



Law Society
of Scotland

Briefing

The impact of UK withdrawal from the EU in the area
of intellectual property law

May 2018



Introduction

The Law Society of Scotland is the professional body for over 11,000 Scottish solicitors. With our overarching objective of leading legal excellence, we strive to excel and to be a world-class professional body, understanding and serving the needs of our members and the public. We set and uphold standards to ensure the provision of excellent legal services and ensure the public can have confidence in Scotland's solicitor profession.

We have a statutory duty to work in the public interest, a duty which we are strongly committed to achieving through our work to promote a strong, varied and effective solicitor profession working in the interests of the public and protecting and promoting the rule of law. We seek to influence the creation of a fairer and more just society through our active engagement with the Scottish and United Kingdom Governments, Parliaments, wider stakeholders and our membership.

The Society's Intellectual Property Law Sub-committee has considered the impact of the United Kingdom's (UK) withdrawal from the European Union (EU) in the area of intellectual property (IP) and has the following comments to put forward.

We have identified three key areas for particular consideration in the context of this briefing:

- 1) Rules safeguarding the authenticity of regional and traditional products
- 2) The effect of Brexit on the operation of the principle of exhaustion of rights
- 3) Continued UK participation in the UPC Agreement

Withdrawal from the EU will, of course, have an impact in other areas of IP law. We offer a brief summary of the likely effect in these additional areas below.

Rules safeguarding the authenticity of regional and traditional products

The EU has created a set of rules which safeguard the authenticity of regional and traditional products. These benefit producers in particular regions, or who manufacture products with a traditional character,¹ by offering specific protection to those products through the right to use a particular designation of origin, geographic indicator or guarantee of traditional speciality. It can therefore offer a way of preserving traditional industries, often made up of smaller/family-run businesses and sustaining employment vital to regional economies. By preserving the integrity of products and manufacturing processes, the measures

¹ This note does not extend to wines and spirits, nor to the proposed "product of island farming" designation.

offer consumers a guarantee of quality and the knowledge that they are supporting the preservation of cultural heritage.

- a) Protected Designations of Origin (PDO): produced, processed *and* prepared in a specific geographical area, using the recognised know-how of local producers and ingredients from the region concerned
- b) Protected Geographic Indications (PGI): quality or reputation is linked to the place or region where it is produced, processed or prepared, although the ingredients used need not necessarily come from that geographical area
- c) Geographical Indications of Origin for Spirit Drinks (GI's): having a given quality, reputation or other characteristic that is essentially attributable to geographic origin.
- d) Traditional Speciality Guaranteed (TSG): having a traditional character, either in the composition or means of production, without a specific link to a particular geographical area

Specific examples from regions of Scotland include: Orkney Lamb PDO, Native Shetland Wool PDO, Ayrshire New Potatoes PGI (applied for), Orkney Scottish Island Cheddar PGI, and Stornoway Black Pudding PGI and the Spirit Drink GI Scotch Whisky.

All the above and about 70 other producer registrations from across the UK exist or have been applied for in the EU register, which contains about 1300 plus registrations in total.

EU rules applicable to member states

The current EU rules are contained in Regulation (EU) No 1151/2012 of the European Parliament and of the Council of 21 November 2012 on quality schemes for agricultural products and foodstuffs. Spirit Drink GI's are covered by Regulation (EU) No. 110/2008.

EU rules applicable to third countries

If, following negotiations, the existing rules for third countries were to be applied to the UK, Scottish producers could receive lesser rights. At present, they are able to register EU PDOs and PGIs but only in the framework of the World Trade Organisation (WTO) or under multilateral/bilateral agreements and even then, only if their own national laws offer the same kinds of protections and make them available to EU producers. Third country producers "should be able to use a registered name of a traditional speciality guaranteed, provided that the product concerned complies with the requirements of the relevant specification and the producer is covered by a system of controls."

It will be important to take steps in negotiations to ensure that such a reduction in rights is avoided as it would have a negative impact on Scottish and other UK businesses. To obtain equivalent protection for its producers to that which they currently enjoy, the UK would need to enact national legislation and create a UK register reproducing all the features of the EU system. Ideally agreement on reciprocity in this regard would be reached as part of the wider negotiations with the EU but if this were not achieved it would be

necessary to negotiate a stand-alone agreement on reciprocity at the earliest opportunity. To avoid any hiatus the new national law and national register would need to be in place (and populated with all pre-Brexit registrations in the EU register) prior to withdrawal.

Exhaustion of rights

Background on principle of exhaustion

The principle of exhaustion sets out that once goods have been sold by the owner/IP rights holder (or with his consent) into the EU single market, he may no longer control the resale or further distribution of the goods. This principle facilitates the business of parallel imports. In practical terms, if different Member States will tolerate a different price point for a product, it can be profitable for an undertaking to purchase the goods for a lower price in one Member State and sell them in another for a much higher price. The IP rights holder has no power to prevent this action as his rights in the goods have been 'exhausted'. It is particularly relevant in the context of trade marks.

The problem

Following Brexit, it is currently expected that the UK will not form part of the single market. As such, without provision to the contrary, an owner of corresponding intellectual property rights in both the EU and UK selling his goods into the UK first will not exhaust the relevant IP rights. Therefore, IP rights holders will be able to prevent the future sale and distribution of goods within the EU. This may result in the rights holder having the ability to affect the market and restrict competition. In intervening with market forces, this lack of competition could lead to increased prices for consumers, in addition to import tariffs which may be imposed on the goods themselves. The example below illustrates how this might play out in practice.²

Case study

In-Scents is a perfume company based in the Netherlands. They have produced a new product, Tu-Lips, but it has not yet been released on the market. They are considering where and how they wish the perfume to be distributed.

A) UK within the Internal Market (current situation)

A first marketing anywhere in the Internal Market exhausts In-Scents' intellectual property rights,

² This is not to say that in every case the kind of situation detailed below would arise. It merely illustrates the possible effect if the UK were to be outside the EU in comparison with the existing situation.

whether they launch in a single Member State – be it the Netherlands or another Member State – or a number of states simultaneously. Competition across the Internal Market keeps the market for Tu-Lips competitive and the cost to consumers in the UK is therefore kept under control. If In-Scents prices the perfume too high in the UK, it is open to third party distributors to buy the perfume more cheaply from eg Italy or Poland, and sell it in the UK at a profit (but still at a lower price than prior to the distributor entering the market).

B) UK outside the Internal Market (potential post-Brexit situation)

A first marketing in the Internal Market does not exhaust In-Scents' intellectual property rights in the UK. In-Scents launches Tu-lips in the Netherlands and a number of other EU countries but decides to delay first marketing in the UK. Although greatly anticipated, UK consumers are not able to acquire the new perfume at the same time as their continental counterparts. Should distributors attempt to sell the product in the UK, the In-Scents, as the IP rights holder, would be able to prevent this by relying on their UK registered trade mark. To that end, one of the consequences of the potential post-Brexit may be that the range of products available in the UK is restricted, even if only from a temporal perspective. A few months later, In-Scents decides to launch in the UK. They opt to market the perfume at a higher relative price. (This does not include any potential import tariffs for which the consumer would also pay more.) On the highly anticipated release of Tu-lips in the UK, strong sales would be expected. However, it is possible that UK consumers would be paying more for the same product for no other reason than the IP rights holder has set a different price point in the UK

Similarly, goods which have been exhausted by distribution across the EU Member States will not be free to cross the Channel into the UK without the consent of the IP rights holder. The effect of this may be higher prices for UK customers as there are not the same market forces driving prices down to the natural competitive equilibrium. The UK will no longer be able to source the same product from a legitimate third party through parallel imports.

It is worth noting that this issue is distinct from general barriers to trade which are being considered in order to keep levies and taxes to a minimum for UK/EU trade. The effect of this issue is a fundamental barrier to cross border trade.

If the issue of exhaustion of rights is not properly addressed it will permit owners of IP (especially of trade marks) to erect an effective non-tariff barrier to trade between the UK and the EU. They will be able to treat the UK and the EU as separated markets and keep prices up in whichever one will tolerate a higher price, thereby denying consumers the benefit of natural competition.

It is worth noting that although the effect on consumers may be similar, this IP barrier is distinct from other barriers to trade – such as tariffs, quotas, and recognition of products standards.

One further point to note is the imbalance between the power, which Scottish/UK rights holders would be able to exert and that of EU producers. The UK is a much smaller market than the EU. An EU producer can use their IP rights to impose a higher price point on the UK whereas a UK producer in reverse exhausts their IP rights on selling products anywhere in the EU. The result is that EU consumers benefit from exhaustion to the detriment of Scottish exporters whereas EU exporters benefit from the lack of exhaustion to the detriment of UK consumers.

Proposed solutions

If the goal is to create a forum which best facilitates free trade between the UK and the EU, it is necessary for the UK government and the EU to enter into an arrangement which preserves the principle of exhaustion, extending it into post-Brexit Britain.

Without such an agreement, increased power will be afforded to IP rights holders in relation to their ability to control the distribution of goods in both the UK and the EU. The natural and probable effect of tampering with the competitive market forces will be a rise in UK customer prices.

UK Ratification of the UPC Agreement

The Unified Patent Court Agreement aims to establish a unitary patent system for the EU to be overseen by the Unified Patent Court (UPC). The UPC Life Sciences Division has been allocated to the UK, to be set up in London.³ The UPC Agreement is open to all EU Member States, and in order for it to enter into force, it would need to be ratified by the three largest European patent jurisdictions: Germany, the UK and France. Both France and the UK have ratified the Agreement. When the UPC enters into force the EU Unitary Patent Regulations will enter into force as well.

It is strongly recommended that the UK should try to ensure that the UPC Agreement does enter into force, and that the UK can continue to participate fully in the Agreement, including maintaining the location of the Life Sciences Division of the UPC in London.

However, as the participation in the UPC Agreement is currently open only for the EU Member States, it is unclear whether the UK could continue to be a party if it were no longer an EU Member State. The therefore arise several questions to be resolved in the negotiations between the UK and the EU following notification of withdrawal.

³ The other division have been allocated to Paris (central division) and Munich (mechanical engineering)

One of the central issues to be addressed is the question of the jurisdiction of the Court of Justice of the European Union. Under the UPC Agreement, the CJEU retains ultimate jurisdiction and therefore sits “above” the UPC.⁴ If the UK were to accept the jurisdiction of the CJEU here, it would be relatively easy for the UK to continue the application of the Convention.⁵ However, if the UK were to seek to sever the CJEU’s jurisdiction, this raises a question as to how the UK could continue to be considered as full participant in the Unified Patent System.

This raises both legal and political issues:

- The Court of Justice will demand that the cases coming from the EU states fall under its jurisdiction (Opinion 1/09). The same may apply to the cases where there is a connection with the EU countries. A possible solution here may be how in the EEA agreement the EFTA States have the EFTA Court and the EU States refer cases to the CJEU. The details of this arrangement will need to be referred to the Court of Justice before a deal is concluded.
- The EU Member States agreeing to renegotiating and amending the Convention.

General overview of impact in areas of IP law

The impact of Brexit in other areas of IP law is summarised below.

Trade marks

Unless agreed otherwise, UK businesses will lose the ability to protect brands in the UK and the rest of the EU through a single registration as part of the EUTM system. Often, this is businesses’ preferred method of trade mark protection as it is the quickest and most cost-effective solution. The need to register a trade mark under two systems would lead to an increase of costs in terms of legal and application fees and is also likely to result in a slower processing time.

There is also uncertainty as to how existing EUTM marks – both from the UK and across the channel - will be dealt with following withdrawal. There are many options currently being considered. For example currently existing applications might be divided to become EUTM and UK registrations to maintain the status quo for right holders. In that event, each trade mark would likely retain their respective filing and

⁴ The status of the CJEU is also relevant for other areas of law, including other aspects of IP. This will need to be addressed for all areas in the negotiations.

⁵ See in this regard the legal opinion by Gordon and Pascoe.

registration dates. However, automatically importing EU marks onto the UK register may create conflicts with existing UK marks.

The lack of relative grounds examination has led to a number of parallel rights existing. Although the current rules on relative grounds would give a solution to such conflicts there will be potential cost and uncertainty for businesses affected. It could also create a bloated UK register in which it would be difficult to know whether the imported marks are being used, at least until the 5 year use period has passed. This will make it difficult to know whether a later trade mark can be used in the UK. Whatever the outcome of discussions and negotiations it should be dealt with explicitly to ensure legal certainty.

A further problem may arise with regard to the need to show use of EUTMs in the territory for which they are registered if they are at present used only in the UK and it ceases to be a Member State. Moreover, after withdrawal, brand owners in the UK will not be able to rely on passing off rights to prevent an EUTM registration.

Similarly, there will be uncertainty where licensees of trade marks have been granted a licence for use in the EU. This is likely to lead to renegotiation of licensing contracts between parties, resulting in legal costs to agree the new position and possible change of licence fee.

There is further uncertainty as to how disputes over currently existing EUTMs would be determined post-Brexit and as regards how pending applications would be progressed.

From the perspective of the legal sector, UK lawyers may lose their rights of audience in EUTM disputes at the EUIPO. This change may therefore lead to loss of revenue as businesses move to appoint agents in the remaining EU Member States to deal with brand protection and management in the Internal Market.

Community Plant Variety Rights

These would like be dealt with similarly to CTM rights and the issues of rights of representation and duplication of cost would also apply in this case.

We also note that Plant Varieties are devolved under the Scotland Act.⁶

⁶ See Schedule 5

UK Patents, EPC patents and unitary patents

If the UK is no longer able to participate in the UPC, it seems unlikely that UK intellectual property advisers (lawyers and patent attorneys) would have rights of audience before that Court. Such a situation could make UK advisers less attractive as they would therefore be unable to represent clients before the UPC. In addition, the UK would no longer be eligible to put forward its nomination for the pool of UPC judges.

As in other areas of IP, the need to register under more than one system – to hold both a UK patent and a Unitary Patent under the EU system - would generate additional administrative costs for businesses. Additional cost burdens of dealing with advice/litigation under two, or even three, systems would also arise as enforcement/validity proceedings would still need to be brought on a UK basis unlike in the UPC system where they could (unless the patent was opted out of the UPC) potentially be brought in one court covering all the signatory states.

Supplementary Protection Certificates

Supplementary protection certificates are a specific patent term extension which apply to medical and plant products. They were created as a way of recognising the more onerous regulatory requirements to which pharmaceuticals, veterinary medicines and agrichemical are subject which often prolongs the time required to bring a product to the market.

The current rules on SPCs are contained in an EU regulation, meaning that the UK will need to enact domestic legislation before withdrawal if the protection is to be preserved in the UK. This should be reasonably easy to achieve but as in other areas of law, the separate UK system and divergence from the EU could create additional costs for companies operating in both markets.

Copyright

At present the majority of substantive law is still based on the Berne Convention, an international agreement to which the UK is a signatory in its own right. In terms of implementation much of the UK copyright law stems, at present, from the EU Copyright Directive. Following withdrawal, it would be open to the UK to adapt national legislation in line with changes at EU level if it so wished, subject to the requirements of the Berne Convention. As both the EU and UK will remain signatories to Berne, it is unlikely that withdrawal would have a significant impact.

Rights of visually-impaired persons are specifically catered for under the Marrakesh Treaty. We note that the UK (together with the EU) has signed but not ratified the Treaty. However, we also note that the UK has already taken action to bring domestic legislation into line with the Treaty. We support the UK's continued participation in the Treaty, regardless of the future relationship with the EU.

Specific priorities for legal services in the context of EU Withdrawal

As set out in our Negotiation Priorities memorandum,⁷ we believe that the UK Government should negotiate the continuity of the EU law concerning the transnational practice of law and legal professional privilege in the Withdrawal Agreement. We have drafted an article for the Withdrawal Agreement which can be found in the Appendix.

Free movement of lawyers

The regime to regulate the cross-border supply of legal services and the rules designed to facilitate the establishment of a lawyer in another member state have been in force for a number of years. There are three key pieces of legislation that affect the legal profession:

- Lawyers' Services Directive of 1977 (77/249)
- Lawyers' Establishment Directive of 1998 (98/5)
- Recognition of Professional Qualifications Directive (2005/36)⁴

In addition, Directive 2006/123/EC on Services in the Internal Market which regulates the provision of services in the European Union also touches on the legal profession.

The Lawyers' Services Directive (temporary provision)

The Lawyers' Services Directive 1977 governs the provision of services by an EU/EEA/Swiss lawyer in a member state other than the one in which he or she gained his or her title - known as the 'host state'. Its purpose is to facilitate the free movement of lawyers, but it does not deal with establishment or the recognition of qualifications. The directive provides that a lawyer offering services in another member state - a 'migrant' lawyer - must do so under his or her home title. Migrating lawyers may undertake representational activities under the same conditions as local lawyers, save for any residency requirement or requirement to be a member of the host Bar.

However, they may be required to work in conjunction with a lawyer who practices before the judicial authority in question. For other activities the rules of professional conduct of the home state apply without prejudice to respect for the rules of the host state, notably confidentiality, advertising, conflicts of interest, relations with other lawyers and activities incompatible with the profession of law.

⁷ <https://www.lawscot.org.uk/media/9945/negotiation-priorities-for-leaving-the-eu-for-the-uk-government.pdf>

Permanent establishment under home title

The Establishment Directive 1998 entitles lawyers who are qualified in and a citizen of a member state to practice on a permanent basis under their home title in another EU/EEA member state, or Switzerland. The practice of law permitted under the Directive includes not only the lawyers' home state law, community law and international law, but also the law of the member state in which they are practicing – the 'host' state.

However, this entitlement requires that a lawyer wishing to practice on a permanent basis registers with the relevant Bar or Law Society in that state and is subject to the same rules regarding discipline, insurance and professional conduct as domestic lawyers.

Once registered, the European lawyer can apply to be admitted to the host state profession after three years without being required to pass the usual exams, provided that he or she can provide evidence of effective and regular practice of the host state law over that period.

Recognition of professional qualifications

Re-qualification as a full member of the host State legal profession is governed by the Recognition of Professional Qualifications Directive. Article 10 of the 1998 Lawyers' Establishment Directive is essentially an exemption from the regime foreseen by the Recognition of Professional Qualifications Directive.

The basic rules are that a lawyer seeking to re-qualify in another EU/EEA member state or Switzerland must show that he or she has the professional qualifications required for the taking up or pursuit of the profession of lawyer in one member state and is in good standing with his or her home bar.

The member state where the lawyer is seeking to re-qualify may require the lawyer to either:

- complete an adaptation period (a period of supervised practice) not exceeding three years, or
- take an aptitude test to assess the ability of the applicant to practice as a lawyer of the host member state (the test only covers the essential knowledge needed to exercise the profession in the host member state and it must take account of the fact that the applicant is a qualified professional in the member state of origin).

It is also worth bearing in mind that a number of our future lawyers take advantage of programmes to broaden their horizons during their studies, which rely on reciprocal arrangements with other EU universities. The ERASMUS programme, the best-known EU student exchange programme established in 1987, has a number of participants from Scottish law schools.

Legal professional privilege (LPP)

Agreement on legal services must also include recognition of legal professional privilege, both as an important end in its own right and to ensure that Scottish (and other UK) lawyers are on a par with those who are members of the local bar or law society in the EU/EEA and Switzerland.

LPP is conceptually a right of the client and is central to the rule of law and administration of justice. Its scope may vary slightly between jurisdictions but in general terms LPP protects confidential communications between companies or individuals and their legal advisers made for the purposes of, or legal advice in contemplation of, litigation. It is not possible to force such communications to be disclosed in legal proceedings or to regulators or other third parties. However, we note that restrictions may be set as to who qualifies as a legal adviser in this context.

Any business based in the trading partner country that obtains legal advice from a UK qualified lawyer on must have the same protections afforded by the LPP under EU law or Member States rules as if the advice was given by an EU/EEA lawyer.

The ability of UK qualified lawyers to provide advice on the basis that the privileged nature of those communications will be respected is also of key importance to the legal sector as a major contributor to the UK economy.

Securing legal privilege for communications between EU clients and UK qualified lawyers should be included within the legal services negotiating priorities of the UK Government in the in order to ensure that UK qualified lawyers can function fully when acting for EU or third country clients who engage them.

Resolving disputes between citizens and/or businesses: recognition and enforcement of judgments

Rights must be enforceable if they are to deliver full value to the rights-holder.

At present the UK is an attractive jurisdiction for dispute resolution as a result of its reputation for reliable, efficient courts and relatively generous and flexible rules on the discovery of evidence among other factors. This brings clear benefits for the UK legal services' industry, which in turn contributes to the economy as a whole. Instrumental to this degree of success in an EU context is the possibility for claimants to rely on the well-established rules provided by the Brussels I Regulation in respect to both the establishment of jurisdiction and the mutual recognition and enforcement of judgments within the EU.⁸

⁸ See e.g. the studies conducted by Rodger: "Competition law litigation in the UK courts: a study of all cases, 2005-2008", (2009) GCLR 93; "Competition law litigation in the UK courts: a study of all cases, 2009-2012", (2013) GCLR 55

We are concerned about the negative consequences that might result if the benefits of participation in the Brussels I regime are lost. This could be of detriment to clients if UK judgments in will not automatically be enforced in the remaining EU countries. We therefore recommend that the UK Government seeks to maintain arrangements to ensure certainty of jurisdiction and continued mutual recognition and enforcement of judgements with the remaining EU Member States, and indeed to pursue continued participation in the Lugano Convention to continue cooperation with the non-EU signatories.

As set out in our Negotiation Priorities memorandum we therefore consider that maintaining the structure of the Brussels Regulations, the EU Enforcement and Order of Payment, the Maintenance Regulation and Rome I & II on Applicable law are essential to litigants in both the UK and the EU. They assist in the resolution of disputes and are valuable to litigants in their personal and commercial capacities.

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