Trade Mark Exhaustion after Brexit

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Brexit; EU law; Exhaustion of rights; Jurisprudence; Trade marks

This article analyses the impact of Brexit on trade mark exhaustion, as a paradigmatic case study of the conflicting interests surrounding the exhaustion of IP rights more generally. The doctrine of exhaustion relates to the restriction on the right holder's power to prevent the importation of goods by "exhausting" their IP rights on the first sale of the product under certain circumstances. Hitherto, the UK doctrine of exhaustion has been an EEA-wide concept. Particularly in the event of a no-deal Brexit, the question arises whether right holders will be able to control the importation of goods into the UK by the assertion of their IP rights. It is argued that, in the event of no agreement on trade mark exhaustion, the UK would be free to choose from three options: (1) regional exhaustion; (2) national exhaustion and (3) international exhaustion. However, any post-Brexit exhaustion scheme will need to balance the different interests of right holders, competitors, consumers and sector-specific market needs. It is suggested that this balancing task should be achieved by a doctrine of international ex-haustion softened by exceptions for situations in which the right holder has legitimate reasons to prevent parallel trade.

Introduction

When the UK leaves the European Union ("Brexit"), for the first time in the EU's history, a Member State will lose its membership. At the time of writing, the exact circumstances of Brexit remain unclear, and it seems impossible to predict its formalities and consequences.[1] For instance, in the event of a no-deal Brexit, the UK would lose not only its EU membership but also that of the European Economic Area (EEA).[2] Thus, questions arise concerning the future of the UK's position on international trade.

A particular question concerns the possibility to control the importation of goods into the UK by the assertion of intellectual property (IP) rights. Exhaustion has been designed as a nuanced response to the intersection of real property rights, intellectual property rights and overarching "free trade" principles.[3] If I sell you a fashionable pair of sunglasses, are you free to re-sell them, since they are your (moveable) property? Can I use my rights to the intangible branding on the sunglasses to restrict your options? Does it make a difference if I sell you the product in Hong Kong and you wish to re-sell it in the UK? Finally, how would coming down on either side of this question affect the operation of domestic, regional or international markets for such products? As a response to such commercial dilemmas the doctrine of exhaustion restricts the original right holder's ability to control downstream markets by "exhausting" IP rights on the first sale of the product, unless the right holders' legitimate interests would be meaningfully harmed by the subsequent re-sale.

Over the last decades, trade mark exhaustion has been characterised by a high degree of harmonisation that developed under the jurisprudence of the European Court of Justice (CJEU)[4] and subsequent legislation.[5] The scope of trade mark exhaustion defines whether trade mark owners can assert their rights to prevent the importation of goods which have been put on the market outside the UK, even where the goods are genuine and identical to those put on the market inside the UK (parallel import), yet, when the right holder did not consent to the import of these (grey goods).[6] Therefore, the concept of trade mark exhaustion is said to lie at the heart of regulating parallel trade.[7]

Hitherto, the UK doctrine of exhaustion has been an EEA-wide concept. Thus, goods put on the market in, inter alia, Spain, Germany or Norway could be legitimately re-sold in the UK and vice versa, which has facilitated the growth of a common market. For the time being the UK Government proposes a legislation framework that seeks to maintain this situation for a temporary period.[8] The European Union (Withdrawal)

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[1] The article was last revised by the author on 24 October 2019, 4pm GMT.

[2] This is recognised to follow from art.126 of the EEA Agreement: cf. *https://www.efta.int/About-EFTA/Frequently-asked-questions-EFTA-EEA-EFTA-membership-and-Brexit-328676* [Accessed 2 October 2019].

[3] On the development of exhaustion in Europe, see C. Stothers, *Parallel Trade in Europe* (Oxford: Hart, 2007), pp.40–44.

[4] In particular, *Silhouette International Schmied GmbH & Co KG v Hartlauer Handelsgesellschaft mbH* (C-355/96) EU:C:1998:374, [1999] Ch. 77; *Zino Davidoff SA v A & G Imports Ltd* (C-414/99) EU:C:2001:617, [2002] Ch. 109; see further subsection "The status quo ante: Trade mark exhaustion in the EEA" below.

[5] L. McDonagh and M. Mimler, "Intellectual Property Law and Brexit: A Retreat or a Reaffirmation of Jurisdiction?" in M. Dougan (ed.), *The UK after Brexit* (Cambridge: Intersentia, 2017), pp. 159, 162–163; comprehensively, see G. Dinwoodie "The Europeanization of Trade Mark Law" in A. Ohly and J. Pila (eds) *The Europeanization of Intellectual Property Law* (Oxford: Oxford University Press, 2013), pp.75–100, in particular on harmonisation and exhaustion at pp.82–83.

[6] Comprehensively on the phenomenon of parallel trade, see L.G. Grigoriadis, *Trade Marks and Free Trade* (Heidelberg: Springer, 2014) pp.3–13; C. Stothers, *Parallel Trade in Europe* (Oxford: Hart, 2007), pp.2–3; see also I. Avgoustis "Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?" (2012) 34 E.I.P.R. 108, 108–110; E. Bonadio, "Parallel imports in a global market: should a generalised international exhaustion be the next step?" (2011) 33 E.I.P.R. 153, 154–155.

[7] Grigoriadis, *Trade Marks and Free Trade* (2014), pp.63–64 argued that the doctrine of exhaustion was "the most effective basis" to regulate parallel imports.

[8] See *https://www.gov.uk/guidance/exhaustion-of-ip-rights-and-parallel-trade-after-brexit* [Accessed 24 October 2019].

Act 2018[9] ensures that EU based national law and EU legislation is retained as domestic law. As to the exhaustion of IP rights, the Intellectual Property (Exhaustion of Rights) (EU Exit) Regulations 2019 No.265[10] aim at maintaining an EEA-wide exhaustion scheme when it comes to the importation into the UK of goods put on the market outside the UK by right holders or with their consent. However, this is not the end of the story. The Intellectual Property Office (IPO) is conducting research in order to assess which exhaustion regime to choose following Brexit. An important first step in the search for the UK's future position on IP rights exhaustion is the IPO's feasibility study published in June 2019.[11] Its main issue was not to suggest a particular exhaustion regime but to evaluate possibilities and future research methodologies to estimate the scale of parallel trade.[12] To do so, the study has a broad coverage in two ways.[13] First, it includes a variety of industry sectors. Secondly, it includes a variety of IP rights. On the one hand, this broad approach highlights the importance of the question of exhaustion more generally. In particular, the feasibility study emphasises the overall lack of reliable data on parallel trade.[14] On the other hand, the different IP rights vary in nature and subject-matter. Thus, they potentially demand different solutions to the question of exhaustion.

Therefore, this article will focus on trade mark exhaustion, as a paradigmatic case study of the conflicting interests surrounding IP rights exhaustion more generally. It will propose that, in absence of an agreement on trade mark exhaustion,[15] the UK should expand the concept of exhaustion by adopting a doctrine of international exhaustion, while simultaneously providing for safeguards for right holders to protect their legitimate reasons to oppose further dealings in goods bearing their mark. The argument will be presented in two steps: first, possible solutions to trade mark exhaustion will be outlined and analysed, providing a menu of options for the UK to choose from (in the second section). Secondly, normative arguments in favour of international exhaustion will be evaluated to address the question of which solution the UK should choose (in the third section). The latter question has special significance because Brexit is likely to revive a debate on exhaustion,[16] notwithstanding the fact that this debate itself was said to be "exhausted" in Europe prior to the Brexit vote.[17]

What solutions can the UK adopt?

To begin with, there are three possible long-term scenarios for trade mark exhaustion: (1) maintaining an EEA-wide regional exhaustion regime; (2) narrowing the current concept by adopting a doctrine of national exhaustion; or (3) broadening the current concept by choosing a doctrine of international exhaustion.

Regional exhaustion

The current solution to trade mark exhaustion is a regional exhaustion scheme. In this scenario, IP rights are exhausted in goods which were put on the market in a defined region (hitherto, the EEA) by the right holder or with their consent. However, right holders can assert their rights to prevent parallel imports from outside the region, even if the goods were genuine and identical to those put on the market inside the relevant region. In the following analysis, the status quo ante will be presented briefly, before evaluating the current governmental solution of unreciprocated regional exhaustion in the event of a no-deal Brexit.

The status quo ante—trade mark exhaustion in the EEA

The previous doctrine of regional exhaustion has decisively been formed by CJEU case law. In accordance with art.65(2) of the EEA Agreement and art.2 of Protocol 28 of the EEA Agreement, the regional exhaustion scheme applies to the region of the EEA. Whereas in the beginning the Member States provided for different exhaustion regimes, it is now a fully harmonised concept. This was first recognised in the CJEU decision *Silhouette*.[18] In *Silhouette*, the CJEU held that the rules governing trade mark rights and their exhaustion aim at full harmonisation to guarantee the free movement of goods.[19] Hence, Member States are not allowed to deviate from the EEA-wide regional exhaustion scheme to

[9] See *http://www.legislation.gov.uk/ukpga/2018/16/contents/enacted* [Accessed 2 October 2019].
[10] See *http://www.legislation.gov.uk/uksi/2019/265/contents/made* [Accessed 2 October 2019].
[11] "Exhaustion of intellectual property rights: a feasibility study", Report by Ernst & Young, commissioned by the IPO (June 2019), *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/808871/Exhaustion-of-intellectual-property-rights.pdf* [Accessed 2 October 2019], using a threefold method: (1) a review of literature; (2) a telephone survey; (3) stakeholder interviews.
[12] Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), pp.1, 5.
[13] Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), p.5.
[14] Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), pp. 8, 19, 29, 31.
[15] Even if the negotiated Withdrawal Agreement comes into force, the question of IP rights exhaustion will only be postponed until the end of the transition period. See art.61, *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840655/Agreement_on_the_withdrawal_of_the_United_Kingdom_of_Great_Britain_and_Northern_Ireland_from_the_European_Union_and_the_European_Atomic_Energy_Community.pdf* [Accessed 24 October 2019]. Additionally, the new Political Declaration on the framework of the future relationship between the EU and the UK stresses at [44] that "(t)he Parties should maintain the freedom to establish their own regimes for the exhaustion of intellectual property rights." See *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840656/Political_Declaration_setting_out_the_framework_for_the_future_relationship_between_the_European_Union_and_the_United_Kingdom.pdf* [Accessed 24 October 2019].
[16] L. McDonagh and M. Mimler, "Intellectual Property Law and Brexit" in *The UK after Brexit* (2017), pp.178–179; L. Bently, B. Sherman, D. Gangjee and P. Johnson, *Intellectual Property Law*, 5th edn (Oxford: Oxford University Press, 2018) pp.1163–1164.
[17] A. Zappalaglio "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU: How to Achieve Symmetry" (2015) 5 Queen Mary J. Intell. Prop. 68, 79; but see C. Stothers, *Parallel Trade in Europe* (Oxford: Hart, 2007), p.vii, claiming in his preface that the European debate on parallel trade was "far from over".
[18] *Silhouette International Schmied GmbH & Co KG v Hartlauer Handelsgesellschaft mbH* (C-355/96) EU:C:1998:374; [1999] Ch. 77.
[19] *Silhouette v Hartlauer Handelsgesellschaft* (C-355/96) EU:C:1998:374; [1999] Ch. 77 at [25] and [27].

provide for an international exhaustion of trade marks,[20] except by entering into international agreements.[21] Moreover, Member States are likewise not allowed to provide for national exhaustion schemes, as this would be a prohibited measure of having an equal effect to quantitative restrictions on imports, pursuant to art.34 TFEU.[22] Consequently, under EU law, a trade mark is exhausted, when the goods were put on the EEA market by the right holder or with their consent. However, even if these prerequisites are fulfilled, a trade mark is not exhausted, if there are legitimate reasons of the trade mark owner to prevent importation and further dealings in goods bearing the mark.[23] Additionally, this line of CJEU jurisprudence is mirrored in respective legislation.[24]

The current status, if there is no deal—unreciprocated regional exhaustion

For the time being the UK Government proposes to maintain this status quo as far as possible. Pursuant to provision 5 of the Intellectual Property (Exhaustion of Rights) (EU Exit) Regulations 2019 No.265, s.12 (1) TMA will be reformulated.[25] However, the current governmental solution can only provide for an unreciprocated regional exhaustion of IP rights.[26] Consequently, the amended s.12 TMA provision still recognises the regional exhaustion of goods put on the market outside the UK but within the EEA. Nonetheless, it cannot ensure a reciprocal recognition of exhaustion of rights in goods exported from the UK into other EEA countries.[27] Thus, it must be kept in mind that the complete status quo ante cannot be maintained without any bilateral agreement.

Furthermore, the implementation of a principle of unreciprocated regional exhaustion must be scrutinised from the perspective of international trade law, such as the World Trade Organization (WTO) and GATT[28] rules.[29] Particularly art.3 and art.4 TRIPS,[30] each aiming at non-discriminatory international trade, could impose hurdles on the WTO members' discretion on exhaustion in accordance with art.6 TRIPS. On the one hand, some authors argue that international exhaustion alone should be able to satisfy WTO principles and achieve the objective of non-discriminatory free trade.[31] On the other hand, it is suggested that arts 3 and 4 TRIPS are no suitable basis to object a regional exhaustion regime, because their objective to prevent discrimination on the basis of the right holders' nationality, as opposed to the goods' origins, needs to be taken into account.[32] Moreover, the explicit disagreement of the TRIPS members on a common exhaustion scheme seems to favour a viewpoint that leaves the question of which solution to choose open to discretion.[33] Nonetheless, the current unreciprocated approach is at least problematic, because it could be considered a discrimination of parallel imports by traders from outside the EU.[34] Thus, even if arguments against the compatibility with international trade law should be rejected, frictions remain.

Another friction is caused by art.6 of European Union (Withdrawal) Act 2018, ensuring that future CJEU case law is no longer binding for UK courts. Consequently, if there is no Brexit deal, the current status will allow parallel imports of goods within the limits of s.12 TMA from EEA countries, without being directly bound to future CJEU jurisprudence on the interpretation of thus-far harmonised concepts. The current approach of unreciprocated regional exhaustion therefore creates an imbalance between allowing parallel imports only from the EEA, on the one hand, and rejecting control mechanisms by the CJEU, on the other hand.

Consequently, in the longer term, a regional exhaustion regime should be based on bilateral agreements rather than unilateral legislation.

[20] *Silhouette v Hartlauer Handelsgesellschaft* (C-355/96) EU:1998:374; [1999] Ch. 77 at [26].
[21] *Silhouette v Hartlauer Handelsgesellschaft* (C-355/96) EU:C:1998:374; [1999] Ch. 77 at [30].
[22] See already *Consten Sàrl v Commission* (56/64) EU:C:1966:41; [1966] C.M.L.R. 418.
[23] See subsection "Balancing the interests" below.
[24] UMV art.15 (formerly art.13 GMV) and art.15 TMD (EU) 2015/2436, and formerly art.7 TMD 2008/95, implemented by s.12 TMA.
[25] "A registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market in *the United Kingdom or* the European Economic Area under that trade mark by the proprietor or with his consent." (Emphasis added.)
[26] Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), p.4; see also M. Taddia, "On your marks" (5 November 2018), *Law Society Gazette*, *https://www.lawgazette.co.uk/features/on-your-marks/5068174.article* [Accessed 2 October 2019].
[27] Especially, if the remaining EU27 states continue to apply a strict regional exhaustion regime: see T. Cook, "'BREXIT' and Intellectual Property Protection in the UK and in the EU" (2016) 21 J. Intell. Prop. Rts 355, 358.
[28] General Agreement on Tariffs and Trade 1947.
[29] For example, Bonadio, "Parallel imports in a global market" (2011) 33 E.I.P.R. 153; T. Cottier "The Exhaustion of Intellectual Property Rights – A Fresh Look" (2008) 39 I.I.C. 755, 756; S.K. Verma "Exhaustion of Intellectual Property Rights and Free Trade" (1998) 29 I.I.C. 534; comprehensively Grigoriadis, *Trade Marks and Free Trade* (2014) pp.75–125.
[30] Agreement on Trade-Related Aspects of Intellectual Property Rights.
[31] For example, E. Bonadio, "Parallel imports in a global market" (2011) 33 E.I.P.R. 153; Avgoustis, "Parallel imports and exhaustion of trade mark rights" (2012) 34 E.I.P.R. 108, 118; S.K. Verma "Exhaustion of Intellectual Property Rights and Free Trade" (1998) 29 I.I.C. 534.
[32] Grigoriadis, *Trade Marks and Free Trade* (2014), pp.94–95, 99.
[33] cf. Grigoriadis, *Trade Marks and Free Trade* (2014), pp.87, 99; M. Mimler "The Effect of Brexit on Trademarks, Designs and Other 'Europeanized' Areas of Intellectual Property Law in the United Kingdom", *Brexit: The International Legal Implications, Paper No.7* (December 2017), p.11.
[34] See the advisory opinion for the Swiss Federal Institute of IP on the change from national exhaustion of patents towards a unilateral regional exhaustion and its compatibility with WTO law: T. Cottier and R. Liechti, "Ist die einseitig statuierte regional Erschöpfung im schweizerischen Patentrecht mit dem WTO-Recht vereinbar?" in A. Epiney and T. Civitella (eds), *Schweizerisches Handbuch für Europarecht/Annuaire Suisse de Droit Européen* (Zurich/Berne: 2007/2008), *https://www.ige.ch/fileadmin/user_upload/andere/Juristische_Infos/d/j10071d.pdf* [Accessed 2 October 2019]; see also P. Groz and A. Mondini, "Switzerland: New Developments in Swiss Patent Law" in F.M. Abbott, T. Cottier and F. Gurry (eds), *International Intellectual Property in an Integrated World Economy* (Alphen aan den Rijn: Wolters Kluwer, 2019), p.262. Nonetheless, a regional exhaustion scheme was introduced in 2009, even if subject to exceptions, cf. Groz and Mondini "Switzerland" in *International Intellectual Property in an Integrated World Economy* (2019), pp.260–261.

National exhaustion

A second solution to trade mark exhaustion could consist in departing from regional exhaustion by implementing a doctrine of national exhaustion. In this scenario, goods put on any market outside the UK—no matter where, and even if by the right holder or with their consent, could not be imported into the UK without the permission of the trade mark owner. Exhaustion would only take place in relation to goods put on the UK market. Thus, national exhaustion would prevent parallel imports on a maximum level.[35] Some authors argue that such an exhaustion scheme would hinder free trade, and thus be inconsistent with WTO principles.[36] However, a doctrine of national exhaustion would not be contrary to the non-discrimination rules (arts 3 and 4 TRIPS).[37] Consequently, if there is no Brexit deal, the UK would be free to adopt a national exhaustion regime.

International exhaustion

Thirdly, the UK could expand the current principle of regional exhaustion by returning to a doctrine of international exhaustion.[38] In this scenario, IP rights would generally be exhausted if the goods were put on the market anywhere by the right holder or with their consent. Such a doctrine of international exhaustion would not discriminate between EEA members and non-EEA countries. Hence, the UK would be able to choose a doctrine of international exhaustion in the future.

What solution should the UK adopt?

Against the background of the above-outlined threefold menu of options, this article will now turn to the question what option the UK should choose in the longer term. This article proposes a soft doctrine of international exhaustion that effectively balances the different interests of right holders, competitors, consumers and sector-specific market needs. Such a doctrine should start from the general recognition of international exhaustion, but provide for exceptions, inter alia, when the right holder has legitimate reasons to prevent parallel trade or if market realities require specific regulation.[39] This argument will be analysed from five different perspectives: (1) legal policy; (2) economic aspects; (3) comparative observations; (4) trade mark functions; and (5) the need to balance different interests.

Legal policy

First of all, the question of which solution to trade mark exhaustion the UK should adopt post-Brexit in the longer term is a question of legal and industrial policy.[40]

As to regional exhaustion, the current governmental approach to maintain the status quo ante should be praised for facing trade realities that would otherwise need to change over-night. It attempts to avoid practical difficulties to distinguish goods put on the market within the EEA before and after the relevant date.[41] Moreover, the IPO feasibility study reveals that stakeholders tend to favour continuity in the exhaustion regimes.[42] Yet, as outlined above, the current EEA-wide exhaustion regime can only be maintained unreciprocated.[43] Retaining the complete status quo ante would require some sort of agreement between the UK and the EU. Nonetheless, the so-called "Norwegian model", which would ensure access to the single market in exchange for financial contributions and the acceptance of EU regulations, seemed unlikely to happen subsequent to a no-deal scenario.[44] However, frictions with international trade law[45] raise questions with regard to the signals that an unreciprocated regional exhaustion could send, even if it is sound for reasons of practicability and stability in the days after Brexit.

As to national exhaustion, reducing the region of exhaustion to the UK would signal a change in legal policy. By banning parallel imports, a doctrine of national exhaustion would signal a strong protection of domestic right holders. Moreover, small and medium-sized enterprises from elsewhere, seeking to develop an international distribution network, could benefit from a decrease in competing parallel trade. Nonetheless, a doctrine of national exhaustion would also signal a decrease in intra-brand competition within the UK and an increase of protectionism. Overall, it appears questionable whether a national exhaustion regime shielding the domestic market would send the desired signals to potential future trade partners.

[35] See, for example, Zappalaglio, "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU" (2015) 5 Queen Mary J. Intell. Prop. 68, 69.
[36] For example, Bonadio, "Parallel imports in a global market" (2011) 33 E.I.P.R. 153, 158–159.
[37] Grigoriadis, *Trade Marks and Free Trade* (2014) p.95.
[38] Cook, "'BREXIT' and Intellectual Property Protection in the UK and in the EU" (2016) 21 J. Intell. Prop. Rts 355, 358; see also Mimler "The Effect of Brexit on Trademarks, Designs and Other 'Europeanized' Areas of Intellectual Property Law in the United Kingdom" (December 2017), p.11; K. O'Rourke and O. Gray, "Brexit: changes ahead for exhaustion of rights" (4 August 2017), *https://www.worldipreview.com/contributed-article/brexit-changes-ahead-for-exhaustion-of-rights* [Accessed 2 October 2019].
[39] A similar approach was suggested by Avgoustis, "Parallel imports and exhaustion of trade mark rights" (2012) 34 E.I.P.R. 108, 121.
[40] See *Kerly's Law of Trade Marks and Trade Names*, 16th edn, edited by J. Mellor et al. (London: Sweet & Maxwell, 2018), paras 4–013, 18-004, arguing that the UK would be free to choose its policy on trade mark exhaustion; see also M. Mimler "The Effect of Brexit on Trademarks, Designs and Other 'Europeanized' Areas of Intellectual Property Law in the United Kingdom" (December 2017), p.11; O'Rourke and Gray, "Brexit: changes ahead for exhaustion of rights" (4 August 2017), *https://www.worldipreview.com/contributed-article/brexit-changes-ahead-for-exhaustion-of-rights* [Accessed 2 October 2019].
[41] See I. Fhima, "Brexit: EU27 Position Paper on Intellectual Property" (2018) 13 J.I.P.L.P. 98, 99.
[42] Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), pp.25, 30.
[43] See section "The current status, if there is no deal" above.
[44] O'Rourke and Gray, "Brexit: changes ahead for exhaustion of rights" (4 August 2017), *https://www.worldipreview.com/contributed-article/brexit-changes-ahead-for-exhaustion-of-rights* [Accessed 2 October 2019].
[45] See subsection "The current status, if there is no deal" above.

By contrast, international exhaustion is said to "strengthen the bonds between the world's nations".[46] Thus, the UK Government could signal a change from pre-Brexit regional exhaustion to a broader concept that keeps the market open for parallel importers from the EEA, but also opens it for parallel imports from other countries. Provided that there are sufficient safeguards for right holders to prevent harsh outcomes, an international exhaustion scheme could signal openness to effective and fair competition. Sufficient safeguards to protect the right holders' legitimate interests in protecting their trade mark are inevitable. In particular, the IPO's feasibility study revealed a general concern of stakeholders against international exhaustion.[47] Yet, it is not obvious whether the study's stakeholder interviews included any exceptions to the exhaustion doctrine, such as currently stated in s.12(2) TMA protecting the trade mark owner's legitimate reasons to object further dealings in the goods.[48] Similarly, international exhaustion should not be a rigid rule but rather balance the different interests at stake effectively.[49] Hence, it may neither ignore interests of trade mark owners to protect their IP right nor ignore market interests in free trade. Furthermore, it is argued that domestic consumers could benefit from this competition.[50] Consequently, a long-term change towards international exhaustion could signal a competition-friendly market open to the world.

Economic aspects

An economic perspective could favour international exhaustion. A standard picture that is outlined by many authors is the following[51]: by allowing parallel imports, traders can purchase genuine goods that were legitimately put on another market for lower prices, import them and re-sell them in the UK. In assuming that parallel imports would only take place if there were incentives for parallel importers, the goods would be resold in the UK for lower prices as long as a sufficient profit margin remained. Consequently, there would be an increase in competition for genuine goods. Thus, consumers could benefit from decreased prices and a larger supply of identical goods. The right holders' interest would be protected by the first time the goods are put on a market.

However, this theoretical viewpoint can represent reality only imperfectly. Indeed, a research report issued by the European Commission shortly before the turn of the millennium did not prove significant long-term benefits of international exhaustion.[52] Furthermore, the thesis that a broad recognition of parallel trade would benefit global socioeconomic welfare was recently criticised as "dubious".[53] By contrast, a doctrine of national exhaustion could incentivise brand owners to set up an official distribution chain in the UK by strengthening their power to negotiate exclusive distribution agreements.

Nonetheless, economic arguments against international exhaustion have two weak points. First, sector-specific concerns should not suffice to reject an international exhaustion regime per se but sensitise for specific needs. Secondly, the often-cited EU research project lies two decades in the past. Hence, new research should be conducted for a revived discussion.[54] The IPO feasibility study is an important step in starting an open-minded debate. Most importantly, it highlights the complexity of parallel trade and the need for further research.[55] Additionally, it identifies several "key drivers" of parallel trade, particularly price differentials.[56]

Comparative observations

The UK could seek inspiration from comparative observations when deciding on long-term solutions to exhaustion post-Brexit. This article will briefly present two globalised approaches to trade mark exhaustion: the international doctrine in Switzerland and the flexible US approach.

For instance, the Swiss Federal Court (Bundesgericht) introduced a doctrine of international trade mark exhaustion already in 1996.[57] This approach is said to be consistent with the origin function of trade marks and the policy objective of liberal trade.[58] Hence, the Swiss

[46] Avgoustis, "Parallel imports and exhaustion of trade mark rights" (2012) 34 E.I.P.R. 108, 118; similarly, Bonadio, "Parallel imports in a global market" (2011) 33 E.I.P.R. 153, 155.
[47] Ernst & Young. "Exhaustion of intellectual property rights: a feasibility study" (June 2019), pp.25–30.
[48] TMA s.12(2) states that IP rights do not exhaust "where there exist *legitimate reasons for the proprietor to oppose further dealings* in the goods (in particular, where the condition of the goods has been changed or impaired after they have been put on the market)". (Emphasis added.)
[49] See subsection "Balancing the interests" below.
[50] O'Rourke and Gray, "Brexit: changes ahead for exhaustion of rights" (4 August 2017), *https://www.worldipreview.com/contributed-article/brexit-changes-ahead-for-exhaustion-of-rights* [Accessed 2 October 2019].
[51] For example, Avgoustis, "Parallel imports and exhaustion of trade mark rights" (2012) 34 E.I.P.R. 108, 109, 118; for a critical analysis see Grigoriadis, *Trade Marks and Free Trade* (2014), pp.21–28.
[52] NERA, S.J. Berwin and IFF Research "The Economic Consequences of the Choice of Regime of Exhaustion in the Era of Trade Marks" (London: 1999); for a summary of the EU research, see Zappalaglio, "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU" (2015) 5 Queen Mary J. Intell. Prop. 68, 80–81; Stothers, *Parallel Trade in Europe* (2007), pp.361–368.
[53] Grigoriadis, *Trade Marks and Free Trade* (2014), pp.27–28, 65.
[54] Zappalaglio, "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU" (2015) 5 Queen Mary J. Intell. Prop. 68, 81.
[55] Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), pp. 31–43.
[56] Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), pp. 8–10.
[57] *Chanel v Epa* BGE 122 III 469.
[58] Grigoriadis, *Trade Marks and Free Trade* (2014), p.454.

example shows how a non-EEA country in the middle of Europe takes an international approach to the exhaustion of trade marks.

A second example for a more flexible approach is the doctrine of exhaustion in the US.[59] Even if US trade mark law recognises a territorial approach to the scope of trade mark protection,[60] it embraces some sort of a "first sale doctrine".[61] For instance, trade mark rights are exhausted, and thus parallel imports admissible, if the foreign manufacturer and the US trade mark owner are "subject to common control".[62] This principle is counterbalanced by a "material quality differences exception" prohibiting parallel imports if the respective products are "materially different".[63] Hence, the US example shows how a doctrine of exhaustion can provide flexibility to balance the interests of trade mark owners and international trade.

This article suggests a similar approach: the starting point should be a doctrine of international exhaustion. However, this principle should be softened by providing for exceptions to protect the legitimate reasons of trade mark owners to prevent parallel importation pursuant to s.12 (2) TMA.

Trade mark functions

Before elaborating on the balancing task of any exhaustion principle, this article needs to address a further and central concern of a future solution to trade mark exhaustion: the role and protection of trade mark functions.[64] Whereas a broad doctrine of international exhaustion would reduce the scope of protection for trade mark owners, a broad enforcement of the intellectual property right against parallel imports could affect inter-state trade. Hence, it is essential to define the functions of the relevant intellectual property rights when justifying the scope of exhaustion and enforcement.[65]

To begin with, the "essential function" of trade marks is to "guarantee to consumers the origin of the goods".[66] However, where imported goods are genuine and identical, meaning that they are legitimately available on the market in country A and of the same quality as goods put on the market inside country B, the origin function would generally not be meaningfully affected by importing these grey goods from country A into country B.[67]

Moreover, trade mark functions are not restricted to be an origin indicator.[68] The CJEU ruling in *L'Oréal v Bellure*[69] especially has broadened the scope of functions theory. According to the CJEU, trade mark functions include

> "other functions, in particular that of guaranteeing the quality of the goods and services in question and those of communication, investment or advertising".[70]

Hence, the question arises whether it can still be assumed that "this additional protection does not justify a general ban on parallel imports"[71] post-*L'Oréal*, because a broad recognition of international exhaustion is said to increase the risk of "free riding". By allowing parallel importation, unauthorised sellers can purchase goods put on the market by the right holder or with their consent outside the UK and import them into the UK. Thus, the right holder could argue that the unauthorised seller uses the established goodwill and threatens their investments and product strategies.[72]

Subsequent to *L'Oréal*, various criticisms have been arisen in the academic literature[73] but also in the UK courts.[74] For example, in the Court of Appeal decision on *L'Oréal*, Jacob LJ stated that further functions "divorced from the origin function" were "vague and ill-defined".[75] Overall, the main criticism concerns the unpredictability and uncertainty of the CJEU function theory following

[59] For a comprehensive account of trade mark exhaustion in the US, see Zappalaglio "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU" (2015) 5 Queen Mary J. Intell. Prop. 68; Avgoustis, "Parallel imports and exhaustion of trade mark rights" (2012) 24 E.I.P.R. 108, 115–117; Grigoriadis, *Trade Marks and Free Trade* (2014), pp. 429–451.
[60] See *A. Bourjois & Co v Katzel*, 260 U.S. 689 (1923).
[61] cf. Zappalaglio "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU" (2015) 5 Queen Mary J. Intell. Prop. 68, 70, speaking of a "modern concept of first sale doctrine"; Grigoriadis, *Trade Marks and Free Trade* (2014), pp.450–451.
[62] See *K Mart Corp v Cartier Inc*, 486 U.S. 281 (1988).
[63] See, for example, the leading case *Lever Bros Co v United States*, 981 F. 2d 1330 (DC Cir. 1993), concerning the importation of soaps from the UK into the US under the trade mark SHIELD varying, inter alia, in smell, colorants and other characteristics specifically manufactured for the different markets; see also *Société des Produits Nestlé SA v Casa Helvetia Inc*, 982 F. 2d 633 (1st Cir. 1992); *Original Appalachian Artworks v Granada Electronics*, 816 F. 2d 68, 73 (2d Cir. 1987).
[64] For a recent case on parallel imports into the EEA and trade mark functions, see *Mitsubishi Shoji Kaisha Ltd and Mitsubishi Caterpillar Forklift Europe BV v Duma Forklifts NV and G.S. International BVBA* (C-129/17) EU:C:2018:594, [2018] Bus. L.R. 2405; for a critical analysis, especially concerning the limits of legal harmonisation, see A. Kur, "Trademark Functions in European Union Law" (24 July 2019), *Max Planck Institute for Innovation & Competition Research Paper* No.19-06, SSRN, *https://ssrn.com/abstract=3425839* [Accessed 2 October 2019].
[65] *Kerly's Law of Trade Marks and Trade Names* (2018), para.18-038.
[66] *L'Oréal SA v Bellure NV* (C-487/07) EU:C:2009:378, [2010] Bus. L.R. 303 at [58]; *Adam Opel AG v Autec AG* (C-48/05) EU:C:2007:55, [2007] E.T.M.R. 33 at [21]; *Arsenal Football Club Plc v Reed* (C-206/01) EU:C:2002:651, [2003] Ch. 454 at [48].
[67] Grigoriadis, *Trade Marks and Free Trade* (2014), p 40; but see for an exception the repacking cases such as *Bristol-Myers Squibb v Paranova A/S* (C-427/93) EU:C:1996:282, [2003] Ch. 75.
[68] Prominently, F.I. Schechter "The Rational Basis of Trademark Protection" (1927) 40 Harv. L. Rev. 813.
[69] *L'Oréal v Bellure* (C-487/07) EU:C:2009:378; [2010] Bus. L.R. 303.
[70] *L'Oréal v Bellure NV* (C-487/07) EU:C:2009:378; [2010] Bus. L.R. 303 at [58].
[71] A. Ohly "Trade Marks and Parallel Importation – Recent Developments in European Law" (1999) 30 I.I.C. 512, 524.
[72] Grigoriadis, *Trade Marks and Free Trade* (2014), pp.30–32; Avgoustis, "Parallel imports and exhaustion of trade mark rights" (2012) 34 E.I.P.R. 108, 119; Zappalaglio, "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU" (2015) 5 Queen Mary J. Intell. Prop. 68, 77. Even if these authors see the "free riding" argument against parallel imports critically. But see *Mitsubishi Shoji Kaisha Ltd v Duma Forklifts NV* (C-129/17) EU:C:2018:594, [2018] Bus. L.R. 2405 at [46] and [47]; critically Kur, "Trademark Functions in European Union Law" (24 July 2019), pp.20–22, *SSRN*, *https://ssrn.com/abstract=3425839* [Accessed 2 October 2019].
[73] See D. Gangjee and R. Burrell, "Because You're Worth It" (2010) 73 Mod. Law Rev. 282; G. Wurtenberger, "L'Oréal v Bellure: An Opinion" (2010) 5 J.I.P.L.P. 746.
[74] Especially *L'Oréal SA v Bellure NV* [2010] EWCA Civ 535; [2010] R.P.C. 23.
[75] *L'Oréal SA v Bellure NV* [2010] EWCA Civ 535; [2010] R.P.C. 23 at [30].

L'Oréal.[76] As the current approach to functions and exhaustion has been a matter of EU policy against international exhaustion,[77] such criticism could be re-examined in post-Brexit decisions concerning the scope of exhaustion.

Nonetheless, such a re-examination of trade mark functions should not ignore other functions entirely. Legitimate interests of trade mark owners to object parallel imports should be considered. Yet, these legitimate interests can relate to the importation of goods put on the market within the EEA and within other countries likewise. Thus, a doctrine of international exhaustion seems compatible with a protection of further (to be defined) trade mark functions, as long as it is a soft doctrine providing for means to balance the different interests.

Balancing the interests

Finally, this article can address the complex balancing task that every future solution to exhaustion is facing.[78] The main competing interests are the right holders' interests in protecting their trade mark and the market interest in fair and free competition. On the one hand, a too general doctrine of international exhaustion could create practical difficulties to differentiate between genuine goods and counterfeit goods, thereby weakening the trade mark owner's right.[79] On the other hand, a too broad doctrine of national (or even regional) exhaustion could create unduly broad monopoly rights in distributing goods.[80] Consequently, any solution to the question whether trade mark owners should be allowed to prevent the importation into the UK of goods put on the market outside the UK by them or with their consent needs to balance the different interests effectively. Some authors have argued from a comparative perspective to transplant US doctrines, such as a "common control principle" or a "material quality differences rule".[81] However, the current law itself provides for balancing tools. Namely s.12(2) TMA ensures that trade mark rights do not exhaust "where there exist legitimate reasons of the proprietor to oppose further dealings in the goods."

Of course, the concept of "legitimate reasons" needs further definition. Hitherto, the CJEU has provided guidance on the interpretation of the requirement pursuant to art.7(2) TMD 2008 (now art.15(2) TMD 2015). For instance, the CJEU outlined criteria which allow a parallel importer to repackage the genuine and identical goods,[82] or circumstances in which the owner of a luxury brand could prevent the importation of grey goods, even within the EEA, to protect their trade mark's reputation.[83]

Following Brexit, future CJEU jurisprudence will no longer be binding upon the UK.[84] Nevertheless, the doctrine of "legitimate reasons" should not be abandoned but further defined and adjusted to a doctrine of international exhaustion. While it is necessary to provide for a certain and predictable doctrine of exhaustion on the one hand,[85] the rules of exhaustion must be flexible enough to deal with sector-specific needs on the other.[86]

Conclusion

Undoubtedly, the time after Brexit will entail many difficult decisions. As to the question which path the UK should choose when deciding on the possibility to prevent the importation of goods into the UK by asserting trade mark rights, three different roads would be passable: regional, national or international exhaustion. However, any solution needs to balance the different interests at stake effectively. A proposed soft doctrine of international exhaustion would achieve this balancing task by signalling a competition-friendly market open to the world but safeguarding the right holders' legitimate reasons. In other words, this article suggests a long-term solution to trade mark exhaustion post-Brexit that is not a black-and-white approach but considers different shades of grey goods.

[76] See M. Senftleben, "Function Theory and International Exhaustion" (2014) 36 E.I.P.R. 518.
[77] On a critical analysis of the CJEU function theory and its relation to trade mark exhaustion see Senftleben, "Function Theory and International Exhaustion" (2014) 36 E.I.P.R. 518; A. Kur, "Trade Marks Function, Don't They?" (2014) 45 I.I.C. 434, 439–441; Kur "Trademark Functions in European Union Law" (24 July 2019), *SSRN*, *https://ssrn.com/abstract=3425839* [Accessed 2 October 2019].
[78] See Bonadio "Parallel imports in a global market" (2011) 33 E.I.P.R. 153.
[79] Bently et al. (eds), *Intellectual Property Law* (2018), p.1147.
[80] cf. Avgoustis "Parallel imports and exhaustion of trade mark rights" (2012) 34 E.I.P.R. 108, 117; Bonadio "Parallel imports in a global market:" (2011) 33 E.I.P.R. 153, 156 on a "ban in circulation of original goods".
[81] Zappalaglio "International Exhaustion of Trade Marks and Parallel Imports in the US and the EU" (2015) 5 Queen Mary J. Intell. Prop. 68, 75, 78–79, 86; Avgoustis "Parallel imports and exhaustion of trade mark rights" (2012) 34 E.I.P.R. 108, 120–121.
[82] *Bristol-Myers Squibb v Paranova* (C-427/93) EU:C:1996:282; [2003] Ch. 75.
[83] *Parfums Christian Dior v Evora BV* (C-337/95) EU:C:1997:517; [1998] 1 C.M.L.R. 737.
[84] European Union (Withdrawal) Act 2018 art.6.
[85] *Kerly's Law of Trade Marks and Trade Names*, 16th edn, edited by J. Mellor et.al. (London: Sweet & Maxwell, 2018), para.18-002, stating that a deeper understanding of trade mark functions is necessary to understand trade mark exhaustion.
[86] Cottier, "The Exhaustion of Intellectual Property Rights" (2008) 39 I.I.C. 755, 757; for a detailed table on sector-specific interests see K. O'Rourke and O. Gray, "Brexit: changes ahead for exhaustion of rights"(4 August 2017), *https://www.worldipreview.com/contributed-article/brexit-changes-ahead-for-exhaustion-of-rights* [Accessed 2 October 2019]; see also the results of the IPO study's stakeholder interviews, Ernst & Young, "Exhaustion of intellectual property rights: a feasibility study" (June 2019), pp.26–30.