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CABBAGE WILL GET UK PORRIDGE – BUT IS IT GREY ENOUGH?

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Readers of this blog may well be familiar with the *regional exhaustion* rule which applies to IP rights in the EU, including (for the time being) the UK. Under this rule, IP rights can be exhausted where they are put on the market with the consent of the proprietor in one part of the EU, even if they are parallel imported to another Member State and sold there as 'grey' product. But there is no *international exhaustion,* which would allow the sale of grey goods from countries outside the European Economic Area[i], even where they have been sold on those markets with the brand owner's consent. All of this is now fairly well established.

The UK, like most other EU countries, backs up civil causes of action for IP infringement with criminal sanctions to cover the most egregious cases, i.e. counterfeiting and pirating, but there has always been a question mark over the extent to which these criminal sanctions should apply to infringements relating to grey imports from outside the EEA. A case recently came before the highest domestic UK Court – the

Supreme Court – where this issue arose in the context of the offences which applied to misuse of registered trade marks for commercial purposes[ii].

The case[iii] involved sale in the UK of what were referred to by the Court as "grey market goods". However, the goods consisted entirely of what I always understood was called "cabbage" i.e. they were goods which had been made by an authorised manufacturer, but, for one reason or another, they had not been authorised by the brand owner for sale[iv]. So they were, for example, goods which failed the brand quality standards, or goods for which the factory's licence was cancelled by the brand owner, or production overruns (with or without the brand owner's knowledge). This cabbage stock was, as often happens, intermingled with "real" counterfeit stock.

In this context, the Court was asked to interpret the UK statute which creates a criminal offence of counterfeiting, and the defence produced a very technical interpretation argument to try and persuade the Court that for the criminal sanctions to apply, the goods that were being offered for sale had to have had the brand **applied** without the consent of the brand owner, rather than the brand owner simply not consenting to the UK sale of the goods.

The defence lost on the interpretation point, and the Court said that the offence was committed if someone sells or offers for sale goods which bear a sign which is identical to, or likely to be mistaken for, a registered brand, without consent.

What I find interesting is that this is clearly a case where the goods concerned should have been treated in the same way as counterfeit – the cabbage was never authorised by the brand owner for release on any market (UK, EEA or otherwise) and was a complete "back door" transaction. But the Court was not asked to consider the position of what I would call true grey goods, where the brand owner has consented to the goods being released onto the market in a non-EEA country, and the goods are then, without the brand owner's consent, imported into the UK and sold here. If the position is as black and white as the Court says it is, then the parallel importer in such cases will potentially be guilty of a criminal offence, even if the goods are 100% authorised and genuine, just in a different region. In that instance, the importer will be required to rely on the statutory defence built into the UK legislation that he believed, on reasonable grounds, that the manner in which he was using the brand was not an infringement. Presumably that would only apply if he had some basis for believing that the goods had been authorised for the EEA market, and the defence would not be available for someone knowingly dealing in non-EEA grey goods.

Several years ago, I defended a UK retailer that was selling US-sourced grey product, where the genuine product had been purchased from retail outlets (paying retail price and tax) in the US by collectors acting as consumers before being shipped to the UK; we lost the civil claim, but it is hard to believe that such conduct should be attributed the same criminal culpability as a counterfeiter. Counterfeiting (and I include cabbage in this) and piracy are clearly wrong, because the IP owner is being deprived of any revenue from the products and, in most cases, consumers are being defrauded, hence it is right that criminal sanctions should apply. But this is not the case with grey goods: IP owners have extracted revenue from the product and consumers are buying the genuine article.

I have always felt that using IP rights to combat the grey market is fitting a round peg in a square hole. The issue of whether grey goods are illegal, or some grey goods legal and some not, is a political and economic one, and not one this simple IP lawyer wants to get into; but whatever the decision is, it is clear to me that IP law is not the correct channel for implementing it. This becomes even truer when criminal sanctions are applied.

[i] The EU plus Norway, Iceland and Liechtenstein.

[ii] Section 92 Trade Marks Act 1994

[iii] *R* -v- *M*, 3 August 2017 [2017] UKSC 58

[iv] I get strange looks when I use this term, but I am not alone! See post on *The Virtual Linguist* blog 15 March 2012 at http://virtuallinguist.typepad.com/the_virtual_linguist/2012/03/cabbage.html

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Headed by Eddie Powell of Fladgate LLP, London, and Norman Zivin of Cooper & Dunham LLP, New York, New York, the ILN's Intellectual Property Group provides the platform for enhanced communication, enabling all of its members to easily service the needs of their clients requiring advice on cross-border transactions. Members of the group meet regularly at ILN conferences and industry events, and have collaborated on discussions and publications of mutual interest.

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