11 may make supplementary, incidental, consequential, transitional, transitory or saving provision (including provisions modifying any enactment). These Regulations recast provisions in the intellectual property enactments in consequence of the replacement of references to section 4 of the Withdrawal Act and contain a transitory provision that references to assimilated law in those enactments as amended are to be read, until the coming into force of paragraph 2(6) of Schedule 2 to the 2023 Act, as a reference to REUL.

7. Policy background

What is being done and why?

7.1 Intellectual Property ("IP") rights (e.g., trade mark, patent, copyright or designs) give their owner certain exclusive rights, including the ability to control the first sale of a genuine physical good that is protected by their IP rights. However, once the good has been placed on the market or put into circulation, they lose the right to control the further distribution or resale of that good due to the UK's exhaustion regime.

7.2 The UK's current exhaustion regime ensures that once a good has been legitimately placed on the market in either the UK or the European Economic Area ("EEA"), the relevant IP rights in that good are "exhausted" in the UK. After this, the rights holder cannot use their IP rights to control the distribution of the good (e.g., prevent the import of the good from the EEA into the UK). This principle does not apply to counterfeit goods or purely digital content. It also underpins the rules on the parallel importation of goods into the UK, which is the movement of genuine physical goods that are first sold outside of the UK, bought by secondary market actors, and imported into the UK's territory.

7.3 The UK's IP exhaustion regime relies on directly effective rights relating to the free movement of goods articles of the TFEU and the EEA Agreement, which were saved under section 4 of the Withdrawal Act, for its operation. These directly effective rights will fall away as the 2023 Act repeals section 4 of the Withdrawal Act (saving for rights, powers, liabilities etc under section 2(1) of the European Communities Act 1972) at the end of 2023.

7.4 The purpose of these Regulations is to ensure the continuity of the UK's exhaustion regime at the end of 2023 without any substantial changes to this policy area. These Regulations therefore do not affect the government's ability to amend the territorial extent of the UK's exhaustion regime in the future.

Explanations

What did any law do before the changes to be made by this instrument?

7.5 The Withdrawal Act provided legal certainty and continuity immediately after the withdrawal of the UK from the European Union (EU), by saving directly effective rights concerning the exhaustion of IP rights. This REUL saved the effect of directly enforceable rights that arose from the free movement of goods articles in the TFEU and EEA Agreement and in particular Article 34 and 36 of the TFEU. Without saving these rights, there would have been uncertainty as to whether the IP rights in a good that had been lawfully placed on the market, in the area specified under the UK's exhaustion regime, would have been considered "exhausted".

7.6 The REUL maintained the operation of the UK's exhaustion regime because it preserved two rights that underpin the exhaustion principle. Firstly, a rights holder cannot generally use their IP rights to prevent the parallel importation of a good from within the territorial scope of the UK's exhaustion regime, as it precluded a measure that has equivalent effect to a quantitative restriction (the right was derived from Article 34 TFEU). Secondly, that rights holders could, in specific circumstances, seek to prevent the parallel import of their goods into the UK, where such a prohibition or restriction was necessary to protect their industrial or commercial property, providing that this action did not constitute an arbitrary discrimination or a disguised restriction on trade (the right was derived from Article 36 TFEU). In the area of trade marks,

copyright, registered designs and supplementary unregistered designs these rights were subject to harmonisation or approximation by the EU.

Why is it being changed?

7.7 While the restatement of REUL will ensure that the UK's laws in relation to the exhaustion of IP rights better aligns with the UK's statute book, there is no material change to how the principle of exhaustion will operate in the UK.

What will it now do?

7.8 The amended intellectual property enactments will maintain the operation of the exhaustion principle in relation to registered trade marks, patents (and by extension supplementary protection certificates), copyright, and design rights within the UK. It also preserves the derogations to this principle that were available to rights holders, where appropriate, since the UK's withdrawal from the EU. There are no new grounds for the rights holder to prevent the parallel importation of goods from within the territorial scope of the UK's exhaustion regime.

8. European Union Withdrawal, Future Relationship, and REUL

8.1 These Regulations do not relate to withdrawal from the European Union or trigger the statement requirements under the European Union (Withdrawal) Act.

8.2 These Regulations do, however, relate to the reform of REUL under sections 11(1), 11(6), 13(2), 13(3), 13(6), 13(7), and 20(1)(b) powers of the 2023 Act. This is because it amends the intellectual property enactments by restating rights that are considered to be REUL in order to ensure legal certainty and mitigate any unintended consequences associated with the repeal of section 4 of the Withdrawal Act on 31 December 2023.

9. Consolidation

9.1 Not applicable.

10. Consultation outcome

10.1 Following the UK's withdrawal from the EU, the UK created a bespoke regional exhaustion regime where it applied the principle of exhaustion to goods that had been legitimately placed on the market in either the UK or EEA. This was done to give stability for businesses whilst a decision was being made on the UK's future exhaustion regime. The government ran a full consultation on options for the territorial scope of the UK's exhaustion regime. There were one hundred and fifty responses to the consultation, including from businesses, organisations, such as trade associations, and other private individuals. During the consultation period, the government also held meetings with interested parties. At the time of writing no decision has been made on the future regime.

10.2 Given that these Regulations preserve the current exhaustion regime while the government makes a decision on the UK's future exhaustion regime, there has not been a public consultation on the policy of these Regulations. However, officials from the Intellectual Property Office and the Department for Science, Innovation and Technology are continuing regular engagement with a range of stakeholders to understand their views regarding the exhaustion of rights.

11. Guidance

11.1 The government has no plans to publish guidance on the changes made by the Regulations because they are designed to provide continuity.

12. Impact

12.1 There is no significant impact on business, charities or voluntary bodies.

12.2 There is unlikely to be an impact on the public sector.

12.3 A full Impact Assessment has not been prepared for these Regulations because there are no net costs or benefits to industry from this decision. The Regulations will be continuing with the exhaustion regime that has been in place since 2021, meaning that businesses do not need to amend their contractual and licensing practices or operations concerning the parallel importation of goods into the UK.

13. Regulating small business

13.1 The legislation applies to activities that are undertaken by small businesses. Exhaustion of IP rights is relevant to anyone that owns an intellectual property right or trades in genuine physical goods. The impacts on small businesses are not expected to be significant as the Regulations replicate existing arrangements relating to the exhaustion of IP rights.

14. Monitoring & review

14.1 As these Regulations are made under the 2023 Act, no review clause is required.

15. Contact

15.1 Taffy Yiu at the Intellectual Property Office (email: ipexhaustion@ipo.gov.uk) can be contacted with any queries regarding these Regulations.

15.2 Jeff Lloyd, Director for Rights Policy & Enforcement, at the Intellectual Property Office can confirm that this Explanatory Memorandum meets the required standard.

15.3 Viscount Camrose at the Department for Science, Innovation and Technology can confirm that this Explanatory Memorandum meets the required standard.