



Law
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Patents, Trade Marks and Design Rights: Groundless Threats



Law Commission

Patents, Trade Marks and Design Rights: Groundless Threats

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The Law Commission

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PATENTS, TRADE MARKS AND DESIGN RIGHTS: GROUNDLESS THREATS

Presented to Parliament by the Lord Chancellor and Secretary of State for Justice
by Command of Her Majesty

April 2014

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THE LAW COMMISSION

The Law Commission was set up by the Law Commissions Act 1965 for the purpose of promoting the reform of the law.

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THE LAW COMMISSION
PATENTS, TRADE MARKS AND DESIGN RIGHTS:
GROUNDLESS THREATS

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SCOTTISH TERMINOLOGY

In this Report we have used legal terms where we discuss the law as it applies to England and Wales; these are the Scottish equivalents:

Account of profits means accounting and paying of profits

Assignment means assignation

Claimant means pursuer

Costs means expenses

Declaration means declarator

Defendant means defender

Delivery up means delivery

Injunction means interdict

Interlocutory remedy means interim remedy

Stay of proceedings means a sist of proceedings

Tort means delict

GLOSSARY

INTELLECTUAL PROPERTY INSTITUTIONS

IPO – Intellectual Property Office

The official Government body responsible for granting and regulating intellectual property rights in the UK.

EPO – European Patent Office

The EPO is the executive body for the European Patent Organisation, based in Munich. It was established under the European Patent Convention and is responsible for the granting of European Patents under the Convention. The EPO will also grant and regulate Unitary Patents once these come into effect.

OHIM – Office for Harmonisation of the Internal Market

OHIM grants and regulates Community Trade Marks and Community Designs, playing the same role for those rights as the UK's IPO does for national rights.

WIPO – World Intellectual Property Organisation

An agency of the UN to promote the protections of intellectual property rights throughout the world. There are currently 186 member states.

INTERNATIONAL INTELLECTUAL PROPERTY RIGHTS

European Patents

Once approved, the applicant is granted a bundle of national patents in those states for which they are eligible and have applied, out of the 38 states that have signed the European Patent Convention. The signatory states comprise the 28 EU member states and 10 other non-EU states. The appropriate national law governs the extent of the patent holder's rights, the remedies and the procedure for infringement actions for each designation of the European Patent.

European Patents are applied for either directly to the EPO or through a national intellectual property office. Applicants must have a legal connection to a signatory state.

Community trade marks and Community design right

Community trade marks and Community design right (both registered and unregistered) are pan-European unitary rights. That is, the applicant obtains a single right which offers the same rights and protection with equal effect across all 28 member states of the EU.

The Trade Marks Directive has harmonised the substantive law on trade marks between member states, which means that the underlying law is essentially the same between UK trade marks and Community trade marks. However, the Community trade mark does not replace national trade marks.

The law of registered designs is also harmonised across Europe. However, the law of unregistered designs is not harmonised. This means that, although many aspects of Community unregistered design right are similar to UK unregistered design right, there are significant differences.

Applications for a Community trade mark or Community registered design right may be made directly to OHIM or through a national intellectual property office. Community unregistered design right arises automatically.

Unitary Patents

The Unitary Patent represents the last piece of the jigsaw of EU-wide rights. A Unitary Patent will be a single right, valid across the 25 EU member states which have signed the Agreement on a Unified Patent Court.

Applicants do not apply for a Unitary Patent itself. Instead, an applicant who has been granted a European Patent by the EPO in respect of all the Unitary Patent signatory states can request the EPO to register the European Patent as having unitary effect. The Unitary Patent replaces the 25 national patents that would otherwise be granted as part of a European Patent. It will therefore be possible to have a Unitary Patent, combined with a European Patent in respect of other countries which are signatories to the European Patent Convention.

THE COURTS AND OTHER ADJUDICATIVE BODIES

The Patents Court

A specialist court within the Chancery Division of the High Court of England and Wales. Trade mark and design right disputes are dealt with in the general Chancery Division of the High Court.

Nominated Judges of the Court of Session hear intellectual property disputes in Scotland, and there are special Rules of Court for such cases.¹

In Northern Ireland, IP disputes are dealt with by the Chancery Division of the High Court of Northern Ireland.

Intellectual Property Enterprise Court, formerly the Patents County Court

The court deals with less valuable or simpler cases concerning a wide range of intellectual property rights. There is a small claims track, although this does not cover patent and registered designs disputes. There is also a fixed scale of recoverable costs subject to a cap.

Community trade mark courts and Community design courts

The respective regulations require each member state to designate, from amongst its national courts, Community trade mark courts and Community design courts. Community rights may only be enforced in these national courts.

The UK Community trade mark courts are the Chancery Division of the High Court, as well as certain county courts including the Intellectual Property Enterprise Court and the Court of Session for Scotland and the Northern Ireland High Court.

The UK Community design courts are the Chancery Division of the High Court and the Intellectual Property Enterprise Court, while the Court of Session and the Northern Ireland High Court have been designated for Scotland and Northern Ireland.

These courts have exclusive jurisdiction over claims for infringement of a Community trade mark or Community design rights, and over counterclaims for revocation or declaration of invalidity.

¹ See Rules of the Court of Session, Chapter 55 (<http://www.scotcourts.gov.uk/docs/cos---rules/chap55.pdf?sfvrsn=2>). The Sheriff Court can hear copyright and passing off cases but has otherwise only a very limited jurisdiction in IP cases; see for example, Trade Marks Act 1994 s 20 (orders for delivery up or disposal of infringing goods).

The UPC – Unitary Patent Court

The UPC is a court that is common to the 25 member states which have signed the Unitary Patent Agreement. Whilst the UPC is a single legal entity, it is comprised of a Court of First Instance, a Court of Appeal and a Registry. The Court of First Instance is then subdivided into a central division and local/regional divisions, which are spread across the EU.

The UPC has exclusive jurisdiction over actions for infringement, declarations of invalidity and revocation, and counterclaims for the same.

The Court of Justice of the European Union

Previously titled the European Court of Justice, the EU's court is responsible for providing definitive pronouncements on EU legislation in order to ensure its uniform application. Appeals against the decisions of OHIM in relation to Community trade marks or Community design right also lie to this court.

The IPO

Where the parties consent, the IPO will decide whether a patent has been infringed. It may make a declaration of non-infringement or revoke a patent on specific grounds. The IPO can provide an opinion on whether an act does or would infringe a patent, and on the validity of a patent. The IPO may revoke the registration of a trade mark on specified grounds or declare the mark invalid. The IPO may decide disputes about the subsistence of design right, the term and the identity of the person in whom it first vested. In respect of registered designs, any person may apply to the IPO for a declaration of invalidity or that the registration is revoked. The IPO also offers a mediation service for disputes that concern patents, trade marks, designs or copyright.

The EPO

The EPO will have jurisdiction to revoke a European Patent; the courts of each contracting state may also revoke that state's designation of the European Patent. The EPO will, however, not have any such jurisdiction to hear applications for a declaration of invalidity or for revocation in respect of Unitary Patents. Further, the EPO will not make decisions on infringement in respect of either European Patents or Unitary Patents.

OHIM

OHIM may deal with applications for a declaration of invalidity or for revocation of a Community trade mark or Community design right.

INTERNATIONAL TREATIES

The Paris Convention for the Protection of Industrial Property

First signed in 1883, this is the original International Convention for the protection of intellectual property. The central concept of the Convention is that each member state shall afford to nationals of other member states the same protection it affords to its own nationals.

European Patent Convention

The Convention established the European Patent Organisation of which the European Patent Office is the executive body. The Convention creates a single grant procedure for patents in designated contracting states.

Community Patent Convention

The Convention, to which the member states of the European Economic Community were signatories, was intended to create the Community Patent. The Convention never came into force because it was not ratified by enough countries. As a consequence, there is no "Community Patent". The Unitary Patent may, however, be viewed as the successor to the failed Community Patent.

Patent Cooperation Treaty

This Treaty is intended to simplify the means by which an invention may be protected by patents in a large number of states. A single international application may be made under the Treaty for a national or European Patent in all contracting states. In the UK the application is made to the IPO, or for those states that have ratified the European Patent Convention, to the European Patent Office.

Agreement on Trade-Related Aspects of Intellectual Property Rights

This Agreement, which builds on the Paris Convention, is administered by the World Trade Organisation. It sets down a minimum standard for protection and enforcement of intellectual property rights in member states.

The Madrid Agreement and Protocol

Creates a mechanism by which a registered trade mark with national and EU effect may be obtained by a single application for an international registration in a number of designated states. The application is made to the IPO or OHIM and passed to WIPO who transmit it to the designated states where it is treated as if it were a domestic application.

These materials can be found on the WIPO website (<http://www.wipo.int/wipolex/en/>).

PRIMARY AND SECONDARY ACTS AND ACTORS

Primary acts

Not all threats of infringement proceedings are actionable. Threats proceedings may not be brought where a threat refers only to certain specified acts of infringement. The excluded acts tend to be those that are the greatest source of commercial damage; for example, for patents proceedings may not be brought for threats that refer to importation, manufacture or the use of a process. These acts are referred to as primary acts.

Primary actors

For patents only, proceedings may not be brought for any threat where it is made to someone who has manufactured or imported a product or used a process. We refer to such persons as primary actors. Primary actors are usually the trade source of the infringement. They are more likely to be aware of the right and to be in a stronger position to challenge any threat made to them. We recommend that the law should be the same for trade marks and design rights so that threats made to primary actors in respect of those rights are also not actionable. The particular acts carried out are broadly similar although there are some differences; for example, for trade marks someone who applies a mark to goods will be a primary actor.

Secondary acts

Save for threats made to primary actors in respect of patents, threats proceedings may be brought for threats that refer to any non-primary acts of infringement. We refer to these as secondary acts.

The term also has a distinct meaning for design right. The Copyright, Designs and Patents Act 1988 designates some acts of infringement as being either primary or secondary for other purposes; for example, whether knowledge of the right concerned is necessary before particular remedies are available. We are not using these terms in that sense.

Secondary actors

Threats made to secondary actors, except those that refer only to primary acts of infringement, come within the threats provisions. Where such a threat is groundless (in other words, there is no infringement or the right is invalid in some way), a person aggrieved by it can bring a threats action. Secondary actors are usually doing something a step removed from the infringement by the trade source; for example, by supplying or selling an infringing product and may have little invested in the allegedly infringing product. They may be unaware that they are in fact infringing by doing whatever it is they are doing and in some cases a rights holder may have to draw to existence of the right to their attention before they have a remedy.

Persons aggrieved

Anyone whose commercial interest is likely to be adversely affected by a threat to sue for infringement can bring a threats action as a person aggrieved; the right to do so is not limited to the actual person threatened. For example, if a rights holder makes a threat to a competitor's customers which causes them to stop buying the competitor's product, the competitor is a person aggrieved if they suffer commercially as a result. They may bring a threats action even though they were not directly threatened.

RELEVANT LEGISLATION

NATIONAL LEGISLATION

- (1) The Registered Designs Act 1949 and the Registered Design Rules 2006 (SI 2006 No 1975).
- (2) The Patents Act 1977 and the Patents Rules 2007 (SI 2007 No 3291).
- (3) The Copyright, Designs and Patents Act 1988 and the Design Right (Proceedings Before Comptroller) Rules 1989 (SI 1989 No 1130).
- (4) The Trade Marks Act 1994 and the Trade Marks Rules 2008 (SI 2008 No 1797).
- (5) The Community Design Regulations (SI 2005 No 2339).
- (6) The Community Trade Mark Regulations (SI 2006 No 1027).

Extracts from the legislation may be found at Appendix C.

EU LEGISLATION

Trade marks and Design rights

The following material can be found on the OHIM website (<http://oami.europa.eu/>).

The Trade Marks Directive

Directive 2008/95/EC, replacing Council Directive 89/104/EEC which harmonised EU states' national law for trade marks.

The Community trade mark Regulation

Council Regulation (EC) No 207/2009 on the Community trade mark, replacing Council Regulation (EC) 40/94 – which introduced the Community trade mark.

The Designs Directive

Council Directive 98/71/EC – harmonised Member State's national law for registered designs.

The Community designs Regulation

Council Regulation (EC) No 6/2002 on Community designs – introduced and regulates Community unregistered design rights and Community registered design rights.

Unitary Patent

Agreement on a Unified Patent Court

Council Agreement on a Unified Patent Court (2013/C 175/01) – introduced and regulates Unitary Patents. The Intellectual Property Bill [HL] 2013-14 contains a power to implement the UPC Agreement in the UK, with orders required to be approved by both Houses.

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Patents, Trade Marks and Design Rights: Groundless Threats (2013) Law Commission Consultation Paper No 212 (CP 212).

THE LAW COMMISSION

PATENTS, TRADE MARKS AND DESIGN RIGHTS: GROUNDLESS THREATS

To the Right Honourable Chris Grayling, MP, Lord Chancellor and Secretary of State for Justice

CHAPTER 1 INTRODUCTION

- 1.1 In 2012 the Department for Business, Innovation and Skills (BIS) and the Intellectual Property Office (IPO) asked the Law Commission to review the law of groundless threats of infringement proceedings for patents, trade marks and design rights.
- 1.2 Following a Consultation Paper in 2013, we now make recommendations for reform. Contrary to our usual practice we have not drafted a Bill to accompany the report. We were not asked to provide one at this stage. We have discussed how the reform might be taken forward with the IPO and identified a number of options.¹ We hope that an early opportunity can be found to introduce legislation to enact a new provision on groundless threats to cover patents, trade marks, registered and unregistered design rights. It is clear from consultees' responses that there is an appetite for reform and a desire that this happens sooner rather than later.

A PERSISTENT PROBLEM

Why, that a man had better have his patent infringed, or have anything happen to him in this world, short of losing all his family by influenza, than have a dispute about a patent. His patent is swallowed up, and he is ruined. [Lord Esher, 1892]²

Use of a court to reach a decision is probably the most expensive way to reach a decision and one that the system should be designed to avoid. [Intellectual Property Enforcement in Smaller UK Firms, 2010]³

¹ One possibility is to use the special procedure for Law Commission Bills.

² *Ungar v Sugg* (1892) 9 RPC 113 at 116, by Lord Esher.

³ Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010) p 64. The report was commissioned by the Intellectual Property Office.

- 1.3 Over a hundred years separate these quotations but the essential point remains: intellectual property litigation continues to be perceived as expensive, complicated and best avoided. As we consider in Chapter 2, that view is not without some foundation. This is what makes the risk of becoming embroiled in litigation a formidable prospect, and it means that threats to sue for infringement can be misused to damage a trade rival.
- 1.4 The classic example of such misuse is the case of *Halsey v Brotherhood* in 1881.⁴ Both Mr Halsey and Mr Brotherhood manufactured steam engines. Mr Brotherhood, however, had a flourishing business based in part on his habit of “systematically threatening” to sue Mr Halsey’s customers for infringing his patents. He never did sue: threats were enough. When the customers received threats, they stopped buying Mr Halsey’s engines.
- 1.5 Mr Halsey sought an injunction against Mr Brotherhood to stop him making threats, but the courts held that the common law provided no protection unless it was shown that Mr Brotherhood acted with malice. In 1883, Parliament intervened and provided a statutory remedy for those aggrieved by groundless threats of patent litigation.
- 1.6 Since then, similar statutory remedies have been introduced for groundless threats made in respect of trade marks and registered and unregistered design rights. As we explain in Chapter 2, the provisions enable a person who is aggrieved by threats of infringement proceedings to go to court to demand that the threatener justifies their threat. If the threatener cannot, the claimant is entitled to a declaration, injunction and/or damages.

CRITICISMS

- 1.7 The statutory provisions have been criticised for not working as well as they should. They are thought to be overly complex, enabling experts to exploit technical loopholes while tripping up the unwary. We consider these criticisms in Chapter 3.

Driving cases to court

- 1.8 A major criticism is that the provisions are incompatible with the ethos of the Civil Procedure Rules (CPR), introduced for England and Wales in 1999 following the Woolf Report.⁵ The rules encourage the parties to discuss their differences before going to court. Yet the threats provisions enable some of those who receive a letter before action to rush to court by issuing proceedings for groundless threats. As Mr Justice Laddie put it:

There is then an obvious tension between the sensible “talk first” policy of the CPR and the “sue first” policy encouraged by the legislation.⁶

⁴ (1881-82) LR 19 Ch 386.

⁵ Lord Woolf, *Access to Justice: Final Report to the Lord Chancellor on the civil justice system in England and Wales* (July 1996).

⁶ *Reckitt Benckiser UK v Home Pairfum Ltd* [2004] EWHC 302 (Ch), [2004] FSR 37 at [17].

- 1.9 Although there is no equivalent to the CPR in Scotland, intellectual property specialists there raised similar concerns. At a seminar organised by the Scottish Law Commission we were told, for example, that a Scottish rights holder may prefer to issue proceedings for infringement in Scotland rather than write a letter and risk ending up before the High Court in London facing an action for groundless threats.⁷

Distinguishing “the trade source” from other alleged infringers

- 1.10 All the threats provisions allow some threats relating to the most serious infringements to be made. They distinguish between “primary” and “secondary” acts of infringement. The aim is to allow the rights holder to threaten the trade source of the infringement (such as the manufacturer or importer) with impunity but not to threaten softer targets (such as retailers or customers).
- 1.11 This seems simple in principle. Unfortunately, in practice the distinction between primary and secondary acts of infringement is highly technical and has caused problems, particularly where primary and secondary acts are carried out by the same party. In 2004, reforms to the patent legislation allowed a threat to be made to those who had made or imported a product, or used a process even if it referred to other secondary acts. However, these reforms do not apply to trade mark or design litigation and the risk remains that a threat that includes a reference to some other act of infringement, such as sale, will trigger the threats provisions.
- 1.12 In Chapter 5 we examine the provisions, and recommend that threats proceedings may not be brought for threats made to those who have carried out a primary act, nor for threats to those who intend to carry out a primary act. This will enable a rights holder to communicate with the trade source of the alleged infringement without fear of being rushed to court by a groundless threat claim.

Legitimate communications with secondary actors

- 1.13 In some cases, a rights holder may have a good reason for writing to a retailer or customer about possible infringements. For example, the rights holder may need to find out where the goods came from, or to notify an innocent infringer about the right.
- 1.14 The various provisions provide that the “mere notification” of the right or the communication of “factual information” about it will not be a threat, but stakeholders told us that it was very difficult to know where “mere notification” ended and an implied threat began. Advisers looked for much greater clarity about what could be said and in which circumstances.
- 1.15 We examine this issue in Chapter 6, and recommend a new exclusion from liability for making threats for legitimate communications.

⁷ The threats provisions apply to the whole of the UK: see para 1.27 below.

Liability of professional advisers

- 1.16 Liability for making threats is not limited to the rights holder: any person who issues a threat risks a groundless threat action being brought against them. This means that professional advisers, such as solicitors and registered attorneys, may be held jointly or severally liable for making threats, even when acting on client instructions.
- 1.17 Unsurprisingly, this is unpopular with professional advisers. We also think that it disadvantages rights holders, particularly when advisers refuse to sign letters, ask for indemnities or tell clients that they can no longer act for them. Small businesses, in particular, are disadvantaged when their advisers refuse to sign letters, as letters sent in the name of a small business may not be taken seriously.
- 1.18 In the Consultation Paper we noted that in Australia legal advisers were provided with immunity in 1990 and that this appears to be working well. In Chapter 7 we recommend that professional advisers should not be personally liable when they act in a professional capacity and on instructions from their client.

THE NEED FOR BALANCE

- 1.19 Patent law aims to strike a balance. It must “reward and encourage inventors without inhibiting improvements of existing technology by others”.⁸ The same can be said of other rights: the law must reward those who develop brands and designs, without impeding a competitive market.
- 1.20 Achieving this balance is vital to the economy. Yet intellectual property rights are only effective if they can be enforced. As the Jackson Review noted:
- The background to any IP regime must be a civil justice system which enables parties to assert or defend their IP rights ... Such a civil justice system must deliver correct judgments at affordable cost in the complex field of IP. This is no easy task.⁹
- 1.21 The law should enable rights holders to assert and defend their rights, but this must be balanced by curbs on abuse. Our aim is to make recommendations which adjust this balance, by making it easier for rights holders to pursue and resolve legitimate disputes without fear of groundless threats actions being brought against them. At the same time, we wish to protect traders against “bully boy” tactics, where rivals make unjustified threats to customers in order to scare away business.

⁸ *Societe Technique de Pulverisation Step v Emson Europe* [1993] RPC 513 at 519, by Hoffmann LJ.

⁹ The Jackson Review (December 2009) part 5, ch 24 at para 1.2.

INTERNATIONAL DISPUTES

- 1.22 Litigation over intellectual property rights has become international, as has been illustrated by several high profile disputes, such as those between Apple and Samsung,¹⁰ and Budweiser beer.¹¹ As we discuss in Chapter 2, a review of all patent cases filed at the Patents Court between 2000 and 2008 found that the number of foreign litigants now exceeds the number of domestic litigants.¹²
- 1.23 The European Union plays a central role in intellectual property law, not only in the harmonisation of national law but also through the introduction, regulation and enforcement of Community trade marks and design rights. The last piece of the jigsaw is the Unitary Patent, which is expected to become available in 2015.¹³ After a transitional period of concurrent jurisdiction with national courts, a single European court, the Unified Patent Court, will have exclusive competence to decide on issues such as infringement and validity. However, the general structure of the court is somewhat complicated and may present a problem in the long-term for threats actions.¹⁴
- 1.24 In the Consultation Paper we looked at how groundless threats were dealt with in seven other jurisdictions. All seven provide some form of protection against groundless threats, but they do so in different ways. While Australia, New Zealand and Ireland use a version of groundless threats provisions, the civil law countries we considered (Germany, the Netherlands and France) deal with threats as an aspect of general tort law or through unfair competition law. The Canadian approach is interesting as, despite its common law heritage, there are no threats provisions. The courts have instead developed the principles of the Paris Convention against unfair competition to protect traders against groundless threats.
- 1.25 The pressure to harmonise intellectual property law within Europe, and beyond, raises the issue of whether the UK should also adopt a new tort based on unfair competition. As we explore below, there was some support for this as a long-term solution, but the preference was to begin the process of reform by bringing the law for trade marks and design rights into line with that for patents.

¹⁰ Involving at least 50 lawsuits in 10 countries; see, for example, <http://www.fosspatents.com/2012/04/list-of-50-apple-samsung-lawsuits-in-10.html> and <http://www.emirates247.com/business/technology/samsung-google-vs-apple-2014-01-27-1.536273>.

¹¹ UK litigation between Anheuser-Busch and Budejovicky Budvar, which began in 1979, is still not resolved and has generated approximately 20 judgments in that time; the origins of the dispute date back to at least 1911. See *Budejovicky Budvar Narodni Podnik v Anheuser-Busch Inc* [2009] EWCA Civ 1022, [2010] RPC 7 at [6]-[9] and *Budejovicky Budvar Narodni Podnik v Anheuser-Busch Inc* [1984] FSR 413 at 419-420.

¹² See para 2.6 below.

¹³ See <http://www.ipo.gov.uk/pro-types/pro-patent/p-policy/pro-p-upandupc/pro-p-upc-faqs.htm>.

¹⁴ The Unified Patent Court is made up of a Court of Appeal (based in Luxembourg) and a Court of First Instance. The latter is made up of a central division (divided between Paris, London and Munich) and local/regional divisions. See further paras 8.31 to 8.41 below.

THIS PROJECT

The scope of the project

- 1.26 The project is limited to the law of groundless threats of infringement proceedings as it applies to patents, trade marks, and registered and unregistered design rights. We have not been asked to look at threats of copyright infringement, which raise different (and highly contentious) issues.
- 1.27 The law of groundless threats applies throughout the UK. As part of the law of intellectual property, it is a matter reserved to the UK Parliament and is not within the legislative competence of the Scottish Parliament.¹⁵ But there are nonetheless some specifically Scottish elements requiring consideration. In this project we have worked closely with the Scottish Law Commission on these Scottish aspects, but this is not a joint publication of the two Commissions.

Consultation

- 1.28 The project started in April 2012. We held preliminary consultations with stakeholders and set up an advisory group to assist us, with members drawn from the judiciary, lawyers, attorneys, rights holders and business.
- 1.29 The Consultation Paper was published on 17 April 2013. In it, we argued that statutory protection from groundless threats should be retained and reformed. We proposed two different approaches to reform.
- (1) *Evolutionary reform.* In 2004, the threats provision for patents was reformed, to extend the scope of excluded threats. We thought that, by and large, these reforms had worked well. We proposed to bring all the rights into line with each other, extending similar reforms to trade marks and design rights, and make some further modifications.
 - (2) *Wider reform.* We noted that most European jurisdictions deal with the problem of groundless threats as a form of unfair competition, in line with the obligations placed on signatory states by the Paris Convention. Canada, despite its common law background, has taken a similar approach. A person is liable for damage caused by making a false or misleading statement that tends to discredit the business, wares or services of a competitor. We asked if the UK should take a similar approach.

Responses to consultation

- 1.30 We received 21 responses, many of which were from representative groups. In Appendix B we list the individual members of two of these groups. Many of the responses went into great detail and were closely argued. We recognise that this must have involved a huge amount of work. We are extremely grateful to all those who responded.

¹⁵ Scotland Act 1998, Sch 5, Part II, Head C4.

1.31 We received responses from a wide range of consultees, which we have allocated to the following categories:

<i>Type of consultee/representative body</i>	<i>Number of responses</i>
Solicitor or barrister (individual responses)	4
Judiciary (includes group responses)	3
Patent or trade mark attorney (individual responses)	3
Rights holder	2
Trade, professional or industry body	9

1.32 Those we received responses from – and, where applicable, the abbreviation we use to refer to them in this Report – are:

Angela Fox	British Brands Group
British Broadcasting Corporation (BBC)	Chartered Institute of Patent Attorneys (CIPA)
City of London Law Society (CLLS)	George Hamer
Haseltine Lake LLP	Herbert Smith Freehills LLP
Institute of Trademark Attorneys (ITMA)	Intellectual Property Lawyers Association (IPLA) ¹⁶
IP Federation	Judges of the Court of Session
Law Society of England and Wales Intellectual Property Working Party (the IP Working Party)	Licensing Executives Society (Britain and Ireland) (LES)
Lord Justice Kitchin, Lord Justice Floyd, Mr Justice Arnold and Mr Justice Birss (the Patent Judges)	Marques
Qualcomm	Reddie & Grose LLP
Rt Hon. Professor Sir Robin Jacob	Scott & York Intellectual Property Law
Wedlake Bell LLP	

¹⁶ Both the IP Working Party and CLLS concurred with the response from IPLA; any issues on which they differed were noted separately in their responses.

- 1.33 The overwhelming majority of consultees agreed that the protection provided by the groundless threats provisions should be retained for all rights, though a few argued that they should not extend to unregistered design right.

Extending the 2004 reforms for patents to trade marks and design rights

- 1.34 There was overall support for evolutionary reform, particularly our proposal to allow threats to be made to the trade source of the alleged infringement without the risk of triggering a threats action. We therefore make detailed recommendations for new legislation. We are particularly grateful for the detailed responses we have received, which have led us to amend and refine our thinking in several areas.

Wider reform for the future?

- 1.35 We asked for views on the general principle of creating a new action of making false or misleading allegations in the course of trade which cause or were likely to cause loss to a competitor. There are gaps in the protection against threats that is currently available, particularly where the right in question is a Community right or a UK European Patent.
- 1.36 The case of *Best Buy Co Inc v Worldwide Sales Corp Espana SL* established that for Community trade marks at least, the threat must be to bring proceedings in the UK.¹⁷ In reaching this conclusion the court recognised that this opened up a loophole where a threat made to sue abroad avoided liability. As the market becomes more international and European rights more harmonised the effect of the *Best Buy* decision will be increasingly felt. A new action would provide a solution as it would be focused on the effect of the allegation rather than its specific content. It would also recognise threats and allegations for what they are, which is a form of unfair competition, and bring the UK into line with much of the EU.
- 1.37 Wider reform would also address other common ploys such as where a competitor threatens a rival and then circulates copies to those who deal with them, in the hope that this will damage the rival,¹⁸ or makes allegations that fall short of a threat but have the same damaging effect.
- 1.38 Nine consultees expressed some support for the idea, while eight were against it. Opposition was mainly on the grounds that that the change would add uncertainty and costs, and would delay badly needed reform. However, some of those who voiced concerns about a new action saw that wider reform might become increasingly necessary in the future. Therefore, although we do not pursue the idea at present, we think that serious consideration should be given to a new tort of false allegations, either as a UK measure or as part of wider EU reforms.

¹⁷ [2011] EWCA Civ 618, [2011] FSR 30. We think that the same would apply for Community design rights and UK European Patents; see ch 8.

¹⁸ See for example *Prince Plc v Prince Sports Group Inc* [1998] FSR 21.

THE STRUCTURE OF THIS REPORT

- 1.39 This Report is divided into nine further chapters.
- (1) Chapter 2 looks at the effect of threats and provides a short summary of the current law.
 - (2) Chapter 3 considers the need for to retain the protection against threats but to reform the law.
 - (3) Chapter 4 looks at the two models for reform and summarises the arguments for an evolutionary approach to reform as a first step, rather than the wider approach.
 - (4) The evolutionary reforms are set out in Chapters 5 to 7.
 - (a) Chapter 5 recommends that threats may be made to primary actors without incurring liability.
 - (b) The recommendations in Chapter 6 clarify when communication with secondary actors is legitimate and what may be communicated.
 - (c) Chapter 7 recommends that lawyers, registered patent attorneys and registered trade mark attorneys should not be liable for making threats when they act in a professional capacity and on instructions from their client. It also discusses further possible problems with the groundless threat provisions raised by consultees.
 - (5) Chapter 8 looks at what we have called the “Best Buy” gap, which is that the threats provisions do not apply to threats to bring proceedings somewhere other than the UK. This is a particular problem for Community rights and raises difficult issues in respect of Unitary Patents.
 - (6) Chapter 9 evaluates the potential impact of these reforms, looking at the economic benefits of making the changes.
 - (7) Chapter 10 lists the recommendations.
- 1.40 At Appendix A there are comparative tables showing the elements of the current law and how these will be affected by the reforms. Appendix B contains a list of the individual members of working groups involved in the group responses where these have been provided. Appendix C sets out the threats provisions.

THANKS AND ACKNOWLEDGEMENTS

- 1.41 Throughout this project we have been greatly assisted by the Scottish Law Commission, and in particular Professor Hector MacQueen. We are grateful for their invaluable advice on Scottish law and practice, and for their unstinting efforts in helping us to engage with judges, lawyers, practitioners and rights holders in Scotland.

- 1.42 We offer our warm thanks to the members our advisory group from whom we have received very valuable help throughout the course of the project. We have benefited greatly from their expertise and advice. The members are: Professor Sir Robin Jacob, Mr Justice Morgan, Mr Justice Birss, Michael Edenborough QC, Fiona Clark of 8 New Square, Penny Gilbert of Powell Gilbert LLP, Imogen Wiseman of Cleveland ip, Vicki Salmon of IP Asset LLP, Clive Davenport of the Federation of Small Businesses and Tom Scourfield representing the British Brands Group.
- 1.43 We thank those organisations that have so generously hosted events which enabled us to present our proposals for discussion and feedback. These are: Shepherd and Wedderburn LLP, who in May 2013 hosted a seminar organised by the Scottish Law Commission; SJ Berwin LLP,¹⁹ who in June 2013 hosted a seminar; and DAC Beachcroft LLP, who hosted a seminar in December 2013. We also extend our thanks to the IPkat for helping to publicise the consultation, the events and project updates.
- 1.44 We have been greatly assisted by Nina O’Sullivan of King & Wood Mallesons SJ Berwin, Nikki Powell of Haseltine Lake LLP, Imogen Wiseman and Fiona Clark on particular aspects of the law.
- 1.45 Finally, we are grateful to the Intellectual Property Office for their assistance and support throughout the project.

¹⁹ Now called King & Wood Mallesons SJ Berwin.

CHAPTER 2

THE CURRENT POSITION

INTRODUCTION

- 2.1 The threats provisions need to balance two objectives. First, they must allow rights holders to take the necessary steps to enforce their patent, trade mark or design rights. In particular, they should enable rights holders to prevent commercial damage by those manufacturing or importing infringing goods, which can cause the greatest harm. Secondly, they must prevent the misuse of threats, particularly those directed at a competitor's distribution network or customers.
- 2.2 These principles, although simple to state, have proved difficult to put into practice. At times the law has swung between providing too much protection for infringers and too little. Furthermore, piecemeal reform has resulted in inconsistencies in the provisions as they apply between the various rights.¹

THE VICE OF GROUNDLESS THREATS

- 2.3 Threats to sue would not work as well as they do if it was not for the real and perceived effects of intellectual property litigation. Intellectual property litigation is widely feared as being extremely expensive and disruptive.² As we show below, these fears have some foundation. This gives threats their bite, and means that they can be used to do great damage to a trade rival.

Financial cost

- 2.4 Lord Justice Jackson's review of civil litigation costs looked at a sample of 15 High Court intellectual property cases made up of 12 patent cases, two trade mark cases and one design case.³ Out of the 15 cases, three settled – with average costs to this point of £870,000 per case. In the rest, which were fought, the average costs to judgment were £650,000.⁴ These figures represent the costs of one of the parties to the dispute only.⁵ Costs will be lower in the Intellectual Property and Enterprise Court (formerly the Patents County Court), as there is a fixed scale of recoverable costs capped at £50,000.⁶ However, that still represents a significant amount of money, particularly for small businesses. As Lord Justice Jackson commented, with such litigation “a significant level of costs is unavoidable”.⁷

¹ See, for example, the Banks Report (July 1970) Cmnd 4407 at [274].

² Intellectual property litigation is conducted in specialist courts before specialist judges. It often requires the use of legal advisers and experts who are well versed in this area of law.

³ The costs were adjusted from actual costs to current costs by reference to the hours spent on the case at current hourly rates.

⁴ With costs in individual cases ranging from £200,000 to £1.2 million. See the Jackson Review (December 2009) Appendix 3.

⁵ The sample reviewed the costs data from the point of view of one firm, which represented the claimant in 10 of the cases and the defendant in 5.

⁶ CPR Part 45, Section IV, rule 45.31(1).

⁷ The Jackson Review (December 2009) part 5, ch 24 at para 2.2.

2.5 In 2010, a report on intellectual property enforcement in smaller firms found that:

- (1) *Costs deter enforcement.* The financial costs of intellectual property litigation, and in particular the costs of professional advice, were mentioned by some of the firms surveyed as a significant deterrent to litigation.
- (2) *Overseas enforcement is unaffordable.* The case studies focused on infringement in the UK but it was noted that UK infringement could be just the tip of the iceberg. Several interviewees stated that preventing infringement overseas was even more costly than UK litigation and often beyond their resources.
- (3) *Firms that litigate need resources to stay in the fight.* Solutions to problems in dealing with intellectual property litigation revolved around acquiring the resources needed to outlast the firm's opponents.⁸

2.6 A 2012 working paper on patent litigation in England and Wales analysed all patent cases filed at the Patents Courts between 2000 and 2008.⁹ There were some striking findings:

- (1) Patent litigation is in fact rare; there were 255 cases over the nine year period.¹⁰
- (2) Although media reports might feed the view that most litigation was conducted by information technology giants and patent trolls,¹¹ the majority of cases were concerned with chemical and pharmaceutical patents.
- (3) The data suggested that patent litigation in the UK is a “highly internationalised service”, with a substantially higher number of foreign claimants and defendants than domestic litigants.
- (4) From the available evidence on the costs of litigation, the indication was that most cases involved total claimant/defendant costs of between £1 and £6 million.

⁸ Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010); a survey was conducted of 1,858 small firms. In the report, micro firms were defined as those with between 0 and 9 employees and SMEs were defined as having between 10 and 250 employees. See also ch 9 where we discuss the report further.

⁹ Helmers and McDonagh, *Patent Litigation in the UK*, LSE Law, Society and Economy Working Papers 12/2012.

¹⁰ This conclusion may be borne out in Scotland too by the (limited) data available on intellectual property cases, which includes trade mark and design right cases as well as patent cases.

¹¹ The term is used pejoratively to refer to a person or company who acquires existing patents, but who does not manufacture the patented product or use the patented process. Instead, threats are made to others to enforce the patent in order to extract licence fees.

Time cost

- 2.7 Litigation does not only involve financial costs; there is also a time cost as the rights holder will have to play its part in the preparation of a case for trial. This will inevitably have an impact on the normal functioning of a business as management and staff resources are redeployed to deal with pending litigation; for smaller firms the effect can be debilitating. The 2010 study found that time cost was a major concern for the firms surveyed. The study noted:

The most pointed comments came from firms which had experienced major litigation. In such cases, the normal functioning of the firm seemed to be paralysed simply because of the demands of the litigation on almost all its central functions and resources. Whilst a larger firm might be able to cope with this, the effect on a less well resourced firm could be nearly terminal, even if the firm is at least partially successful in litigation.¹²

The effect of threats

- 2.8 The reputation of intellectual property litigation as costly and disruptive means that threats to sue are taken seriously by those they are aimed at. Retailers and other customers may have little invested in a product, which means that threats can significantly influence their commercial decisions such as where they source their stock. When faced with the prospect of litigation, retailers may decide that it is easier all-round to drop the product and look elsewhere. Unscrupulous rights holders have exploited this effect to disrupt a competitor's business.

THE DEVELOPMENT OF GROUNDLESS THREATS PROTECTION

Creating a new remedy for groundless threats

- 2.9 The first groundless threat provision was introduced for patents in 1883 as a response to the practice of threatening a rival's customers. Some competitors made threats with no real intention to bring proceedings, or in respect of weak or invalid patents that would not survive court scrutiny. Growing concern at the antics of some unscrupulous rights holders spurred the Government into action.¹³
- 2.10 Section 32 of the Patents, Designs and Trade Marks Act 1883 provided a remedy for those who found themselves aggrieved by a groundless threat. The section gave a person damaged by groundless threats a right to bring an action. It removed the stumbling block of proving malice by providing that it did not matter whether a threat was made in good faith or not.

¹² Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010) p 28.

¹³ A classic case is *Halsey v Brotherhood* (1881-82) LR 19 Ch 386, discussed at paras 1.4 to 1.5 above.

- 2.11 In 1883 it was a defence to an action for groundless threats for the person making the threat to bring and prosecute proceedings for infringement “with due diligence”.¹⁴ However, in 1932 the law was strengthened because of the growing practice of issuing proceedings (thereby avoiding a threats action), only to drop them as soon as a defence was filed.¹⁵ A new defence was introduced where the person who had made the threat could prove that the acts complained of were infringing.¹⁶
- 2.12 Threats provisions based on those for patents were eventually introduced for trade marks and design rights, and all share many common elements. Initially, the threats provisions applied only to national rights, but the protection was extended to Community trade marks and design rights as these were introduced.¹⁷ The crucial issue is whether the threat is to bring infringement proceedings in the UK.¹⁸

Introducing the distinction between primary and secondary acts

- 2.13 After the introduction of a groundless threats action for patents, concern grew that there may be too much protection for infringers, and particularly for those who could do the most commercial damage, such as manufacturers or importers.
- 2.14 In 1970, the Banks Committee reviewed the law and recommended that a distinction should be drawn between “primary” acts and other lesser “secondary” acts.¹⁹ The law was reformed so that a groundless threat claim could not be brought where the threat was to bring infringement proceedings in respect of primary acts, such as making or importing products. The Committee argued that this would discourage “proprietors from directing their concerns to retailers and customers, but leaves them free to approach manufacturers and importers”.
- 2.15 All the threats provisions now draw a distinction along these lines. They provide that a groundless threat action may not be brought for threats to bring infringement proceedings in respect of specified primary acts, such as making or importing products.²⁰ However, threats relating to secondary acts, such as selling products, remain potentially actionable.

¹⁴ Patents, Designs and Trade Marks Act 1883, s 32.

¹⁵ A finding of the Sargant Committee: see Report of the Department Committee on the Patents and Designs Acts and on the practice of the Patent Office (1930-31) Cmd 3829 at [163] and following.

¹⁶ Patents and Designs Act 1932, s 6.

¹⁷ See the Community Design Regulations 2005 (CDR 2005), reg 2 and the Community Trade Mark Regulations 2006 (CTMR 2006), reg 6. See also CP 212 ch 5.

¹⁸ *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618, [2011] FSR 30, discussed in ch 8 below.

¹⁹ The Banks Report (July 1970) Cmnd 4407 at [275].

²⁰ PA 1977, s70(4)(a); RDA 1949, s 26(2A); CDR 2005, reg 2(5); TMA, s21(1); CTMR reg 6; and CPDA, s 253(3).

Further reforms for patent law

- 2.16 In 2004, the patent provisions were reformed again to give more protection to those who threatened manufacturers and importers. Below we describe “the Cavity Trays” problem, which arose in the 1996 case, *Cavity Trays Ltd v RMC Panel Products Ltd*.²¹ As the law then stood, a groundless threat claim could not be brought for threats made to a manufacturer, for example, so long as the threat related only to infringement proceedings for making the product. However, if the threat strayed beyond this and mentioned a secondary act, such as selling the product, the threat was actionable – even if both acts were carried out by the same person.
- 2.17 The 2004 reforms exempt all threats made to those who have carried out a primary act – but only apply to patent law. The “Cavity Trays” problem therefore continues to apply to trade marks and registered and unregistered design rights.

A note on terminology

- 2.18 In this Report we refer to “primary acts” and “secondary acts” as convenient shorthand to distinguish between those acts of infringement for which threats of proceedings will not be actionable and those for which they will be.²²
- 2.19 For patents, this exclusion applies not only to allegations relating to primary acts but extends to all threats made to “primary actors”, even if the threat also included allegations of secondary acts.

THE THREATS PROVISIONS TODAY

- 2.20 In the Consultation Paper we looked at the current law of groundless threats in detail; the following paragraphs recap that material. We also discuss recent cases or other changes to the law where these are relevant.²³
- 2.21 The specific provisions are set out in Appendix C. These are:
- (1) the Patents Act 1977, section 70;
 - (2) the Trade Marks Act 1994, section 21;
 - (3) the Community Trade Mark Regulations 2006, regulation 6;²⁴
 - (4) the Registered Designs Act 1949, section 26;

²¹ [1996] RPC 361.

²² This distinction is not the same as that made in the Copyright, Designs and Patents Act 1988 (CDPA 1988) which defines primary and secondary acts of infringement for other purposes; see CP 212 paras 1.55 to 1.59.

²³ Those who require more background information should refer to the main practitioners’ texts. We have used for reference *Kerly’s Law of Trade Marks and Trade Names* (15th ed 2011); *Terrell on the Law of Patents* (17th ed 2011); Fysh, *The Modern Law of Patents* (2nd ed 2010); *Russell-Clarke and Howe on Industrial Design* (8th ed 2010); Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011) and Fawcett and Torremans, *Intellectual Property and Private International Law* (2nd ed 2011). See also CP 212 chs 1 to 3.

²⁴ SI 2006 No 1027.

- (5) the Copyright, Designs and Patents Act 1988, section 253; and
- (6) the Community Design Regulations 2005, regulation 2.²⁵

THE COMMON ELEMENTS

2.22 Each of the provisions differs slightly but they share common elements. To establish a case, the claimant must show that:

- (1) There has been a threat to sue for infringement in respect of a non-excluded act. As outlined above, the statutes exclude threats made in respect of “primary” acts and, for patents, threats made to “primary” actors. For example, no action may be brought for a threat of patent infringement proceedings made to a party who has made or imported the product in question.
- (2) The claimant has been aggrieved by the threats (but need not necessarily be the party who received the threat).
- (3) The defendant made the threat (but need not be the rights holder).

2.23 Once these requirements have been established:

- (1) The defendant has a defence if they can show that the acts complained of are, or would be, infringing.
- (2) Even where the threat is justified on that basis, the claimant is still entitled to a remedy if they can show that the intellectual property right in question is invalid.

2.24 A claimant who succeeds may seek a declaration, an injunction to stop the threats continuing, and/or damages for any loss caused by the threats. They may also be entitled to their costs.

An example

2.25 How the provisions work in practice is best illustrated by an example.

A, through its solicitor, sends a letter to a retailer, B, alleging that B is infringing its patent by retailing an automatic can opener that uses a process protected by the patent.

The letter threatens infringement proceedings, but A knows the patent is probably invalid and would never risk exposing this by bringing infringement proceedings.

Despite being a best seller, B stops stocking the can opener and returns all unsold can openers to its supplier, C.

²⁵ SI 2005 No 2339.

- 2.26 The provisions enable B and/or C to bring a groundless threat claim against A and/or A's solicitor. In doing so, either may seek an injunction to stop the threats being made, damages and a declaration that the threats are unjustified. A and A's solicitor have a defence to the claim if they can show that retailing the can opener constitutes an infringement of the patent. However, B or C may still be entitled to a remedy if they can show that the patent is not valid.

A threat

- 2.27 The threat made must be of legal proceedings for the infringement of a patent, trade mark, or registered or unregistered design right. There need not be any express mention of this as it is enough for the threat to be implicit.²⁶ The test is whether an "ordinary recipient in the position of the claimant" would understand the words communicated to contain be a threat.²⁷ In the recent case of *FH Brundle v Perry and another*, the defendant argued that as the threat had been addressed to a "worldly wise" company chairman it would not have been taken seriously. The Court rejected this and held that if a reasonable person in the shoes of the chairman understood the communication to be a threat, the extent to which it was taken seriously was irrelevant.²⁸
- 2.28 This broad test means that even the most innocuous communication might be taken to be a threat. For trade marks and design rights, what may legitimately be communicated is restricted to the mere notification of the existence of the right; this will not amount to a threat.²⁹ For patents, what may be communicated is wider. However, for all the rights it is easy to go beyond what may safely be said, inadvertently, and risk incurring liability. As a consequence, communicating with an alleged infringer can be fraught with difficulty.
- 2.29 The threat must be directed at a person and not be a general warning to one and all. It is not permitted, however, to issue a general warning worded in such a way that a particular alleged infringer can be identified. If the court is satisfied that "a warning finger is pointed against the products of some other specific manufacturer" the threat is actionable.³⁰ In *Johnson v Edge*, there were only one or two traders producing products similar to those of the patentee, so the general warning that had been given was found to amount to an implicit threat against them.³¹

²⁶ See, for example, *Speedcranes Ltd v Thomson* 1972 SC 324.

²⁷ *L'Oreal (UK) Ltd v Johnson & Johnson* [2000] FSR 686 at [12], by Lightman J.

²⁸ [2014] EWHC 475 (IPEC) at [27].

²⁹ Trade Marks Act 1994 (TMA 1994), s 21(4); CTMR 2006, reg 6; CPDA 1988, s 253(4); Registered Designs Act 1949 (RDA 1949), s 26(3) and CDR, reg 2(6).

³⁰ *Alpi Pietro e Figlio & C v John Wright & Sons (Veneers) Ltd* [1971] FSR 510 at 518, by Whitford J.

³¹ [1892] 2 Ch 1.

- 2.30 The threat must be understood to mean that proceedings would be commenced in the UK.³² In *Best Buy Co Inc v Worldwide Sales Corp Espana SL* the claimants planned to open a series of shops in the UK and Europe.³³ The defendant's Spanish lawyers wrote to say that they were entitled "to take the appropriate legal action" without specifying where the action would be brought. The court found that a reasonable recipient in the position of the claimants would have understood the letter to threaten proceedings in the UK; therefore the threats provisions applied.

Threats by legal advisers and others

- 2.31 A threat of infringement proceedings may be made by someone other than the rights holder, for example by someone acting on their behalf and on their instructions. In *Brain v Ingledew Brown Bennison & Garrett*, the first defendant was a firm of solicitors who had acted for the second defendant, their client. The correspondence alleged to be actionable threats made it clear that the solicitors were acting on instructions and on behalf of the second defendant, yet they were still caught up in extensive litigation.³⁴

A person aggrieved

- 2.32 Who may be aggrieved by the threat is a question of fact and is not limited to the person threatened.³⁵ Typically, a manufacturer may be aggrieved by threats to wholesalers or retailers. The test is whether the commercial interest of the person aggrieved is "likely to be adversely affected in a real as opposed to a fanciful or minimal way".³⁶

The defence of justification

- 2.33 It is a defence in a threats claim to show that the acts complained of are, or would be, infringing. Where this is shown, the threat is justified as there are grounds for having made it. In effect, by defending the threats proceedings, the defendant is forced to prove the allegation of infringement as if they had brought a direct action for infringement.³⁷ In the same way, the claimant can rely on any defence that would have been available, for example that the use had been consented to or was not in the course of trade.

³² While the judge did not address the point directly, it appears that this includes a threat to bring proceedings anywhere in the UK. A threat to raise an action in the Court of Session would therefore be actionable in the High Court, and vice versa.

³³ [2011] EWCA Civ 618, [2011] FSR 30.

³⁴ There are no less than four case reports spanning a two-year period: [1995] FSR 552; [1996] FSR 341; [1997] FSR 271 and [1997] FSR 511. We look at this problem more closely in ch 7 below.

³⁵ *Johnson v Edge* [1892] 2 Ch 1.

³⁶ *Brain v Ingledew Brown Bennison & Garrett (No 3)* [1997] FSR 511 at 520, by Laddie J. In *Jaybeam Ltd v Abru Aluminium Ltd* [1975] FSR 334, a manufacturer of step ladders was found to be a person aggrieved by threats made directly to its customers as this had affected sales.

³⁷ *John Summers & Sons Ltd v Cold Metal Process Co* (1948) 65 RPC 75.

Validity

- 2.34 Only a valid right can be infringed. For patents, trade marks and registered design rights, validity hinges on their proper registration. Therefore, for those rights, even where it can be shown that the acts are or would be infringing, the claimant is still entitled to a remedy if the right is shown to be invalid. A claim for groundless threats may include a claim for revocation of the right. For patents, there is a further issue surrounding the rights holder's belief in validity and we look at this in more detail below, where we discuss the 2004 reforms.

The remedies available for groundless threats

- 2.35 The principal remedies are a declaration that the threats are unjustified; an injunction (including an interim injunction) to prevent further threats; and damages in respect of loss sustained because of the threats.³⁸ Damages are recoverable for the natural and reasonable consequences of the threats. How much is awarded is assessed, usually after an inquiry, based on the damage done by the threats but "not damage done by anything else".³⁹

PRIMARY AND SECONDARY ACTS

- 2.36 Although all the various groundless threat provisions distinguish between threats made in respect of "primary" and "secondary" acts, there are some important differences between them – not least that the specified "primary" acts themselves vary between the different rights.

Trade marks

- 2.37 No groundless threats action may be brought for threats of proceedings for infringing a UK or Community trade mark, where the alleged infringement consists of one of the following three "primary acts":

- (1) the application of a mark to goods or their packaging;
- (2) the importation of goods to which, or to the packaging of which, the mark has been applied; or
- (3) the supply of services under the mark.⁴⁰

Design rights

- 2.38 Separate provisions apply to threats relating to UK registered and unregistered design rights and to Community design rights. However, they all share the same definition of "primary" acts. No action for making groundless threats may be brought where the alleged infringement consists of one of the following two acts:

- (1) the making of anything protected by design rights; or

³⁸ Patents Act 1977 (PA 1977), s 70(3); TMA 1994, s 21(2); CDPA 1988, s 253(1); RDA 1949, s 26(2) and CDR 2006, reg 2(2).

³⁹ *Ungar v Sugg* (1892) 9 RPC 114 at 118, by Lord Esher MR.

⁴⁰ TMA 1994, ss 21(1)(a), (b) and (c).

- (2) the importation of anything protected by design rights.⁴¹

Patents

2.39 For UK and European Patents, threats proceedings may not be brought where the alleged infringement includes:

- (1) the making or importing of a product for disposal; or
(2) the use of a process.⁴²

The “Cavity Trays” problem

2.40 Until section 70 of the Patents Act 1977 was reformed, threats proceedings could not be brought for threats that solely referred to making or importing a product or using a process. The restriction did not reflect reality, which was that a manufacturer or an importer will also pass the product down the supply chain.

2.41 The difficulty was that any reference to sale, supply or distribution risked liability for making threats. It was easy to fall foul of the section. Correspondence with an alleged infringer often asks for undertakings not to do certain acts. If these are agreed, that can be enough to settle the dispute. However, asking for undertakings not to sell or distribute was enough to trigger the groundless threats provision, while not asking for them did not completely deal with the infringement.

2.42 The problem was highlighted in *Cavity Trays Ltd v RMC Panel Products Ltd*.⁴³

Cavity Trays had developed a new type of cavity wall closer (“the Cavicloser”). RMC alleged that the Cavicloser infringed certain patents for which they held an exclusive licence. RMC’s lawyers wrote a letter before action to Cavity Trays which included a threat of infringement proceedings in respect of acts of manufacture, promotion, marketing, advertisement and sale of the Cavicloser.

Cavity Trays began proceedings for groundless threats against RMC. The issue before the court was whether the letter fell within the exclusion for “primary” acts, set out in section 70(4) of the Patents Act 1977. The trial judge held that it did: as the threats related to manufacture, no action for groundless threats could be brought. The Court of Appeal disagreed. They held that only the threats relating to manufacturing fell within the exemption. Threats in respect of promotion and sale were actionable, even when combined with threats about manufacturing made to the same alleged infringer.

⁴¹ RDA 1949, s 26(2A); CDR 2005, art 2(5) and CDPA 1988, s253(3).

⁴² PA 1977, s 70(4)(a).

⁴³ [1996] RPC 361.

Extending the exclusion to all threats made to “primary actors”

- 2.43 For patents, the problem was solved by inserting a new subsection into section 70. Under section 70(4)(b), where a threat is made to a person who has made or imported a product or used a process, no proceedings can be brought in respect of any other threats in relation to that product or process, including threats which relate to “secondary acts” such as selling.
- 2.44 No similar provision applies to trade marks or design rights, where the “Cavity Trays” problem remains.

OTHER PATENT REFORMS

- 2.45 Other important changes were made to patent law in 2004. As these were limited to patents, there are now significant differences in the law as it applies to the different rights.⁴⁴
- 2.46 Reform for patents was prompted by the concern that section 70 of the Patents Act 1977 discouraged “genuine and meaningful attempts” to settle disputes and thereby avoid litigation.⁴⁵ The need to settle differences without going to court had been given greater impetus by the radical overhaul of civil litigation brought about by the Woolf reforms in 1999.⁴⁶ Disputing parties were obliged to cooperate, negotiate and exchange information in order to resolve their differences. Yet, by complying with that obligation, a rights holder ran the risk of triggering the threats provisions.
- 2.47 To tackle this, more protection was given to rights holders who had a legitimate reason for contacting retailers and customers. It would not be a threat to provide factual information about the patent or to make assertions in order to find out whether a patent had been infringed or by whom.⁴⁷
- 2.48 Two new defences were introduced. These apply:
- (1) where a person making a threat against a “secondary actor” could show that they had used their best endeavours to find out the identity of the person who had manufactured or imported the product or used a process, but had failed;⁴⁸ and

⁴⁴ At the time the Government indicated that the changes would be extended to other relevant intellectual property legislation at the earliest opportunity: see Department of Trade and Industry and the Patent Office, *Consultation on the proposed Patents Act (Amendment) Bill: Summary of responses and the Government’s conclusions* (2003) para 142.

⁴⁵ Department of Trade and Industry and the Patent Office, *Consultation Paper on the Proposed Patents (Amendments) Bill* (November 2002) para 92.

⁴⁶ See Lord Woolf, *Access to Justice: Final Report to the Lord Chancellor on the civil justice system in England and Wales* (July 1996) for the background to the changes.

⁴⁷ PA 1977, ss 70(5)(a), (b) and (c).

⁴⁸ PA 1977, s 70(6).

- (2) where the patent was ultimately shown to be invalid, but the threatener could show that at the time of making the threat they did not know, and had no reason to believe, that the patent was invalid. Prior to the reforms, showing the patent to be invalid would have entitled the person aggrieved to a remedy.⁴⁹

CONCLUSION

- 2.49 Although we have only briefly set out the current law of groundless threats, it will be apparent that it is neither simple nor consistent. We summarise the main differences between the three rights in Appendix A, table 1. In the next Chapter we discuss the defects in the law and set out the case for reform in light of the consultation responses we have received.

⁴⁹ PA 1977, s 70(2A)(b).

CHAPTER 3

THE NEED FOR REFORM

INTRODUCTION

- 3.1 In the Consultation Paper we asked whether protection against threats should be retained. As discussed below, the overwhelming majority of consultees thought that it should be. However, consultees were equally clear that the law needs to be reformed. Here we summarise the defects we identified in the Consultation Paper and report on what consultees said about them. We reach the conclusion that the law should continue to protect against threats but be reformed.
- 3.2 We also look at whether the protection should continue for all of the rights currently covered by the groundless threats provisions or just some. One consultee suggested that there should only be threats provisions for patents. In the Consultation Paper we had asked for views on whether protection against groundless threats should be removed from unregistered design right. Below we examine the arguments for and against doing either of these things and conclude that protection should be retained for patents, trade marks and both registered and unregistered design rights.
- 3.3 In the chapters that follow, we look at the details of the reforms. In Chapter 4 we explain why consultees preferred an incremental approach to reform rather than the immediate introduction of a new, wider tort. In Chapters 5 to 7 we set out the detail of the incremental reforms.

RETAINING THE PROTECTION

- 3.4 Intellectual property litigation is not for the faint hearted. It can be hugely expensive and disruptive, involving specialist advisers, experts, lawyers, judges and courts. As a result, threats have the potential to do significant commercial harm. Faced with a well-timed threat, a business may drop a product, rather than face the strategic and economic disruption involved in litigation.
- 3.5 The threats provisions were introduced in the nineteenth century to clamp down on the misuse of threats, such as where there was no infringement, or no real intention to sue and so expose a weak patent to legal scrutiny.¹ The threats provisions still do that job today.

¹ First for patents and subsequently for trade marks and design rights. See CP 212 ch 2.

- 3.6 In the Consultation Paper we gave several examples of where the groundless threat provisions had been used to prevent real damage to a trade rival. In *Zeno Corporation v BSM-Bionic Solutions Management GmbH*, the retailers (Boots) stocked a device to treat acne (Zeno).² The defendant wrote to a large number of stores asking them why they had not taken its patent into consideration when marketing the product. As a result, Boots stopped ordering Zeno for a significant period of time, which caused loss to the manufacturer. The court found that the device did not infringe the defendant's patent and that the letters were actionable threats. In principle the Judge was prepared to grant a declaration of non-infringement and order an inquiry into damages for loss suffered by Zeno as a consequence of the threat having been made.³
- 3.7 Similarly, in *Quads 4 Kids v Campbell*, the claimants sold children's dirt bikes through eBay.⁴ When the defendant notified eBay that he had registered the designs of the bikes, eBay did not check the allegation. Instead, they removed the bikes from online listings. In fact, no infringement had occurred. The court granted an injunction to minimise damage during the crucial Christmas sales period.
- 3.8 A more recent example is *SDL Hair Ltd v Next Row Ltd*.⁵

SDL promoted and arranged the sale of a hair care product at a trade fair. A competitor, NRL, alleged that the product infringed a patent for which it had applied. NRL's solicitors wrote to SDL and its major distributors. The letter included a paragraph headed "Patent infringement".

Some of SDL's distributors declined to place orders for the product in case they risked being sued themselves. This had a very damaging effect on SDL's commercial position. SDL brought a threats action, by which time the patent had been granted. NRL brought infringement proceedings. These were heard together.

The court held that the letters went beyond providing factual information or making enquiries to discover whether there was an infringement. They were actionable threats for which NRL was liable.

The hair care product was ultimately found not to be infringing.

- 3.9 The case is a clear example of the continuing need for groundless threat provisions.

² [2009] EWHC 1829 (Pat), (2009) 32(10) IPD 32070.

³ The judge invited further argument as to what should be ordered.

⁴ [2006] EWHC 2482 (Ch), [2006] Info TLR 338.

⁵ [2013] EWPC 31.

THE ARGUMENTS FOR RETENTION IN THE CONSULTATION PAPER

- 3.10 In the Consultation Paper we suggested that the threats provisions were still needed for four reasons.⁶

The problem of threats persists

- 3.11 The problem of the abuse of intellectual property rights remains as potent as ever, if not more so. Partly this is because of the proliferation of rights in more recent times, particularly in industries such as information technology and the life sciences. A single product may be protected by a multitude of patents, trade marks and design rights. This means that the risk of tripping over someone's right has increased, while any litigation that might result has become more complex and costly. As seen in the *SDL* case, the prospect of being sued over the infringement of a single patent application was enough to cause significant commercial damage.

No adequate alternatives available

- 3.12 The groundless threat provisions were introduced because there was no other adequate remedy for groundless threats. Removing them would take the law back to the days of *Halsey v Brotherhood*, where a person whose commercial interests were damaged by a threat would have to rely on some other tort or remedy – but these have significant drawbacks.
- 3.13 Alongside the Consultation Paper we published two Background Papers which examined possible alternatives to protection from groundless threats.⁷ These explained that for each of the alternatives there were limitations, some severe. For malicious falsehood, there is a heavy evidential burden to prove malice; this is why Mr Halsey's claim failed. Defamation protects reputation rather than an economic interest. A claim for inducing breach of contract requires proof that the party making the threat knew of the contract and its key terms, and intended that the threats would induce the breach.
- 3.14 Some consultees suggested that the provisions were not needed as the availability of a declaration of non-infringement offered sufficient protection for the party threatened.⁸ Declarations are useful tools, but there are important differences between an action for groundless threats and a declaration. With declarations, the onus of proving that there has not been an infringement rests with the party seeking the declaration (the person aggrieved). By contrast, in a threats action, the threatener must prove infringement. Furthermore, with declarations the successful applicant is not entitled to financial compensation for loss suffered, nor can the court injunct against further threats.

⁶ See CP 212 paras 7.7 to 7.19.

⁷ Nina O'Sullivan (of King & Wood Mallesons SJ Berwin), *Background Papers 1 & 2: The common law torts and other remedies* (March 2013). The arguments are summarised in CP 212 ch 4. The Papers are available on our website at <http://lawcommission.justice.gov.uk/consultations/groundless-threats.htm>.

⁸ Herbert Smith Freehills LLP for example.

Other major jurisdictions address the problem

- 3.15 The problem of using threats to damage a competitor is not unique to the UK. In the Consultation Paper we looked at the law in seven jurisdictions: Australia, New Zealand, Ireland, Germany, the Netherlands, France and Canada. All seven jurisdictions provide some protection against groundless threats, though they do so in different ways. Some common law jurisdictions follow the UK approach and have specific statutory provisions.⁹ Others, including most civil law jurisdictions in Europe, deal with the problem of making threats either through general tort law or through unfair competition law. The UK would have to substitute the provisions with a viable alternative or risk being out of step with other jurisdictions.

International obligations under the Paris Convention

- 3.16 The Paris Convention for the Protection of Industrial Property, Articles 10*bis* and 10*ter* require signatory states to assure to nationals “effective protection against unfair competition”. This is defined as competition “contrary to honest practices in industrial or commercial matters”. Specific acts are prohibited, including “false allegations in the course of trade of such a nature as to discredit the establishment, the goods or the industrial or commercial activities of a competitor”.
- 3.17 The UK has no general law of unfair competition. Instead it seeks to comply with its obligations under the Convention through a series of torts and regulations, in which the threats provisions play a significant part.¹⁰ We think that without the threats provisions, or some alternative to the threats provisions, the UK would be in breach of its obligations.

CONSULTEES’ VIEWS ON RETENTION

- 3.18 We asked consultees whether protection against groundless threats should be retained.¹¹ In total we received 21 responses. Fifteen of those agreed that it should, while four thought that it should not, at least not for all rights.¹²

Consultees’ arguments in favour of retention

- 3.19 Many of those who agreed that the protection should be retained did so for one or more of the reasons we had put forward.

⁹ Australia, New Zealand and Ireland.

¹⁰ On the Scots law position, see CP 212 para 9.17.

¹¹ Question 3, CP 212 para 7.92.

¹² Two consultees commented without indicating whether they agreed or not.

- 3.20 The British Brands Group recognised that “a balance must be struck between protecting existing rights and stimulating new ideas and innovation”. Part of that balance included:

Some form of judicial or legislative redress against rights owners for “over zealous” enforcement of rights, particularly aimed at disrupting the supply chain rather than dealing with the source of the infringement.

The Group also acknowledges that provisions governing groundless threats may also reassure some brand owners that “bullying” will not be tolerated, so can be useful provisions.

- 3.21 The Institute of Trade Marks Attorneys (ITMA) thought that the potential to cause damage to a business’ supply network by groundless threats was “significant and there should be a retention of the legislation in some form”. They also agreed that “the UK law alternatives to a groundless threats action are not considered to be sufficient to protect the rights of those aggrieved” and that the UK lacked a broader based law of unfair competition to deal with the problem.

- 3.22 The Chartered Institute of Patent Attorneys (CIPA) thought that:

This protection serves a valuable role in ensuring that a rights holder does not use the presence of its right to shut down a competitor (potentially by targeting its supply network, rather than addressing the primary infringer). This is clearly not a fair use of the right by the rights holder.

CIPA went on to say that the threats provisions also encourage “best practice of investigating the rights holder’s case, prior to sending a warning letter” (at least among those aware of the provisions).

- 3.23 The IP Working Party noted that a number, but not all, of their members favoured abolition over reform, as reform would not fully reconcile the “uncertainties, difficulties and capricious effect” of the provisions. However, others saw that there was a public interest in protecting against groundless threats.

Arguments against retention

- 3.24 Angela Fox argued that the provisions could be used tactically and gave rise to “unnecessary complications and costs and are open to abuse”. Herbert Smith Freehills LLP pointed out that threat provisions did not exist for copyright or other torts.

CONCLUSION ON RETAINING THE PROTECTION

- 3.25 We think it is clear that protection against groundless threats of infringement should be retained. Removing that protection would give a free hand to the misuse of groundless threats. Those who suffer economic damage from threats would be deprived of a remedy, one that is valued and used today. We acknowledge consultees’ concerns about the tactical use of the threats provisions, but we think these concerns are addressed by the package of reform we recommend.

- 3.26 **We recommend that protection against groundless threats of infringement proceedings should be retained.**

RETAIN PROTECTION SOLELY FOR PATENTS?

The BBC's arguments

- 3.27 The BBC argued that there should only be protection against threats for patents. The threats provisions had originated in patent law and made sense because patent actions are so expensive and complicated, and because the patent is often integral to the product in question. There was therefore a risk that commercial activity would stop in the face of a threat being made. However, the BBC did not feel that the provisions were useful for trade marks and design rights. From experience the BBC could not “recall a situation where, as the recipient of a threat, the threats provisions were helpful” to them. On the rare occasions the BBC may have received an actionable threat, these were frequently from those who may not have had access to proper advice and were “rarely, if ever” made in circumstances where they “want to take the point and commence proceedings”.
- 3.28 On the other hand, as a trade mark owner, the BBC found that “the risk of a threats action makes drafting a sensible, understandable, protocol-compliant letter before action quite difficult”.¹³ They also found that with so much infringement online “it is often quite difficult to distinguish acts of primary infringement from those of secondary infringement”.

Retaining protection solely for patents: conclusion

- 3.29 We have not been persuaded that the law should be changed in the manner suggested by the BBC. Like patents, registered design rights and trade marks are monopoly rights. As Lord Justice Kitchin, Lord Justice Floyd, Mr Justice Arnold and Mr Justice Birss pointed out in their joint response, for that reason they “are more capable of being abused in a damaging way” than non-monopoly rights.¹⁴ Nor is it the case that only patent litigation is complex and costly. The Budweiser beer trade mark dispute between Anheuser-Busch and Budejovicky Budvar has still not reached resolution after 35 years despite there having been over 20 judgments.¹⁵ The difficulties with the law as experienced by the BBC do need to be tackled, but not through abolition of the provisions for trade marks and design rights. We make other recommendations to address these issues.

¹³ The BBC is referring to the pre-action protocol for civil litigation which requires disputing parties to make their concerns known to each other and not rush into litigation.

¹⁴ We refer to the judges collectively as the Patent Judges throughout this Report. They commented on issues of general principle and did not respond to questions that had policy implications.

¹⁵ See *Budejovicky Budvar Narodni Podnik v Anheuser-Busch Inc* [2009] EWCA Civ 1022, [2010] RPC 7 at [6]-[9] and *Budejovicky Budvar Narodni Podnik v Anheuser-Busch Inc* [1984] FSR 413 at 419-420.

RETAIN PROTECTION FOR UNREGISTERED DESIGN RIGHTS?

- 3.30 Currently there are threats provisions for patents, trade marks, registered and unregistered design rights. We asked in the Consultation Paper whether the protection should continue to apply to unregistered design rights (both Community and UK).¹⁶ Consultees put forward strong arguments both to retain and remove the protection, but the majority supported keeping it for design right.¹⁷ In the Consultation Paper we set out reasons for and against keeping the change which we briefly recap here.

The case against keeping protection for UDR

- 3.31 Design right is peculiar to the UK and was introduced as a response to what was perceived by some as the misuse of copyright to protect industrial designs.¹⁸ The right shares characteristics with copyright, for example it arises automatically and does not depend on registration for validity. This means that it can be easier to infringe the right inadvertently. Therefore, there are circumstances where a rights holder is obliged to communicate with someone they suspect may be infringing, but doing so risks incurring liability for making threats. A rights holder must make contact to:

- (1) perfect a claim for secondary infringement under section 227 of the Copyright, Designs and Patents Act 1988;
- (2) justify an order for delivery up under section 230(1)(b) of that Act; or
- (3) dispel a defence of innocent infringement which would deny the rights holder any damages under section 233 of the Act.¹⁹

- 3.32 A leading text questions the need for threats protection for unregistered designs. It suggests that it was introduced:

Simply to provide a parallel with registered designs and not because design right proceedings were perceived as being unduly complex or expensive.²⁰

¹⁶ Question 4, CP 212 para 7.92.

¹⁷ Of those who responded to the question, 13 thought the protection should be retained, five did not and two others made comments without indicating a preference.

¹⁸ By s 213 of the CDPA 1988. See further CP 212 para 1.46 and following. See also CP 212 ch 5, where we discuss Community design rights.

¹⁹ See CP 212 para 7.76 and following for more detail.

²⁰ Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011) para 61.3.

The case for keeping the protection

- 3.33 In the Consultation Paper we put forward two arguments for retaining the protection. First, although much design litigation may be simple and straightforward, that is not always the case. We gave the example of the Apple and Samsung cases, which involved “complex and detailed” material.²¹ Some design disputes can be every bit as difficult and expensive as those for patents or trade marks, which is why threats to sue can be potent.
- 3.34 The second (and main reason) was that removing protection for unregistered designs while retaining it for registered designs would open up a loophole which could be abused. Registered and unregistered rights often subsist concurrently in a single article or product. Below we discuss how trade mark holders may threaten passing off to side step the threats provisions.²² We thought that the same would happen here. Registered design right holders would threaten retailers or customers in respect of unregistered design right, thereby side stepping the threats provisions. The first a defendant might know of the registered right would be when an action was brought.²³

Consultees’ comments

- 3.35 Five consultees argued that the groundless threats provisions should no longer apply to unregistered designs. The main argument was on the grounds of consistency. The provisions do not apply to other unregistered rights, such as copyright and unregistered trade marks, so removing the protection would bring the law into line. The City of London Law Society (CLLS) thought it “illogical” that there were threats provisions for unregistered design right but not copyright, “given the close interaction” between the two rights.²⁴ They argued that if other unregistered rights were to remain outside the provisions, then so should unregistered designs. Angela Fox made a similar point, noting that the right is “more akin to copyright than registered designs”.
- 3.36 Some consultees thought that the provisions presented practical difficulties for rights holders. The Licensing Executives Society (LES) thought that the provisions were inconsistent with the requirement to notify an infringer of the right in order to perfect a claim for secondary infringement.
- 3.37 Reddie & Grose LLP felt that the lack of a central register meant that there was “no (even theoretical) possibility for a potential infringer to check” for existing rights before selling or marketing a product. Therefore, the “primary (likely only) way” for a person to be made aware is for the rights holder to alert them to the existence of the right. They felt strongly, however, that there must be an effective means of preventing abuse on the basis of an alleged unregistered right, which in their experience could be “very disruptive, potentially fatal to businesses, especially small ones”.

²¹ *Samsung Electronics (UK) Ltd v Apple Inc* [2012] EWHC 1882 (Pat), [2013] ECDR 1 at [65], by HHJ Birss QC.

²² See para 3.53 below.

²³ See further CP 212 para 7.84.

²⁴ They gave the example of footwear and jewellery, where the two rights often sit side by side.

- 3.38 The majority of consultees, however, thought there should be no change to the protection for unregistered design rights. There were common themes in the responses.
- 3.39 For some consultees the most persuasive factor was the impracticality of treating registered and unregistered design rights differently. CIPA accepted that, to the extent that unregistered design right was akin to copyright, it was “illogical” that protection applied to one but not the other. However, they concluded that it would still be helpful to include design right within the protection:
- If a dispute is likely to encompass both registered and unregistered designs, then it is helpful that the same regime applies to both rights. Otherwise letters before action are likely to become even more convoluted as they try to steer a course through the different threats provisions.
- 3.40 ITMA came down on the side of retention, even though the right sat somewhere between copyright and registered design rights, and was arguably more closely aligned with copyright. They concluded that if protection was removed it “would open up a new loop-hole which could be open to abuse”.
- 3.41 Haseltine Lake LLP considered that the “core wrong” was the abuse of a claim to the right, and it was that which should be regulated. Once that principle was recognised it did not matter whether the right in question was registered or unregistered, pending, enforceable or unenforceable.
- 3.42 Other consultees argued that unless there was a clear need for change the status quo should be preserved to provide certainty for businesses,²⁵ or to promote a unified and consistent approach to reform for all intellectual property rights.²⁶

Retaining protection for unregistered design rights: conclusion

- 3.43 The majority of consultees supported keeping protection. We think that the arguments for doing so are stronger than those for abolition.
- 3.44 We think that excluding the unregistered right from protection would be an unhelpful change where there are registered and unregistered design rights subsisting in a single article. Not only would it add complication, it would also open up a new avenue for abuse. We accept that the law as it stands is impractical, as correspondence has to be skilfully drafted to avoid incurring liability for threats, but we make recommendations to address this issue in Chapters 5 and 6. Excluding unregistered design right may exacerbate the problem, rather than ameliorate it.
- 3.45 **We recommend that groundless threats protection should continue to apply to UK and Community unregistered design rights.**

²⁵ The IP Federation.

²⁶ Herbert Smith Freehills LLP and the British Brands Group.

THE NEED FOR REFORM

- 3.46 The current law of groundless threats suffers from several defects. We examined these in the Consultation Paper and provisionally concluded that the law should be reformed to address them.
- 3.47 We asked whether the law should be reformed at all. Consultees were unanimous that it should be.²⁷ This included those consultees whose first preference had been for abolition of the provisions. We therefore have no hesitation in recommending that the law is reformed.
- 3.48 The defects we identified in the Consultation Paper fall into three broad categories,²⁸ which we outline below. We asked whether we had correctly identified the problems with the law²⁹ and whether other problems existed.³⁰

The provisions are too easily avoided

- 3.49 We thought that in some circumstances it was too easy to avoid the groundless threats provisions. There are specific loopholes which allow a party to make a threat without risking liability.

Issuing proceedings

- 3.50 The provisions only apply to threats of infringement proceedings, so a simple way of side stepping them is to issue proceedings and then open negotiations. For some well resourced rights holders this may be an attractive option as it puts them in a position of strength. As has been noted, “there is all the difference between threatening to put the knife in and offering to pull it out”.³¹

Making allegations rather than threats

- 3.51 The line between an allegation and a threat is a difficult one to draw. A threat may be implicit and the courts have interpreted the concept of a threat widely. In the *SDL* case, for example, a comment that it was for a judge to decide on the issue of infringement was found to be a sufficient indication of the likelihood of proceedings to constitute an actionable threat.³² However, with careful drafting it may be possible to convey the desired message without incurring liability.
- 3.52 Another means of deterring a competitor’s customers is to sue the competitor and publicise that fact widely. As explained in *Samsung Electronics (UK) Ltd v Apple Inc*, a customer may think “I had better not buy a Samsung – maybe it’s illegal and if I buy one it may not be supported”.³³

²⁷ Question 5, CP 212 para 7.92.

²⁸ See CP 212 paras 7.25 to 7.65.

²⁹ Question 1, CP 212 para 7.92.

³⁰ Question 2, CP 212 para 7.92.

³¹ *Reckitt Benckiser UK v Home Pairfum Ltd* [2004] EWHC 302 (Ch), [2004] FSR 37 at [15], by Laddie J, quoting Anthony Walton QC.

³² [2013] EWPC 31.

³³ [2012] EWCA Civ 1339, [2013] FSR 9 at [83], by Sir Robin Jacob.

Threatening to bring proceedings not covered by the provisions

- 3.53 Only threats to bring infringement proceedings for patents, trade marks or design rights come within the provisions. Therefore, a threat to sue on a different right, such as copyright or passing off, will not incur liability. We were told, for example, that practitioners may sometimes threaten to sue for passing off, when the real problem was trade mark infringement: an inexperienced recipient may then be shocked to find themselves sued for trade mark infringement without warning.

Making threats to sue in non-UK courts

- 3.54 The final loophole concerns Community and European intellectual property rights. The threats provisions only apply where the threat is, or can be understood to mean, that proceedings will be brought in the UK.³⁴ It is therefore possible to avoid the groundless threats provisions by expressly threatening to sue in another jurisdiction, so that the provisions do not apply. For example, a company incorporated outside the UK but wanting to develop a market in the UK may be threatened with proceedings in the state in which they are incorporated even though the loss is felt in the UK.³⁵

The effect of the provisions is too wide

- 3.55 The second problem is that the provisions are open to abuse. They can have unintended consequences, for example by deterring steps towards settlement through negotiation.

Trade marks, design rights and the “Cavity Trays” problem

- 3.56 The “Cavity Trays” problem, discussed in Chapter 2, still affects trade marks and design rights. Threats to primary actors (such as manufacturers) which threaten infringement proceedings for secondary acts (such as selling) are caught by the provisions. This makes it difficult for a rights holder to write a clear letter before action to the trade source, even when the trade source appears to be responsible for serious and damaging infringement.³⁶ It is particularly difficult to ask for undertakings not to infringe in the future.

³⁴ *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618, [2011] FSR 30.

³⁵ See para 8.20 below.

³⁶ See further paras 2.40 to 2.42 above.

Driving cases to court

- 3.57 Threats may be express or implied; what matters is whether the communication would be understood as a threat by the ordinary recipient in the shoes of the person aggrieved.³⁷ Even permitted communication, such as the notification of a right, could in some circumstances be unsettling. There is a grain of truth in a consultee's light-hearted comment that receiving a birthday card from a well known firm of solicitors that specialised in intellectual property could come across as threatening. This means that communication between disputing parties is fraught with difficulty. The recipient of even the most innocuous correspondence may decide to bring a threats action, with the result that litigation is begun precipitously.
- 3.58 This can also make it difficult, if not impossible, to comply with the ethos of the Civil Procedure Rules (CPR). The rules were introduced in 1999 following the Woolf Report.³⁸ They embody a culture whereby disputing parties are expected to set out the issues and make genuine attempts to resolve their differences without recourse to court. In particular, the Practice Direction on Pre-Action Conduct requires the parties to inform each other of their allegations and any terms for settlement before issuing proceedings.
- 3.59 The groundless threats provisions drive cases to court in two ways. First, a person affected by a threat may decide to bring a groundless threats action. This allows them to seize the initiative. For example, the threats action may be started in the High Court in London where there is no fixed costs regime, even if the threatener intended to sue in the Intellectual Property Enterprise Court (formerly the Patents County Court) where there is. This may impact heavily on rights holders who have limited resources.³⁹ Alternatively, a threatener who intends to sue in Scotland may be forced to litigate in England if the threats proceedings are begun there; this may result in additional cost and great inconvenience. Secondly, in order to prevent such things from happening, the threatener may themselves proceed straight to the court of their choice without any pre-action communication – even though this contravenes the spirit and possibly the letter of the CPR.
- 3.60 In Chapter 1, we quoted the view of a report produced for the Intellectual Property Office that litigation “is probably the most expensive way to reach a decision and one that the system should be designed to avoid”.⁴⁰ At present, the groundless threat provisions encourage litigation rather than avoid it.

³⁷ *L'Oreal (UK) Ltd v Johnson & Johnson* [2000] FSR 686.

³⁸ Lord Woolf, *Access to Justice: Final Report to the Lord Chancellor on the civil justice system in England and Wales* (July 1996).

³⁹ See also para 3.76 where CIPA described this problem in relation to small enterprises who threaten larger and better resourced infringers of their intellectual property rights.

⁴⁰ Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010) p 64.

- 3.61 In the Consultation Paper we commented that, until recently, judges have sometimes been reluctant to penalise a party in costs where the non-compliance with the CPR was to avoid the groundless threat provisions. However, the CPR was amended on 1 April 2013, and compliance has now become part of the “overriding objective”.⁴¹ The court is required to enforce compliance with rules, practice directions and orders. The recent case of *Mitchell v News Group Newspapers Ltd* suggests that the new regime will be robustly applied.⁴² The result is that the parties and those who advise them are put in a very difficult position.

Using threats tactically

- 3.62 The provisions apply to any person who makes a threat. This means that legal advisers and others may be held jointly liable for making threats, even when acting on instructions.⁴³ The threats provisions can be used tactically to drive a wedge between adviser and client.⁴⁴
- 3.63 The risk of liability means that advisers may be reluctant to carry out instructions or will demand an indemnity from a client. In the Consultation Paper we outlined various ways in which this adds to costs: for example, where an adviser receives notification of a groundless threat action against it, it must notify its insurers and may be unable to continue to act. Advisers may also be reluctant to put their name to a letter, giving the misleading impression that the claim is not serious and has not been drafted on legal advice. Small businesses are particularly disadvantaged if their initial letter is dismissed.

Complexity and inconsistency

- 3.64 The law of groundless threats has its roots in patent law, and has grown and developed incrementally over the years, generating a large body of case law. To extend groundless threats protection to other rights, new provisions have been “bolted on” to existing Acts. There are many differences between the provisions – some small, some not – which have led to inconsistency in how the law applies to the different rights. The result is that the law is now opaque in places and ambiguous in others, which can make it difficult to use or comply with.

CONSULTEES’ VIEWS ON THE NEED FOR REFORM

- 3.65 All consultees agreed that the law is defective and needs to be reformed. The Patent Judges thought it “clear that the current law is not satisfactory for the reasons given in the Consultation Paper” and accordingly should be reformed.

⁴¹ See CPR Part 1, rule 1.1.

⁴² [2013] EWCA Civ 1537, [2013] 6 Costs LR 1008. In *Mitchell*, solicitors did not file their costs schedule with the court in time and were only allowed to claim for the court fee; this represented a huge reduction in what they could recover if their client won his case.

⁴³ See, for example, *SDL Hair Ltd v Next Row Ltd* [2013] EWPC 31, where a company officer was held personally liable for making threats.

⁴⁴ See, for example, *Brain v Ingledeu Brown Bennison & Garrett (No 1)* [1995] FSR 552, where a threats claim was made against the solicitors that had issued the allegedly threatening letters as well as the client on whose instruction the solicitors had acted.

- 3.66 That said, there were differing views on the scale of reform needed. Professor Sir Robin Jacob agreed reform was needed but cautioned against more “fiddling” with the law. By contrast, George Whitten thought the provisions were “basically sound” but needed “fine tuning”.
- 3.67 There was general agreement that the effect of the provisions was too wide. They could discourage pre-action discussions, could be used tactically and were open to abuse. Views on whether the provisions offered insufficient protection were more mixed. Several consultees did not consider this to be a problem.

Are the provisions too easily avoided?

- 3.68 Some consultees agreed that it was too easy to avoid the provisions. As the British Brands Group put it, the law is “often ineffective in any event, since it is easily circumvented”. Professor Sir Robin Jacob thought the well advised rights holder who sued first with no prior letter and then offered to settle was “just as intimidating commercially if not more”. Nor was there a solution where a “party sues but drags the proceedings out to keep the market uncertain”.⁴⁵ He also highlighted the problem where a party is sued for infringement and that fact is widely publicised. The resulting bad publicity might be enough to put off potential customers of the party sued, for fear that they may become embroiled in the dispute.
- 3.69 However, many consultees did not think that the provisions were too easily circumvented. For example, the IP Federation did not “generally perceive a problem with the current provisions being too narrow”. Herbert Smith Freehills LLP did not see a “loophole” problem in practice. Nor did the IP Working Party, CLLS and the Intellectual Property Lawyers Association (IPLA) believe that the provisions were easy to avoid. Instead, the overwhelming problem was that the provisions drove cases to court. Proceedings often had to be started because “it is not possible to ‘craft’ a letter which does not fall foul of the provisions”.

Discouraging pre-action discussions

- 3.70 For many consultees, the main problem was the difficulty of sending a pre-action letter to a potential infringer. As Herbert Smith Freehills LLP put it:

The problem of communication in advance of proceedings, required by the CPR, and the risk of this being interpreted as an actionable threat, causes a great deal of concern to IP lawyers.

- 3.71 They agreed that following the changes made to the CPR in April 2013 there is now a greater risk that failing to write a letter, for fear of a threats action, would not be excused and might lead the court to impose sanctions.

⁴⁵ This may, however, be more of an argument in favour of increasingly robust case management by the courts rather than for specific reform of the provisions.

- 3.72 LES felt that the provisions “commonly discourage discussions being held in an open and ultimately productive manner” and that they “are widely recognised to be inconsistent with the principles of the Civil Procedure Rules”. The risk posed by the provisions was “a major deterrent” to rights holders acting in accordance with those principles and encouraged rights holders to issue proceedings as a first rather than last resort.⁴⁶
- 3.73 Wedlake Bell LLP commented that the provisions created a “serious dilemma” for disputing parties over whether to run the risk of a threats action by complying with the CPR or to disregard them and risk an adverse costs order. Qualcomm added that the law created “the rather perverse situation where parties are more likely to go straight to the courts” rather than have frank discussions that might result in a business solution.
- 3.74 For some members of the British Brands Group the provisions made little difference to their pre-action conduct and they “were happy to make the threat explicit and deal with any threats allegation as part of the substantive dispute”. However, the Group noted that others thought the existing law “bounced” the dispute into litigation sooner rather than later, which “escalates matters unnecessarily”.
- 3.75 Even threats to a trade source could fall foul of the provisions, as where the threat also referred to secondary acts of trade mark infringement. ITMA explained that parties may be reluctant to disclose their trade mark registrations, as that was the only certain way to avoid a “tactical and retaliatory” threats action which would “divide them from their client”.
- 3.76 CIPA thought that the threats provisions particularly disadvantaged small and medium enterprises (SMEs). For example, a large company which received a threat from a SME might respond with a High Court action for groundless threats:
- Therefore the SME, instead of starting litigation in the [Patents County Court] with its limited costs regime ... may find itself in the High Court with no such protection unless a transfer is ordered (and the costs cap will not apply to those pre-transfer costs). The threats provisions as they stand therefore cause an imbalance in the playing field which should be addressed.
- 3.77 Haseltine Lake LLP pointed out that the threats regime is often incompatible with alternative dispute resolution (ADR):

The courts actively encourage ADR (and can impose cost sanctions on parties who do not attempt it) and it is difficult to see how a prospective claimant can meaningfully engage in ADR without disclosing its prospective claim and indicating that if settlement were to fail it may commence proceedings.

⁴⁶ LES noted that, despite the fact that the CPR do not apply in Scotland, it was generally regarded as good practice there to issue pre-action correspondence. The view that court action should be a last resort was also apparent from comments made at the Scottish Law Commission seminar held in Edinburgh in May 2013 which was attended by Scottish intellectual property practitioners.

Suing legal or other professional advisers

- 3.78 Many of those who responded thought the risk of joint liability for legal advisers was counterproductive. For example, the IP Working Party, CLLS and IPLA all considered it “problematic” that the provisions applied to legal advisers acting in their professional capacity. They explained that:

The provisions can indeed drive a wedge between adviser and client even if the adviser is not sued. A tension may be created between adviser and client if there is a perceived lack of willingness to write a letter. Such tension can be increased if there is a need to obtain an indemnity from the client in respect of liability for threats or to include such provisions in standard terms and conditions of engagement.

- 3.79 However, one consultee – Professor Sir Robin Jacob – did not regard the potential liability of legal advisers to be a problem at all:

Far from it – it is a healthy restraint on cowboy (and other) legal advisers – of whom there are lots out there. The [Law] Commission needs to understand that it will not have representations from the legal profession about this, but the problem is very real indeed.

Complexity and inconsistency

- 3.80 The BBC agreed that the defences to threats actions in patent law were “overly complicated”.⁴⁷ They felt that in relation to trade marks, the provisions “add a layer of complexity and difficulty to the pre-action conduct of the respective parties without providing any measurable benefit whatsoever”.

- 3.81 CIPA noted that in general the provisions are “perceived as being too complicated and cause considerable expense” in complying with them. They considered that:

The salient problems identified by the Commission are that the provisions are too complex and vary between rights. Bringing the provisions for trade marks and design rights into line with the provisions for patents is, at least, the minimum step forward necessary in reforming the provisions.

- 3.82 Some consultees commented on the inconsistency in the law. The IP Working Party, CLLS and IPLA thought it “problematic”. The British Brand Group thought that there was “little justification” for it. Qualcomm considered that the “short term aim of these reforms should be to achieve consistency in the way threats are treated” between the different rights.

- 3.83 Marques commented that:

The lack of clarity in the rules means it is a recipe for confusion, especially amongst SMEs that are less inclined or able to seek specialist legal advice before raising their objections with third parties.

⁴⁷ The BBC had argued that only threats provisions in respect of patents should be retained.

The law leads to unnecessary costs

- 3.84 The defects in the current law that we have described make the law difficult to apply and comply with. We asked consultees if they could provide evidence of the impact the threats provisions had on how they handled infringement disputes.⁴⁸ Consultees told us that the provisions increase the cost of dealing with infringement cases.⁴⁹
- 3.85 The IP Working Party, CLLS and IPLA said that proceedings are “inevitably issued at the outset” with the additional cost that entails. Yet some cases would “undoubtedly settle without proceedings being necessary if an ordinary letter before action could be sent”. Haseltine Lake LLP shared the view that the provisions made it “more likely that an IP rights holder goes straight into litigation”. This necessarily led to an increase in costs and made the matter harder to settle post issue.
- 3.86 Angela Fox explained that the provisions made it difficult for a legal adviser to send a letter before action that complied with the CPR’s Practice Direction on Pre-Action Conduct, without first issuing a protective claim form or obtaining an indemnity from the client. This, she said, “causes real difficulties in the cost-effective resolution of IP disputes”.
- 3.87 Reddie & Grose LLP thought that on the whole the provisions were beneficial for responsible practitioners as “they ensure care and caution” in handling disputes. However:

When used as a tool by aggressive litigators, they can rack up expense and deter small rights holders from pursuing infringement of their rights.

- 3.88 We explore these costs further in Chapter 9.

Other problems with the current law

- 3.89 We asked if there were other problems with the law that we had not identified.⁵⁰ Consultees raised three possible “loopholes” that we did not address in our Consultation Paper.

⁴⁸ Question 31, CP 212 para 10.5.

⁴⁹ We look at the comments made in more detail in ch 9 below.

⁵⁰ Question 2, CP 212 para 7.92.

Threats to sue in the new Unified Patent Court

- 3.90 CIPA were concerned about how the UK groundless threat provisions would interact with the changes to the enforcement of patents granted by the European Patent Office (EPO).⁵¹ Once the law has changed, the EPO will grant either patents that are a bundle of national rights (as now under a European Patent) or a single right with unitary effect (a Unitary Patent).⁵² A Unitary Patent will be enforced in the Unified Patent Court and not in the courts of the UK. It is not clear how threats to sue in the Unified Patent Court will be treated.
- 3.91 This is a complex issue, which we explore in more detail in Chapter 8.

Criminal sanctions for registered design infringement

- 3.92 CIPA also drew attention to the proposed introduction of criminal sanctions for the deliberate copying of a registered design.⁵³ CIPA suggested that a misused threat of criminal proceedings will be “perceived as far more significant to a competitor’s customers than civil litigation” and will “create far more damage”.
- 3.93 Similar criminal sanctions already exist for other rights, such as trade marks,⁵⁴ though threats to prosecute do not appear to be a problem in practice. In Chapter 7 we consider whether the groundless threat provisions should be extended to threats to prosecute.

⁵¹ This is expected to take effect in 2015: see <http://www.ipo.gov.uk/pro-types/pro-patent/p-policy/pro-p-upandupc/pro-p-upcfaqs.htm>.

⁵² The Unitary Patent will only be available in the 25 EU member states who have participated in the Unitary Patent scheme. Those states that have not participated, such as Italy and Spain, will continue to have patents that are a bundle of national rights.

⁵³ Clause 13 of the Intellectual Property Bill [HL] 2013-14 inserts a new section into the RDA 1949: s 35ZA. At the time the response was submitted, this provided that it will be an offence where a person, without the consent of the rights holder and in the course of business, copies a registered design to make a product that is exactly or substantially similar to that design, knowing or having reason to believe that the design is registered.

⁵⁴ TMA 1994, s 92(1) provides that an offence will be committed where a person, with a view to gain for himself or another or with intent to cause loss to another, applies to goods or their packaging a sign identical to, or likely to be mistaken for, a registered trade mark without the consent of the rights holder.

Delivery up of infringing goods

- 3.94 For trade marks and designs, rights holders may apply to the court for the delivery up of offending articles.⁵⁵ The IP Working Party, CLLS and IPLA said that it is unclear whether the threats provisions extended to threats to make these applications. They commented that the proceedings are not for infringement as such, but relate to the infringing articles. The remedy is:

Directed against anyone who happens to have infringing articles in their possession, custody or control for commercial purposes but there is no knowledge requirement: in short, the possessor may well not be an infringer at all.

As a consequence, it is not clear whether a letter threatening a standalone application for delivery up of the relevant infringing articles comes within the provisions.

- 3.95 In Chapter 7 we discuss whether the new legislation should specify that threats to apply for delivery up fall within the threats provisions.

CONCLUSION ON THE NEED FOR REFORM

- 3.96 There was general agreement that the law needs to be reformed. Consultees thought that the current law produces problems in practice and adds to the expense of disputes. It also disadvantages SME rights holders, who may lack the legal skills to craft careful letters and whose infringement warnings can be met with tactical groundless threat actions by their opponents. SMEs may be put off trying to enforce their intellectual property rights for fear of finding themselves caught up in threats proceedings brought by a larger, better advised and better financed competitor.
- 3.97 Furthermore, there is a clear tension between the risk of incurring liability for making threats and the obligations on parties to negotiate to avoid litigation. The problem will, we believe, become more acute given the increasingly robust attitude of the courts to non-compliance with the CPR.
- 3.98 Our reforms tackle this by removing the danger of a threats action for threats made to a trade source (or “primary actor”). We also recommend improved defences where there is a legitimate reason for a threat to a secondary actor. Consultees agreed that the ability to sue legal and professional advisers can be used tactically to divide adviser from client. It may even be used aggressively to rack up costs. In Chapter 7 we recommend removing this flaw by preventing threats actions against legal and professional advisers acting in a professional capacity and on instructions.
- 3.99 Consultees perceived the current law to be too complex. We agree that it lacks cohesion and clarity. Safely navigating around the provisions requires specialist help and advice, which again adds to costs. We therefore recommend that groundless threats law concerning patents, trade marks and design rights should be harmonised and that areas of obscurity should be clarified.

⁵⁵ TMA 1994, s 16; CTMR 2006, reg 5(3); CDPA 1988, s 230; RDA 1949, s 24C and CDR 2005, reg 1B.

- 3.100 By contrast, there was less agreement that the law needs to be strengthened to prevent threateners from exploiting loopholes. In Chapter 4 we explain why we recommend an incremental approach to reform of the current law at this time, rather than a new tort of unfair competition.
- 3.101 **We recommend that the law of groundless threats of patent, trade mark and design rights infringement should be reformed.**

CHAPTER 4

THE SHAPE OF REFORM

INTRODUCTION

- 4.1 We have recommended that protection against threats of infringement proceedings should be retained and reformed. In this chapter, we consider some preliminary issues before discussing the building blocks of reform in Chapters 5, 6 and 7.
- 4.2 First, we look briefly at the aims of reform and summarise what consultees have said they want from the changes we might recommend. Next, we discuss which of the two models of reform that we proposed in the Consultation Paper should be pursued. The first was evolutionary: to extend the 2004 reforms for patents to trade marks and design rights, and introduce some further “safe harbours” for communication. The second was to replace the existing provisions with a new tort of false allegations.¹ The majority of consultees preferred incremental reform for now; however, many saw the benefits that the introduction of a new action might bring for the future.

THE AIMS OF REFORM

- 4.3 In Chapter 3 we set out what we consider to be the defects in the current law. Among these are that the law is complex, difficult to understand and difficult to use. It is also inconsistent between the rights and as a result it is too easy to be caught out and face liability for making threats. The lack of clarity about what may be safely communicated to whom discourages dialogue between disputing parties that might lead to resolution. We also think that the current regime means that legal advice and guidance is more expensive as it requires the use of experts in this field. The aim of the reform we put forward is to tackle these issues head on and put in place a simpler regime that can be understood and followed without necessarily resorting to specialist help and advice.
- 4.4 Some responses were very clear about what was expected from any changes made to the law. They wanted comprehensible and straightforward law that provided a “platform” or “safe harbour” to facilitate communication with an alleged infringer.

¹ In Scotland, a delict. See also the Glossary for other Scottish equivalent terms.

- 4.5 The Patent Judges commented on the balance that must be struck by the provisions. They said that it was “positively desirable” for the law to enable rights holders to enforce their rights and to promote negotiations between parties. On the other hand, “abusive threats of IP infringement proceedings are capable of causing considerable damage”. In striking a balance between these two aims they advised that “one perspective that merits emphasis is that of access to justice”, in particular for individuals and small and medium sized enterprises. They said that:

Viewed from that perspective, it is important that the law should be simple to understand, straightforward to apply and correspond with the common sense of parties who may well not have access to sophisticated legal advice.

- 4.6 The Chartered Institute of Patent Attorneys (CIPA) also called for a system that made it straightforward for rights holders to engage in meaningful discussions, free from the risk of incurring liability for making threats. This was a particular problem for small enterprises that held intellectual property rights, because large companies could bring a groundless threats claim in the High Court first, where the limited costs regime of the lower courts does not apply.²
- 4.7 The need for clarity in the law was emphasised by the IP Working Party, the City of London Law Society (CLLS) and the Intellectual Property Lawyers Association (IPLA) who said:

What rights holders need to know is who they can threaten, in respect of precisely what, and they need to be able to set out their complete case against the recipient, including expressly mentioning the sale of articles (which is consistent with the CPR).³

EVOLUTIONARY REFORM OR A NEW REGIME?

- 4.8 The main thrust of the reform proposed in the Consultation Paper was to build on the changes made for patents in 2004 and to extend these to trade marks and design rights.⁴ We described this as an evolutionary approach which would allow the law to develop along familiar lines without introducing a jarring change.⁵ We also sought initial views on a different approach, which was to replace the existing law with a new tort of making false allegations in the course of business. The proposal was made in outline only, to gauge whether there was sufficient support in principle for the idea to be taken forward.

² There is a fixed costs regime capped at £50,000 in the Intellectual Property Enterprise Court (formerly the Patents County Court); see para 2.4 above.

³ The Civil Procedure Rules (CPR); see further para 3.58 above.

⁴ We have also made recommendations for the further reform of some of those changes made to the law for patents in 2004; see paras 5.64 to 5.65 and paras 6.119 to 6.120 below.

⁵ See CP 212 ch 8.

- 4.9 Overall, consultees favoured the evolutionary approach. They thought that this would be less disruptive and would build on many familiar elements of the current law. The IP Working Party and IPLA, for example, favoured the “evolutionary, rules-based approach which at least has the benefit of greater certainty”. The IP Federation made a similar point; they preferred an evolutionary type of reform “in order to maintain certainty”.
- 4.10 Some consultees did not think that the existing law was so defective that it warranted replacement. Qualcomm explained that the threats provisions were “basically sound; they just need fine tuning” and that the solutions to the defects in the law “are not revolutionary; they are evolutionary”. Similarly, Haseltine Lake LLP thought that the current law “is not so flawed as to require to be replaced”.
- 4.11 In Chapters 5, 6 and 7 we outline recommendations that build on the current provisions but harmonise them into a single regime. We recommend that threats proceedings may not be brought for any threats sent to someone who has carried out, or intends to carry out, a primary act. For example, it would be possible to make a threat to someone who has applied a trade mark to goods in order to sell them and refer to both those acts without risking a threats action. This will bring the law for trade marks and design rights into line with that for patents.
- 4.12 We think this change should result in fewer threats actions and help ensure that threats are aimed at the source of the infringement. Well resourced and determined infringers will no longer be able to bounce smaller enterprises with limited resources into court by bringing a threats action early on in a dispute. It will also go some way to addressing the problem where rights holders who intend to pursue a case for infringement in Scotland find that the matter will have to be dealt with by the High Court in London because a threats action has been started there.
- 4.13 Those who threaten secondary actors, such as retailers, will still risk a threats action being brought against them. However, we think it should be possible to communicate with secondary actors in certain circumstances, for example, in order to identify the source of the infringement. In Chapter 6 we make recommendations to enable safe communication to take place through the use of a statutory “safe harbour”. For it to apply there must be a legitimate commercial purpose behind the communication. We also clarify what may be communicated, and explain that there should be reasonable grounds for believing it to be true.
- 4.14 Also in Chapter 6, we recommend that the defence that applies for patents which allows a rights holder to threaten a secondary actor where the primary actor cannot be found should apply for trade marks and design rights. However, this will be only where they have used reasonable endeavours to find the primary actor.
- 4.15 Chapter 7 deals with the issue of the personal liability of professional advisers for making threats where they act for rights holders. We think that this will significantly reduce the opportunity to use the threats provisions tactically to exacerbate disputes. It will also reduce legal costs as it will no longer be necessary to seek an indemnity and explain to a client what that involves.

- 4.16 We consider that these reforms will go a long way to solving the difficulties identified in Chapter 3. However, some consultees saw an evolutionary approach as being a first step to deal with immediate problems rather than a long-term solution. As intellectual property rights become increasingly harmonised across Europe, there is a case for a more harmonised approach to groundless threats, based on the Paris Convention for the Protection of Industrial Property.
- 4.17 Below we outline what such a new action for false allegations might look like. We then discuss consultees' views, looking at what attracted consultees to the possibility of making this reform and what caused them concern.

A NEW UK CAUSE OF ACTION FOR FALSE ALLEGATIONS

- 4.18 Most civil law countries do not have specific statutory provisions to deal with groundless threats of patent, trade mark and design rights litigation. Instead, the potential abuse is dealt with under general tort law or a specific tort of unfair competition. Specific torts are in most cases based on the Paris Convention. This approach offers broader protection than the UK's groundless threat provisions.

The Paris Convention for the Protection of Industrial Property

- 4.19 The Paris Convention, first signed in 1883, was the World's first treaty on intellectual property law.⁶ The relevant provisions were introduced in 1900. Under Articles 10(1)*bis* and 10(2)*bis* of the Convention, signatory states must assure to nationals "effective protection against unfair competition", which is defined as acts of competition "contrary to honest practices in industrial or commercial matters".
- 4.20 Specific acts are prohibited under Article 10(3)*bis*, which Article 10*ter* requires signatories to provide "appropriate legal remedies effectively to repress". For present purposes the most important is:

False allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor.⁷

⁶ It now has 175 signatories and is said to be one of the most widely adopted treaties. The convention obligations are also required by the World Trade Organisation in the Agreement on Trade-Related Aspects of Intellectual Property Agreement (TRIPS), art 2(1).

⁷ Article 10(3)*bis*, para 2.

- 4.21 The Guide to the Application of the Paris Convention explains that the allegations need not be made maliciously. It states:

The mere fact of discrediting a competitor by untrue allegations which would discredit his business, goods or services, even without injurious intention on the part of the person making the allegations, is sufficient for the application of this provision. It has been left for the domestic legislation or case law of each country to decide whether, and under what circumstances, discrediting allegations which are not strictly *untrue* may also constitute acts of unfair competition.⁸

- 4.22 Unlike some countries, the UK has not enacted the Paris Convention's articles specifically. Moreover, the UK is almost alone among EU member states in that it does not have any distinct law of unfair competition or of unfair practices that private rights holders can enforce.⁹ Instead, protection against unfair competition is provided by "a mosaic of complementary actions", which includes the groundless threats tort.¹⁰

Does the UK comply with the Paris Convention?

- 4.23 We think that the protection offered by the common law torts alone would be insufficient to comply with the obligations imposed by the Paris Convention.¹¹ Therefore, the current protection against groundless threats is necessary as part of the "mosaic" to secure compliance.¹²
- 4.24 However, it is not clear that the current provisions, even when set in the framework of other complementary actions, provide sufficient protection to ensure compliance with the Paris Convention. For example, a company may suffer loss due to a false, widely publicised allegation (short of a threat), that its product infringes a competitor's intellectual property right. These facts appear to fall squarely within Article 10(3)*bis*. Yet the company would have no claim under the groundless threats provisions, and it seems unlikely that there would be any adequate common law alternatives.¹³

⁸ Bodenhausen, *Guide to the Application of the Paris Convention for the Protection of Industrial Property* (1968) p 145(g), emphasis in original.

⁹ Ireland also has no specialised body of competition law and adopts a similar approach to that of the UK. However, unlike the UK, private rights holders can enforce some provisions of the EU Unfair Commercial Practices Directive: see Hogan Lovells, *Study on Trade Secrets and Parasitic Copying (Look-alikes)* MARKT/2010/20/D paras 43-45. This was a report produced for the European Commission on Parasitic Copying.

¹⁰ Alkin, "Should there be a tort of 'unfair competition' in English law?" (2008) 3(1) *Journal of Intellectual Property Law & Practice* 48. A recent addition to this patchwork is the Unfair Commercial Practices Directive 2005/29/EC, which prohibits misleading trade practices against consumers within the EU. It is enacted within the UK as the Consumer Protection from Unfair Trading Regulations 2008 (SI 2008 No 1277). At present the Regulations only provide for enforcement by public enforcement bodies. However, together with the Scottish Law Commission, we have recommended that consumers be able to enforce these rights before the civil courts: see Consumer Redress for Misleading and Abusive Practices (2012) Law Com No 332; Scot Law Com No 226.

¹¹ See CP 212 paras 9.13 to 9.16.

¹² Above, paras 6.45 and 7.19.

¹³ We discuss the alternative remedies that are available in CP 212, ch 4.

4.25 Similar concern that the UK's patchwork of torts and delicts does not discharge the obligations imposed by the Paris Convention has been expressed in the context of passing-off, most recently in research commissioned by the Intellectual Property Office.¹⁴ In particular, UK law does not appear to provide protection to an aggrieved party in a straightforward misappropriation situation.

4.26 The British Brands Group were clear on the question of whether the UK complied:

It does not, notably in the area of providing redress against misleadingly similar packaging.

4.27 Conversely, Qualcomm pointed out that Article 10*bis* is over 100 years old. In that time there had been no challenge on whether the UK fails to comply with it. We think it is arguable whether the UK has complied in full with its obligations, but we note that the issue has persisted for over a century and has caused relatively little concern.¹⁵

Potential gaps in protection

4.28 One advantage of a new tort is that it would extend protection to all those damaged by false allegations.

4.29 In Chapter 3 we identified four potential loopholes which might allow a rights holder to undermine the position of a competitor by making false allegations that their intellectual property rights have been infringed. These occur where infringement proceedings already have been issued; where allegations fall short of threats; where threats are made to sue for a different right; or where threats are made to sue in non-UK courts. As we saw, some consultees agreed that these gaps were a problem, though others did not think that there was a "loophole" problem in practice.¹⁶

The structure of the new tort

4.30 The tort that we outlined in the Consultation Paper was also modelled on Art 10*bis* of the Paris Convention and would apply to patents, trade marks and design rights. It would require three actors. Where A made an allegation to B, which caused or was likely to cause loss to C's business, C would have a claim against A for that loss. C would not need to show that the allegation of infringement was untrue. However, A would have a defence if they could show that the allegation was true and not misleading. As with defamation and the current threats provisions, the burden of proof would lie with A.

¹⁴ Morcom, "Gowers: A Glimmer of Hope for UK Compliance with Article 10*bis* of the Paris Convention" (2007) 29(4) *European Intellectual Property Review* 125; Hogan Lovells, *Study on Trade Secrets and Parasitic Copying (Look-alikes)* MARKT/2010/20/D paras 64-67 and 93.1-93.4; and Intellectual Property Office, *The Impact of Lookalikes: Similar packaging and fast-moving consumer goods* (2013) Annex II.2.1. For a contrary view, see *L'Oreal SA v Bellure NV* [2007] EWCA Civ 968, [2008] ETMR 1 at [146]-[148].

¹⁵ See CP 212 para 9.18.

¹⁶ See paras 3.68 to 3.69 above.

- 4.31 In broad terms, the elements of the new tort would be that that the allegation must:
- (1) relate to the infringement of a patent, trade mark or registered or unregistered design right;
 - (2) be made in the course of trade; and
 - (3) tend to discredit the establishment, goods or activities of a competitor.
- 4.32 There would be no need to show that the person making the allegation knew that it was untrue or misleading. The effect of this would be to reverse the rule that false allegations are only actionable if they are malicious.¹⁷
- 4.33 As outlined, the tort is limited to patents, trade marks and design rights. However, we also suggested that it would be possible to include allegations in respect of copyright or other rights if this was thought desirable in the future.
- 4.34 In devising the basic structure of the new tort we looked at how the problem was dealt with by other countries and, in particular, the Canadian approach to providing protection against unfair competition. Canada, a country with a common law heritage that has drawn heavily on UK law, has adopted a more general tort of unfair competition. The tort is based on Article 10(3)*bis*.¹⁸ In a leading case, *S & S Industries v Rowell*,¹⁹ the Supreme Court of Canada confirmed that the tort did provide protection against groundless allegations of patent infringement.²⁰
- 4.35 We sought initial views on the general principle of whether such a tort should be introduced. As we explained, if consultees were in favour of replacing the existing regime with a new tort this would only mark the beginning of the process. More work was necessary to flesh out the detail of the reform, which would necessitate further consultation.

¹⁷ See, for example, *Halsey v Brotherhood* (1881-82) LR 19 Ch 386; it would similarly reverse the rule in the Scots law of verbal injury that a statement must be proved false.

¹⁸ See the Trade-marks Act 1985 (Canada), s 7; see further CP 212 paras 9.25 and 9.26.

¹⁹ [1966] 48 SCR 193.

²⁰ See further CP 212 paras 9.27 to 9.28.

CONSULTEES' VIEWS ON WIDER REFORM

- 4.36 20 consultees gave their views on the issue. Nine consultees expressed some support for wider reform.²¹ Eight consultees were opposed – the majority in principle, with the rest unhappy with the practical consequences that would flow from such a major change in the law.²² The remainder offered comment on the arguments for and against wider reform.²³
- 4.37 Consultees who supported the introduction of a new tort also agreed with our preference for a cautious approach to such a change,²⁴ with six emphasising the need for further careful thought.

Arguments for wider reform

- 4.38 Five main arguments were put forward, in some cases as part of a discussion as to the relative merits of such a change where the consultee ultimately decided against it.

Simplify and clarify the law

- 4.39 The Patent Judges suggested that a tort of unfair competition “merits further consideration, because it would enable the law to be more simply stated and more flexible in its application”.
- 4.40 Consultees with extensive direct experience of the day-to-day making and receiving of threats also considered this a powerful argument. CIPA thought that:

The creation of a new tort would provide the advantage that the law would be simplified because the same standard would be applied across all forms of IP right, and negates the need for exemptions to be set out for specific rights in the statute.²⁵

- 4.41 CLLS agreed:

In practice, a new tort such as that suggested will be easier to understand so far as the “lay” person is concerned and the courts are well able to decide the kinds of issues that will arise.²⁶

- 4.42 George Hamer also recognised that a new tort would simplify the law in that it could potentially replace a number of existing actions; for example, it could remove the need for a separate tort of passing off.

²¹ Angela Fox; CIPA; CLLS; the Judges of the Court of Session; the Patent Judges; LES: Marques; Reddie & Grose and Prof Sir Robin Jacob.

²² BBC, Haseltine Lake LLP; IPLA; the IP Working Party and Qualcomm rejected the principle. Herbert Smith Freehills LLP did not think that the threats provisions should be retained in any shape or form. Scott & York Intellectual Property Law and the IP Federation were concerned about the effect of the change.

²³ British Brands Group; George Hamer and ITMA.

²⁴ See CP 212 para 9.46.

²⁵ CIPA represents 3500 professionals with an interest in intellectual property law.

²⁶ CLLS represents over 15,000 solicitors.

Broader protection

- 4.43 Some consultees agreed that a new tort could provide broader protection, primarily by closing the gaps in the current law that we had identified. The Institute of Trade Marks Attorneys (ITMA) thought the new tort an “attractive proposition” for that reason, and considered that it “would offer flexibility and allow the courts to mould the new tort to various situations”.
- 4.44 Marques also saw merit in the proposal for a new tort which could “encompass making unjustified threats amongst other acts”.

Ensuring compliance with the Paris Convention

- 4.45 We have already discussed whether the UK discharges its obligations under the Convention. The Patent Judges suggested that the change would have the ancillary benefit of “enabling the UK more clearly to comply with its treaty obligations [under the Paris Convention]”.

Consistency with other states

- 4.46 Some consultees suggested that wider reform would have the advantage of aligning the UK with other countries. The Patent Judges thought that wider reform would have the benefit of:

Making this aspect of UK law more consistent with that of other countries, particularly other EU Member States.

- 4.47 ITMA also thought that the change could make the “UK more closely aligned with other countries in the EU”, although it might not go so far as to harmonize the law.
- 4.48 George Hamer considered that if such a tort was introduced:

This would bring UK law more into line with the laws of other European countries.

Community rights and the Unitary Patent

- 4.49 CIPA raised a concern about the impending changes to the law of European Patents. They noted that from 2015 the European Patent Office will grant either patents that are a bundle of national rights (as now, under a European Patent) or a single right with unitary effect (a Unitary Patent). There remains much that is uncertain about how the enforcement of Unitary Patents will work with national law, such as the groundless threats provisions. However, if enforcement is predominantly outside the UK, the relevance of the threats provisions will become marginal.²⁷
- 4.50 The Licensing Executives Society (LES) raised a similar point but also noted that with continued attempts to harmonise Community rights “the continued existence of the UK threats provisions potentially places the UK at a disadvantage”.

²⁷ We discuss this issue in greater detail in ch 8 below.

Opposition to wider reform and a tort of unfair competition

- 4.51 The arguments against can be grouped into four themes.

The reform is not needed

- 4.52 Six consultees argued that wider reform was unnecessary on the basis that the current provisions were either “not so flawed” that wholesale change was needed or because the other common law torts, such as unlawful interference with business and trade libel, could do the same job.²⁸ This was often coupled with a concern that embarking on wider reform may delay the possibility of evolutionary reform, which the majority of consultees saw as a higher priority. For example, Scott & York Intellectual Property Law said that:

Although a new statutory tort would on the face of it be desirable, this would cause delay in implementing any reform, which would not be desirable. Furthermore, we feel that creation of a new statutory tort is probably “overkill”, given that many of the issues with the current regime are being addressed by this consultation.

Increased uncertainty and cost

- 4.53 Several consultees were concerned that a new tort would increase rather than decrease uncertainty. The response of the IP Federation was fairly typical of this group in that they saw that there were advantages to the approach, but feared that it “would cause considerable uncertainty (and hence increased costs) in the short to medium term”. IPLA thought it would cause a lengthier period of uncertainty.
- 4.54 As we discuss in Chapter 9, consultees thought that a new tort would add to costs, at least initially. Practitioners would need to become familiar with it and would bring additional cases to test its boundaries.

New problems and unforeseen consequences

- 4.55 Haseltine Lake LLP suggested that a tort of unfair competition “is likely to have substantial adverse and unforeseen consequences”. Qualcomm made a similar point. Although the British Brands Group was neutral overall on the introduction of a new tort, they were concerned that it “could create as many problems as the current regime”.

The reform does not go far enough

- 4.56 Haseltine Lake LLP considered that wider reform “still does not break the current link between the infringement issue and the threats issue”, which they considered to be a desirable re-conceptualisation of the tort. This is because the proposed defence, whereby the allegation is shown to be true and not misleading, could require the threatener to establish that the threatened party was infringing.

²⁸ Haseltine Lake LLP and Herbert Smith Freehills LLP respectively.

CONCLUSION ON THE SHAPE OF REFORM

- 4.57 It is clear from consultees' responses what is wanted: reform of the current law sooner rather than later, which causes the minimum of disruption. However, strong arguments were made for this to be a first step only, not least because of the impending introduction of the Unitary Patent. We think that this, together with other moves towards the harmonisation of intellectual property law, will lead to calls for a more European approach to how oppressive and unfair commercial behaviour is dealt with in the UK. A more comprehensive regime to tackle unfair competition may be required to ensure that the UK is not left at a disadvantage.
- 4.58 We recommend that the current law is retained and reformed so that the threats provisions for patents, trade marks and design rights are brought into line. In the following chapters we set out details of these "evolutionary" changes, which build on the current provisions and the 2004 reforms to patent law. We think that these reforms can be introduced quickly and easily, without adding to costs. We hope that a legislative opportunity can be found to implement them as soon as possible.
- 4.59 At this stage we are not recommending the introduction of a new tort of false allegations which discredit a competitor. We accept that in the short-term this would bring a period of uncertainty and additional costs. However, we note that intellectual property is becoming ever more international in scope, with many disputes covering multiple jurisdictions. In the long-term we think that serious consideration should be given to the introduction of a new tort along the lines of the Paris Convention, either as a UK measure or as part of wider EU reforms.
- 4.60 Below we provide an illustration of the sort of case where a wider tort may be needed.

An illustration

- 4.61 A common ploy is to write a letter making a groundless threat to a rival trader, and then circulate a copy of the letter to those who deal with them, in the hope that this will damage the rival. The letter may be circulated not only to customers but also to potential investors, suppliers and others.
- 4.62 An example of this tactic is to be found in *Prince Plc v Prince Sports Group Inc.*²⁹ Here the claimants supplied computer services under the domain name "prince.com". Two years later the defendants wrote to them to say that they owned "the famous PRINCE trade mark" which they used in connection with sports goods. The defendants copied the letter to NSI, a domain name registrar based in the USA. NSI then told the claimants that if they failed to file suit or relinquish the name, their domain name would be put on hold, so no-one could use it. The claimants used groundless threats provisions to show that using the mark in connection with computer services did not infringe a mark registered to sports goods.

²⁹ [1998] FSR 21.

- 4.63 As we explain in Chapter 5, following our reforms, any threat made to Prince Plc would not be actionable in itself if it was made to a primary actor, who was supplying services under the mark. In many cases, where the threatening letter is circulated to a supplier, it may be interpreted as an implied threat to sue the supplier. In the Consultation Paper we explained that the courts have given a wide interpretation to what constitutes a threat. For example in *Quads4Kids Ltd v Thomas Campbell*, a notification to eBay asking eBay to delist the product was interpreted as a threat.³⁰ However, the concept of an implied threat can only be pushed so far. We do not think that it would extend to an allegation made to a potential investor. On the facts of *Prince Plc v Prince Sports Group Inc* we do not think that the letter sent to NSI would amount to an actionable threat. The letter would have to be understood as being an implied threat to bring proceedings against NSI in the UK courts, which given that NSI was based in the USA it might not be.³¹ The boundaries of the UK threat regime would not extend that far.
- 4.64 As we discussed in the Consultation Paper, damage may be done by wrongful allegations of infringement, even if those allegations fall short of a threat to sue in the UK. In order to provide traders with protection from such allegations, and for the reasons we set out in Chapter 8 of this Report, wider reform might become increasingly necessary in the future. Therefore, although we do not pursue the idea at present, we think that serious consideration should be given to a new action for false allegations, either as a UK measure or as part of wider EU reforms.

³⁰ [2006] EWHC 2482 (Ch), [2006] Info TLR 338. See further CP 212 para 2.19.

³¹ This is the consequence of the decision in *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618, [2011] FSR 30 which was decided after *Prince* where the issue did not arise. We discuss the “Best Buy” gap in ch 8 below.

CHAPTER 5

EXCLUDING THREATS MADE TO PRIMARY ACTORS

INTRODUCTION

- 5.1 As we have seen, threats proceedings cannot be brought where the threat is to bring infringement proceedings in respect of specified “primary” acts (such as manufacture or importation); these types of acts are usually carried out by a trade source. However, the courts have construed the exclusion narrowly, leading to the “Cavity Trays” problem described in Chapter 2.¹ Only those threats that are strictly limited to the specified acts do not trigger the provisions. A threat of infringement proceedings relating to some other “secondary” act, such as sale or distribution, remains actionable.
- 5.2 This problem has been remedied for patents. Since 2004, patent legislation has excluded all threats made to those who make or import a product or use a process, even if the threat refers to other acts, such as sale. In the Consultation Paper, we proposed that a similar change should be made for design rights and trade marks.² There was widespread support for this change, which we explore in detail below. We look first at registered and unregistered design rights, and then at trade marks.³
- 5.3 For all three rights, we proposed to extend the exclusion to cover threats made to those who intend to carry out a primary act. Again, there was considerable support for this extension, and we recommend that it should be made.

PRIMARY ACTORS AND DESIGN RIGHTS

Excluding threats made to those who make or import articles

- 5.4 The excluded primary acts for UK registered and unregistered design rights and for Community design rights are the same. Proceedings cannot be brought where the threat is to sue for an infringement alleged to consist of the making or importing of anything.⁴ We proposed that where threats are made to a person who has made or imported a product or article, threats concerning other infringing acts should also be excluded from liability.⁵

Consultees’ views on excluding threats made to those who make or import articles

- 5.5 There was very strong support for the proposal. Of the 20 consultees who responded to the question, 18 agreed that the exemption should be extended to registered and unregistered designs rights.

¹ See paras 2.40 to 2.42 above.

² CP 212 para 8.4 to 8.7, and following.

³ The reform will apply to both UK national rights and Community rights.

⁴ RDA 1949, s 26(2A); CDR 2005, reg 2(5).

⁵ Question 7, CP 212 para 8.16.

- 5.6 Most consultees thought that the law for patents, trade marks and design rights should be consistent. Haseltine Lake LLP felt that the current substantive differences between them did not “offer any benefit to any party, nor assist any public policy objective”. The Chartered Institute of Patent Attorneys (CIPA) considered that, in the vast majority of cases, nothing should distinguish “the permitted behaviour of a rights holder simply based on the right, at least where the activity in question is essentially the same type of activity”. They continued:

The possibility that it is not a threat if the statement relates to import, but then to be an actionable threat insofar as it relates to additional acts performed by the same party relating to the same article, goes against common sense.

- 5.7 Wedlake Bell LLP thought that equivalent provisions would “harmonise” the law at a time when the increasing complexity of products meant that it was possible for a single item to be protected by several rights.
- 5.8 Several consultees stressed that this would make it easier to raise all issues of concern and ask for appropriate undertakings to resolve the issue. As the British Brands Group put it:

Provided the rights owner is addressing his concerns to the maker or importer, he should be free to raise all his issues of concern, including onward sale of such items. It hinders proper communication of the issues if only primary infringement can be addressed, and precludes, for example, undertakings which consider all issues of concern (both primary and secondary).

- 5.9 Some consultees agreed with the proposal but had specific concerns. The Licensing Executives Society (LES) and Reddie & Grose LLP thought that the change should only be made for registered designs. They argued that the groundless threats provisions should not apply to unregistered design rights at all.⁶
- 5.10 The Institute of Trade Mark Attorneys (ITMA) pointed out that the terms “primary” and “secondary” are ambiguous: section 227 of the Copyright Designs and Patents Act 1988 refers to importation as an act of secondary infringement. However, section 253 excludes the remedy for groundless threats in relation to “the making or importing of anything”, so importation counts as a primary act for the purposes of this discussion. We accept that the legislation will need to use language clearly and consistently on this point. “Primary” is useful shorthand for the purposes of this discussion, but is not necessarily suitable for legislation.
- 5.11 CIPA considered that the exemption should also include threats in respect of the product or an equivalent product. We consider this further below.

⁶ We discuss their arguments in Ch 3.

Excluding threats made to those who make or import articles: conclusion

- 5.12 There is a clear case for this change. The current law has turned the process of writing a letter before action to manufacturers and importers into a technical exercise. It is difficult to set out a case clearly, in accordance with the ethos of the Civil Procedure Rules (CPR), and the parties cannot ask for the full undertakings which might resolve a dispute without litigation.
- 5.13 Below we recommend that for registered and unregistered design rights, all threats made to a person to bring infringement proceedings in respect of an article should be excluded, if that person has made or imported the article in question.

Excluding threats made to designers

- 5.14 We asked whether there were other parties who should be treated as primary actors, so that they can be threatened with impunity. We raised the role of a designer; that is, those who make “a design document recording the design for the purpose of enabling such articles to be made”.⁷ We asked if designers may be, effectively, the trade source of the infringement.⁸

Consultees’ views on excluding threats made to designers

- 5.15 The responses to this proposal were mixed. Nine consultees agreed that threats to designers should be excluded from protection against groundless threats, but most did not explain how they had reached that decision. Four were against excluding threats to designers, and three others made comments without expressing a preference.
- 5.16 The IP Working Party, the City of London Law Society (CLLS) and the Intellectual Property Lawyers Association (IPLA) agreed that the designer of a design document could be an effective trade source of infringement and threats made to the designer should be permitted on that basis. CIPA also considered that threats to designers should be excluded. They saw the function of the threats provisions as being limited to preventing rights holders threatening a rival’s customers, which a designer was not.
- 5.17 However, other consultees thought that such threats should not be permitted, as a designer might not have sufficient independence to justify this. Reddie & Grose LLP noted that:

Such threats should not be exempt, since they may cause commercial damage to an innocent third party.

⁷ These words are used (in a different context) in the CDPA 1988, s 226 to apply to unregistered designs.

⁸ Question 9, CP 212 para 8.16.

- 5.18 ITMA explained that much turned on the actual role of the designer in question. They said:

The position of the designer will depend on his/her creative freedom and independence, in the creation/execution of the design. The word “designer” is used loosely to cover both capacities, but they are very different. ...

Designers of products, for example, are often commissioned by the person typically defined as the trade source. They will be a separate entity from the “trade source” but are involved at the outset of the development of the design.

In terms of infringement, such designers will often make articles to the design (a primary infringement) and have the design in their possession for commercial purposes (a secondary infringement) yet they will assign any rights in the design.

- 5.19 Others rejected the extension on the basis that the threats provisions should focus on the existing exclusions. Professor Sir Robin Jacob said that:

Only the party who is primarily responsible for placing on the UK market should be subject to the exemption. An individual, such as a designer, would be particularly vulnerable to unjustified threats.

- 5.20 The British Brands Group made a similar point. They said:

If a focus is to remain on “primary” infringement, it would seem inconsistent, for example, to exempt communication with a product designer. The communication should be focused on the manufacturer/importer, rather than encouraging multiple correspondence.

- 5.21 On balance, the Judges of the Court of Session did not think that the legislation should exclude threats to designers. They said:

The exclusion of threats to a person responsible for primary infringement is designed to allow threats to others seeking to profit by making or importing an infringing product. We do not think that the way should be opened up to allow threats to others, such as a designer, who may have no role in the manufacture or import of the product.

Excluding threats made to designers: conclusion

- 5.22 In some circumstances the designer is in effect the source of the infringement, but this is not always the case. It turns on factors, such as creative independence, that the party issuing the threat may not know and may not be in a position to find out. The distinction between a designer who has sufficient freedom and independence to justify the removal of protection and one who does not can be a fine one.

- 5.23 On balance, we think that threats to designers should not be excluded from groundless threats protection. The risk that significant commercial damage may be caused to someone who plays a limited role in any infringement is too great. It would also encourage multiple correspondence, including correspondence with small businesses who are particularly vulnerable to threats.
- 5.24 There were no suggestions of any other party who should be excluded from protection against threats of proceedings. We have therefore concluded that, for design rights, “making” and “importing” should be the only primary acts.

Making or importing an article “for disposal”

- 5.25 Under section 70(4)(b) of the Patents Act 1977 (PA 1977), the primary actor exclusion is limited to those who have made or imported “for disposal”. “Disposal” has a limited meaning, which is to put the article on the market.⁹ It would not include a business importing a product for internal use. Nor would it include making a prototype to evaluate possible future commercial exploitation. We have considered whether design legislation should also limit primary actors to those who have made or imported a product or article “for disposal”.
- 5.26 A leading textbook notes that, in respect of design rights, it is currently unclear whether making prototypes or pre-production samples to evaluate a design is itself an act of infringement.¹⁰ To be an infringement the manufacture of articles must be for commercial purposes, as defined,¹¹ and that element may be lacking. We think it there should be protection against groundless threats where threats refer to acts which could never amount to infringements.
- 5.27 Below, we recommend that the primary actor exclusion should be limited to those who have made or imported an article “for disposal”. We say this for two reasons: to provide consistency with patent legislation; and to prevent proliferating threats to designers and others who have no intention of putting articles on the market.

PRIMARY ACTORS AND TRADE MARKS

- 5.28 Section 21(1) of the Trade Marks Act 1994 (TMA 1994) excludes groundless threat actions where the alleged infringement consists of one of the following three primary acts. These are:
- (1) the application of the mark to goods or their packaging;
 - (2) the importation of goods to which, or to the packaging of which, the mark has been applied; or
 - (3) the supply of services under the mark.

⁹ See *Terrell on the Law of Patents* (17th ed 2011) para 14-32 and following.

¹⁰ Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011) para 48.8.

¹¹ For sale or hire in the course of a business: see CDPA 1988, s 263(3).

We asked if the exclusion should apply to all threats made to a person who has committed one of these acts, even if the threat refers to other alleged infringements in respect of the mark.¹²

- 5.29 Again, the proposal was strongly supported. Of the 20 consultees who responded to this question, 17 agreed and three made comments without indicating a preference. The reasons given for support were the same as those for design rights. Consultees wanted a consistent treatment of groundless threats across patents, trade marks and design rights.¹³
- 5.30 As with design rights, there is a clear case for this change. It would harmonise the law and allow rights holders to express their case clearly, asking for all appropriate undertakings. Nevertheless, the primary acts for trade marks are different from the primary act for patents and design rights. The meaning of some of the words in section 21(1) is not entirely clear.
- 5.31 In the Consultation Paper we discussed each act in turn, to ensure that our reforms did not introduce undue uncertainty, or provide new loopholes for rights holders to exploit. Below we examine the issues we raised and the responses we received.

Applying a mark to goods or their packaging

- 5.32 In the Consultation Paper we said it was not entirely clear whether the person who “applied the mark” was limited to the person who actually applied the mark (the packager) or whether it also included the party who commissioned the work. We gave the example of a supermarket selling biscuits under its own label, which had instructed the manufacturer to apply the supermarket’s mark to the biscuits. We thought that both the manufacturer and the supermarket should be treated as primary actors – the manufacturer because it had applied the mark, the supermarket because it had caused the mark to be applied.¹⁴
- 5.33 We examined the case law on this issue.¹⁵ We concluded that the courts would probably interpret the concept of “applying the mark” in this way but thought that the issue could usefully be clarified. We proposed that threats should be allowed to any person who “has applied a mark to goods or their packaging, or who has caused the mark to be applied”.¹⁶

Consultees’ views on applying a mark or causing a mark to be applied

- 5.34 The proposal received 18 responses, none of which disagreed with the proposal. Few consultees, however, explained the basis for their agreement; where they did, it was because they concurred with the Consultation Paper’s analysis.

¹² Question 10, CP 212 para 8.32.

¹³ This was the view of IP Working Party, CLLS and IPLA.

¹⁴ CP 212 para 8.19 and following.

¹⁵ See CP 212 paras 8.22 to 8.24.

¹⁶ Question 11(1), CP 212 para 8.32.

5.35 Angela Fox commented:

Expressly exempting threats in relation to “causing the mark to be applied” would usefully fill what may be a gap in the current law, where a third-party packaging or labelling company is acting under instructions from a manufacturer or importer.

5.36 ITMA noted that “it would be an odd result if a rights holder could rely on section 21 to threaten a commissioned packaging company, but could not necessarily rely on section 21 to threaten the trade source”.

Applying a mark or causing a mark to be applied: conclusion

5.37 We think that the proposed change would be a welcome clarification of the law, and put beyond doubt who may be safely threatened where a mark is applied to goods or their packaging.

5.38 Below we recommend that the definition of the primary act of applying a mark to goods or their packaging covers both those who have applied a mark to goods, or their packaging, and those who have caused the mark to be applied.

Importing goods

5.39 All groundless threats provisions define importation as a primary infringement. That appears unproblematic.

5.40 In the Consultation Paper we proposed to extend the exemption to all threats made to a person who has imported goods to which the mark has been applied (or to their packaging). There was no disagreement on this issue, and we now make the recommendation.

Importation of goods “for disposal”

5.41 As with the design rights threats provisions, section 21 of the Trade Marks Act 1994 is not consistent with that for patents: it does not require that the importation of goods to which, or to the packaging of which, the mark has been applied is done for their disposal. We have said that for design rights, the primary actor exception should apply where the person threatened has manufactured or imported a product or article for disposal and we think that the same qualification should apply for trade marks. This will ensure that there is greater consistency between the rights.

Supply of services under the mark

5.42 We expressed two concerns about the possibility of exempting all threats made to someone who has supplied services under the mark.

5.43 The first concern was that it might allow threats to small businesses, far down the distribution chain. We gave the example of a franchisee supplying fast-food branded by the franchisor, or a small café serving coffee branded by the coffee importer.

- 5.44 Secondly we were concerned about the effect it might have where retailers selling branded goods also supply some ancillary branded services. For example, a shop selling “Hotmark” washing machines may deliver the machines in a van with the “Hotmark” logo. Take a hypothetical case where “Hotmark” and “Hotspot” are locked in a battle over rights to the brand name. We did not think that Hotspot should be able to threaten retailers who stocked Hotmark products and avoid liability for threats on the basis that the retailers also supplied some minor services associated with the product.
- 5.45 We asked whether the exemption should only apply to those who had taken the commercial decision to brand the services using the mark.¹⁷ We hoped that this would be a way of distinguishing between the trade source and a franchisee or retailer with little invested in the mark.

Consultees’ views on supply of services under the mark

- 5.46 Consultees were split on the issue. We received 18 responses, seven in support and seven against. The other four queried how the reform might work in practice, without indicating whether or not they agreed.
- 5.47 Of those who supported the change, only a minority gave reasons and where they did these tended to be put in general terms. For example, ITMA did “not think the amendment will have a great impact” and so were “broadly in agreement”.
- 5.48 Consultees who rejected the proposal were more likely to give reasons. First they felt that the change was not needed, as threats to franchisees were unlikely to be a problem. As Scott & York Intellectual Property Law put it:

We have found there are very few groundless threats issues in relation to the supply of services under a given trade mark. It is much easier to locate a primary infringer of marks used for services and this may be the reason for the fact that groundless threats issues rarely occur in this context.

- 5.49 A change in the law would encourage more threats to franchisees, as it would widen the allegations which may be made to anyone supplying a service under the mark. However, it was suggested that franchisees were usually protected and indemnified by the terms of their franchise contracts. The IP Working Party, CLLS and IPLA said:

In our view, the concerns identified in the consultation paper in relation to services are over stated. The provision of branded services is different to “down the chain” dealings in commodities. There is likely to be a commercial relationship governing the provision of the branded services in question and, therefore, there are likely to be appropriate contractual protections in place relating to any claims arising.

¹⁷ Question 12, CP 212 para 8.32.

- 5.50 More significantly, many consultees felt that the commercial decision test was unworkable. Scott & York Intellectual Property Law explained the problem:

The exemption proposed, i.e. that it should only apply to those who have taken the commercial decision to brand the services using the mark is, in our view, unworkable in practice. How would the sender of a Cease and Desist letter be expected to know who has made the commercial decision to brand the services using the mark? Service companies can frequently be split up into various different entities and it will be all too easy inadvertently to send such a letter to the wrong subsidiary company, for example and receive a tactical threats action as a result.

- 5.51 In a similar vein the IP Federation commented:

As for whether the availability of the exemption should hinge on whether the recipient has “taken the commercial decision to brand the services using the mark”, we believe this may be hard for rights holders to determine in advance, resulting in uncertainty for them. The availability or otherwise of any exemption should be readily determinable at the time of making the threat.

- 5.52 Angela Fox also felt that the change would complicate the law:

It will not always be possible to determine whether, and to what extent, a service provider was involved with a commercial decision to brand the services using a mark, and indeed what “a commercial decision to brand the services using a mark” actually means.

- 5.53 The BBC thought that it would be too difficult for rights holders to write to unauthorised websites:

An exemption in these terms would lead to greater uncertainty and a further fetter on a rights holder’s ability to pursue infringers. This is particularly so given that a substantial (and increasing) amount of the infringement we are subject to is in the form of online activity (where no physical goods exist) such as unauthorised websites, streaming services and online promotion. In such cases it would often be difficult if not impossible to decide whether the alleged infringer had taken a “commercial” decision to brand their services using our marks.

Supply of services under the mark: conclusion

- 5.54 Although there was no clear majority either way, the arguments for rejecting the proposal are persuasive. The proposal would have led to significant practical difficulties for rights holders, who would have needed to uncover background facts to determine the extent to which a supplier was involved in the commercial decision to use the mark. We are no longer proceeding with it.

- 5.55 Instead, we recommend that a rights holder should be allowed to threaten anyone who has supplied services under a mark without triggering groundless threat litigation. Under our recommendation the threat could also include other allegations in relation to the services; for example, that the recipient had advertised the services or used the mark on business papers in relation to the services.
- 5.56 As we explore below, however, we think that the threat should only be excluded from groundless threat provisions if all the allegations relate to the *services*. This would close the potential loophole we identified, that rights holders could threaten retailers for selling branded goods without risking liability because the retailer also supplied some ancillary branded services.

All threats relating to the mark – or to the goods or services in question?

- 5.57 In the Consultation Paper we proposed that where the recipient of a threat had carried out one of the primary acts, no action for groundless threats should be available for threats to bring proceedings for an infringement alleged to consist of doing “anything else in relation to the mark”.¹⁸
- 5.58 We now think that “anything else in relation to the mark” was too broad and may actually create a gap in the protection against threats made to secondary actors. Our concern is that a person, who may be a primary actor in respect of particular goods or services, could be stripped of protection against threats because of that fact in respect of other goods and services for which they would be considered a secondary actor only. This would also deny a remedy to anyone who was aggrieved by the threat, for example, the supplier of goods for which the person would only be a secondary actor, where the threat causes that person to stop stocking those goods.
- 5.59 An example illustrates the concern. Two rights holders, X and Y, lay claim to a particular mark. A retailer, Z, is selling goods under the mark; those goods have been obtained through legitimate channels. Y threatens Z with proceedings for infringement. That threat is actionable because Z is, at most, a secondary actor in respect of those goods. Suppose however, that in the run up to Christmas Z decides more stock is needed and applies the mark to other goods to make up any shortfall. Z is now a primary actor in respect of those goods to which it has applied the mark. However questionable Z’s actions may be, we do not want the reform to deprive Z of the protection against threats they already enjoy in respect of the first set of goods.
- 5.60 We think therefore that if a person has applied a mark to goods, a rights holder should be able to threaten them, without risking liability, for any form of infringement concerning those goods. Returning to the example above, a threat that refers to the sale of the goods to which the mark has been applied would not be actionable. However, the law should not open the floodgates for threats to be made in respect of other goods or services, in relation to which no primary acts have been committed. A threat to the retailer in respect of the other set of goods would be actionable.

¹⁸ CP 212 para 8.26 and Question 11, para 8.32.

- 5.61 The point is also important in relation to services. We wish to prevent rights holders from demanding that retailers do not stock goods, while avoiding liability for threats, by exploiting a loophole. They should not be able to argue that a threat in respect of stocking goods is exempt because the retailer also offered some minor branded service, such as delivery or installation. Although it is difficult to say at this stage whether our recommendation to exclude threats made to primary actors might be used as a loophole in the way we discuss here, we are sufficiently concerned that it might. Therefore, we have framed the recommendation in a way to prevent this.
- 5.62 We also think that this approach is consistent with patent law. Section 70(4)(b) of the Patents Act 1977 only excludes threats to a person who has made or imported a product for alleged infringements “in relation to that product”. Similarly, the only excluded threats made to a person who has used a process are those which relate to that process. The threat will be actionable if it also refers to acts in respect of another product, where the acts carried out in respect of that product are not primary acts.
- 5.63 We therefore recommend that where a threat is made to a person who has applied the mark to goods (or has committed any other primary act in relation to goods), all threats of proceedings for infringing the mark in relation to those goods should be excluded. Similarly, where the recipient has supplied services under the mark, all threats of proceedings for infringing the mark in relation to those services should be excluded. However, the groundless threats provisions would apply to threats made in relation to *other* goods, which were not imported or marked by the recipient of the threat.

THREATS TO THOSE WHO INTEND TO COMMIT PRIMARY ACTS

- 5.64 The introduction of section 70(4)(b) into the Patents Act 1977 dealt with the “Cavity Trays” problem for patents, but it may not have gone far enough. It requires the threatener to show that that the recipient has actually committed a primary act in relation to the product. It does not exclude threats made to those who merely intend to make or import a product or to use a process.¹⁹
- 5.65 We thought that this restricted the usefulness of the exclusion. It does not reflect the reality of the market, where the rights holder may be aware of preparations for the importation or manufacture of an infringing product and wants to act quickly to prevent commercial damage. We asked whether the primary act exclusion under the Patents Act 1977 should be extended to threats to those who *intend* to commit such acts.²⁰ We also asked if this change should apply to the threats provisions for trade marks and design rights.²¹

¹⁹ See CP 212 para 8.9 and following; see also Fysh, *The Modern Law of Patents* (2nd ed 2010) para 21.25.

²⁰ Question 6, CP 212 para 8.11.

²¹ Question 8, CP 212 para 8.16 and Question 11, CP 212 para 8.32.

Consultees' views on the principle

- 5.66 There was widespread support among consultees for the principle that it should not be possible to bring a threats action for threats made to those who intend to commit a primary act. The level of support was consistent for patents, trade marks and design rights.²²
- 5.67 LES thought the reform “helpful”, while the IP Federation thought it was a “commonsense change” to the current law. Angela Fox also thought that the proposal made “sense” because it “would avoid the need to wait for acts of primary infringement” before a letter before claim could safely be sent. She also considered that it would remove the need to issue a protective *quia timet* claim form before writing.²³
- 5.68 The British Brands Group commented that it seemed “contrary to the Civil Procedure Rule’s (CPR’s) intention to encourage the early resolution of disputes if a rights owner had to wait until the act complained of had actually been carried out”.
- 5.69 CIPA believed that the reform would allow a rights holder to deal with all potential issues – that is, “including future sales of a product which may be made or imported between the first letter and resolution of the dispute”. They argued that if the rights holder has correctly identified a primary actor or honestly believes that they have, “this is not a situation where the rights holder will be damaging business by communicating with customers”.

Conclusion on the principle

- 5.70 There was clear support for the proposal to exempt threats made to those who intended to commit primary acts. The change will allow rights holders to move swiftly, and pre-empt items being made or imported which they believe to infringe their rights. These disputes can then be resolved in accordance with the ethos of the CPR, without fear of groundless threats actions. The change will reduce the need for rights holders to act defensively in such cases, for example by issuing first and threatening after, and will therefore reduce costs.

Concern about how intention would be shown

- 5.71 A few consultees expressed concern about how intention would be shown, and suggested that there should be a statutory test or other guidance. For example, LES felt that:

Some consideration should be given as to the evidence threshold required to prove that such activity has been threatened (particularly in respect of verbal threats).

²² For patents, there were 20 responses of which 15 were in support and five made comments. For trade marks 18 consultees supported the change. For design right 15 were in support while one made comments.

²³ “Quia timet” translates as “because he fears”. We discuss these injunctions at paras 5.77 to 5.80 below.

5.72 Reddie & Grose LLP also wanted clarification:

Ideally some definition of what “intend” means should be included, to avoid lengthy discussions on this point. Possibly use the “good and serious preparations” language found in the Patents Act elsewhere.

5.73 Other consultees did not think that proving intention would be such a problem. The British Brands Group saw that where intention was disputed there would be “evidential challenges relating to demonstrating such an intention”, but thought that these would not be “unduly onerous”.

5.74 Several consultees stressed that it should not be sufficient that the threatener simply believed that the threatened party intended to commit a primary act. Rather, there must evidence that the threatened party had such an intention. For example, ITMA were concerned in relation to the extent of the obligation on the threatener to ensure that there are grounds to suspect that there is in fact an intention to make or import a product. Without such a requirement, there is “the obvious possibility for substantial mischief at a time when there is not even a product”.

5.75 Haseltine Lake LLP also argued for “an objective test”. They suggested that it should be possible to make threats against “those who appear likely on reasonable grounds to make or import a product for disposal or to use a process”, or similar. It was felt that a “subjective” test, which only required the threatener to believe that the threatened party intended to commit a primary act, would create “unnecessary complexity and arbitrariness in the operation of the provision”.

Proving intention in other areas of law

5.76 Following consultees’ concerns, we have looked at two areas of the current law where intention must be shown, to see if they offer guidance for any test that we might recommend. The first was the *quia timet* injunction. The second was the provisions of the Patents Act 1977 that refer to “effective and serious” preparations to carry out an infringing act. Both areas of law have been the subject of judicial consideration.

Injunctions to prevent future infringement

5.77 In simple terms, a party can seek an interim or final *quia timet* injunction to prevent damage being suffered from something that has yet to happen.²⁴ An injunction can have a serious adverse commercial effect on the party against whom it is made. Therefore, before it is granted, the court must be satisfied that there are good grounds for doing so.

²⁴ In proceedings for infringement, the PA 1977, s 61(1)(a) provides that an injunction may also be claimed for any apprehended act of infringement. See further *Coflexip SA v Stolt Comex Seaway MS Ltd* [2001] RPC 9.

5.78 A recent patent case looked at the test to be applied. In *Merck Sharp Dohme Corp v Teva Pharma BV*, Mr Justice Birss stated:

The question the court is asking in every case is whether, viewed in all the relevant circumstances, there was a sufficiently strong probability that an injunction would be required to prevent the harm to the claimant to justify bringing the proceedings.²⁵

5.79 The party seeking the remedy must produce evidence which leads the court to believe that the defendant intends to infringe. The clearest evidence is where there has already been an actual infringement; from this the court may infer that the defendant intends to continue their activities. In such cases, unless there is very clear evidence that there is no intention to continue, an injunction will be granted.²⁶ Even where there has been no prior infringement an injunction may be granted where a party has expressed a “deliberate” intention to infringe.²⁷

5.80 The *Merck Sharp* case concerned an application for an injunction where there had been neither of these things. Instead the court inferred an intention from the defendant’s actions, previous conduct in respect of an unrelated patent and reactions to direct enquiries.

Merck applied for an interim injunction restraining Teva from infringing a European Patent (UK) relating to an anti-retroviral drug. Merck argued that Teva intended to infringe on the basis that:

- (i) Teva had obtained a Europe wide marketing authorisation for a generic form of the drug nearly 22 months before Merck’s protection was due to expire;
- (ii) in correspondence, Teva refused to state their intentions or undertake not to market their drug while the patent remained in force; and
- (iii) Teva had recently launched another generic drug in the face of patent protection, without notice to the patentee.

Teva argued that the action should be struck out. The Court rejected this. Going to the trouble of obtaining a marketing authorisation provided a “concrete basis” for the inference that Teva intended to sell their generic drug. The fact that the authorisation was obtained so far in advance supported the inference that the launch was intended before the expiry of the patent. Teva’s previous conduct in respect of another drug showed that they were prepared to launch at risk of infringement. From all the circumstances, including Teva’s silence on their intentions, the injunction would be granted.

²⁵ *Merck Sharp Dohme Corp v Teva Pharma BV* [2013] EWHC 1958 (Pat), [2014] FSR 13 at [56].

²⁶ See *Losh v Hague* (1838) 1 WPC 200.

²⁷ See *Frearson v Loe* (1878) 9 Ch D 48 at 65, by Jessel MR.

“Effective and serious preparations” to commit acts

5.81 This term appears in section 64 of the Patents Act 1977.²⁸ Section 64 gives a person a form of statutory licence to continue to perform acts begun before the priority date of a patent, which would otherwise be infringing after that date.²⁹ The section provides that a person who:

(a) does in good faith an act which would constitute an infringement of the patent if it were in force, or

(b) makes in good faith effective and serious preparations to do such an act,

has the right to continue to do the act or, as the case may be, to do the act notwithstanding the grant of the patent.³⁰

5.82 What amounts to effective and serious preparations is a question of fact in any particular instance, though case law provides some guidance. In *Helitune Ltd v Stewart Hughes Ltd*, Mr Justice Aldous held that the correct approach to applying the section was:

To look first to see what are the acts of the defendant which are alleged to be infringements and which it wishes to continue. Thereafter I must decide whether it carried out those acts in good faith before the priority date or whether it made effective and serious preparations to do so.³¹

5.83 In *Helitune*, the defendant had developed a prototype of the protected product in issue but had chosen not to sell any. Instead, it was concentrating on producing a different product that would not infringe the patent. The court found these acts did not amount to effective and serious preparation.

5.84 In the case of *Lubrizol Corp v Esso Petroleum Co Ltd*, Lord Justice Aldous gave the following guidance:

The word “effective” qualifies the word “preparations”. It follows that there must be something more than preparations to do an infringing act. What more will depend upon the nature of the product and all the surrounding circumstances, but in all cases the preparations must be so advanced as to be about to result in the infringing act being done.³²

²⁸ It is also to be found in s 28A of the PA 1977, which sets out the effect of an order for the restoration of a patent.

²⁹ See *Helitune Ltd v Stewart Hughes Ltd (No 1)* [1991] FSR 171 at 206.

³⁰ Clause 7 of the Intellectual Property Bill [HL] 2013-14 introduces a similar provision into the RDA 1949.

³¹ [1991] FSR 171 at 206.

³² [1998] RPC 727 at 770.

Conclusion on how to prove intention

- 5.85 We agree with consultees that the threatener should be required to show that the recipient intends to commit a primary act, rather than the threatener simply believing that the recipient has such an intention.
- 5.86 However, we do not think that the evidence need be particularly complex or onerous. Intention is a familiar concept in the current law, and the sort of evidence provided in the *Merck Sharp* case would be sufficient. The court could infer intention from preparations such as obtaining authorisation, media statements or marketing activity. A refusal to respond to a direct enquiry about future acts may also be relevant.
- 5.87 It is not necessary to go further and require evidence of “effective and serious preparations” to carry out the act. Nor do we think that there is a need for a statutory checklist of factors from which intention may be inferred. Even a non-exclusive list would do little more than set out the kind of factors that are already relied upon as markers of intention. There is also a risk that it would make the law inflexible, and encourage satellite litigation where reliance is placed on something other than the listed factors. There is no specific guidance in the two areas we have examined, other than decided cases.
- 5.88 Note that the threatener need not show that the recipient intends to *infringe* – only that the recipient intends to carry out a primary act, such as making or importing the product. Section 70(4)(b) of the Patents Act 1977 is intended to provide a “safe harbour”, permitting threats to the trade source irrespective of whether those threats are justified by actual infringement. This recommendation extends that safe harbour, to allow threats to an intended trade source without the threatener having to show that the threats are justified.

THREATS IN RESPECT OF EQUIVALENT PRODUCTS

- 5.89 CIPA advocated a further extension to the primary actor exemption. They thought that where threats are made to someone who has made or imported a product, the threatener should also be entitled to make threats in relation to an equivalent product. This was because a threat to stop making or selling the product would leave the primary actor with the option of selling an equivalent product sourced from elsewhere.
- 5.90 We have concerns about such an extension. First, the concept of an “equivalent product” is inherently vague. We think it would introduce too much uncertainty into the law and encourage satellite litigation. Secondly, CIPA’s suggestion strays beyond excluding threats to the trade source, and starts to exclude threats to those in the position of secondary actors. We have already discussed how the fact that the recipient of a threat has applied a trade mark to one product should not exclude threats about a different product, to which they have not. Similar arguments arise where a retailer has imported a few products directly (which it is happy to no longer stock) but is threatened in respect of a different product from a UK wholesaler.
- 5.91 Therefore we do not recommend that where threats are made to a primary actor in respect of one product, the exemption should also apply to threats in respect of equivalent products.

RECOMMENDATIONS ON THE PRIMARY ACTOR EXCLUSION

- 5.92 Here we summarise the recommendations we have made on this issue. In broad terms, we recommend that threats made to primary actors should be excluded from the groundless threats provisions – not only for threats of patent infringement, but also for threats relating to design rights and trade marks. It should be permissible to make threats not only to those who have carried out the specified primary acts, but also to those who intend to carry out such acts.
- 5.93 As explained, although some primary acts are the same for some of the rights, there are also significant differences. As a result the recommendations are detailed.
- 5.94 **We recommend that a groundless threats action may not be brought for threats to bring proceedings for infringement made to a primary actor, that is a person who has carried out, or intends to carry out the following:**

For patents

- (1) The making or importing of a product for disposal, even where the threat refers to any other act in relation to that product.**
- (2) The use of a process, even where the threat refers to any other act in relation to that process.**

For registered and unregistered design rights

- (3) The making or importing of an article or product for disposal, even where the threat refers to any other act in relation to that article or product.**

For trade marks

- (4) The application of a mark, or causing a mark to be applied, to goods or their packaging, even where the threat refers to any other act in relation to those goods.**
- (5) The importation for disposal of goods to which, or to the packaging of which, the mark has been applied, even where the threat refers to any other act in relation to those goods.**
- (6) The supply of services under the mark, even where the threat refers to any other act in relation to the supply of those services.**

RETAINING THE EXISTING EXCLUSIONS FOR THREATS WITH RESPECT TO PRIMARY ACTS

- 5.95 As we have seen, the 2004 reform added a new exclusion for all threats made to primary actors (Patents Act 1977, section 70(4)(b)). This sits alongside section 70(4)(a), which preserves the previous exclusion, relating to primary acts. Section 70(4)(a) states that groundless threat proceedings may not be brought for:

A threat to bring proceedings for an infringement alleged to consist of making or importing a product for disposal or using a process.

- 5.96 Section 70(4)(a) will still have a role to play. It excludes threats with respect to primary acts that are made to those who have not carried out those acts, and who have no intention of doing so. The provision has been part of groundless threats legislation for many years and it may be helpful in some circumstances. For example, a rights holder may believe that a party is a primary actor without being sure.
- 5.97 Section 70(4)(a) allows the rights holder to write an initial letter which states their policy of suing for primary infringement, which means that their letter will be taken seriously and should provoke a response. The threats provisions for trade marks and design rights also exclude threats with respect to primary acts of infringement. We therefore recommend that section 70(4)(a) should be retained, as should the existing exclusions in the trade marks and design rights threats provisions.
- 5.98 Although the current exclusions will be retained, as a consequence of other reforms we recommend they will need some minor amendment of the definitions of primary acts for design rights and trade marks.
- 5.99 **We recommend that threats proceedings may not be brought for a threat to bring infringement proceedings:**
- (1) **For design rights, for the making or importing of anything “for disposal”.**
 - (2) **For trade marks, for the application of the mark to goods or their packaging or for “causing the mark to be applied”.**
 - (3) **For trade marks, for the importation “for disposal” of goods to which, or to the packaging of which, the mark has been applied.**

CHAPTER 6

LEGITIMATE COMMUNICATIONS WITH SECONDARY ACTORS

INTRODUCTION

- 6.1 The major problem with groundless threats protection is that it drives cases to court, making it difficult to resolve cases amicably in accordance with the ethos of the Civil Procedure Rules (CPR) and what is perceived as good practice in Scotland.¹ Our aim is to exclude the groundless threats provisions when the parties are engaged in legitimate communication, but without undermining the purpose of the legislation.
- 6.2 In the previous chapter we recommended that rights holders, and others, should be entitled to threaten primary actors without fear of generating an action for groundless threats. There are also occasions when it may be legitimate for rights holders to approach secondary actors. In this Chapter we discuss when it should be permissible to communicate with a secondary actor, such as a retailer, without incurring liability for groundless threats.

THE CONSULTATION PAPER APPROACH

- 6.3 For design rights and trade marks, the only statutory exceptions that do not constitute a threat when communicating with secondary actors are the “mere notification” that a right is registered or protected by design right.² However, the 2004 reforms introduced four new statutory exclusions/defences for patents. In brief, these are:
- (1) providing factual information about the patent;³
 - (2) making enquiries and assertions to track down a primary actor;⁴
 - (3) making threats where the primary actor cannot be found despite best endeavours being used to find them;⁵ and
 - (4) where the acts complained of are, or would be, infringing but the patent is invalid in a relevant respect, the defendant has a “good faith” defence if at the time of making the threats it did not know, and had no reason to suspect, the patent was invalid in that respect.⁶

¹ There is no equivalent to the CPR in Scotland. See ch 3 above.

² TMA 1994, s 21(4); CTMR 2006, reg 6; RDA 1949, s 26(3); CDPA 1988, s 253(4) and CDR 2005, reg 2(6).

³ PA 1977, s 70(5)(a).

⁴ PA 1977, ss 70(5)(b) and (c).

⁵ PA 1977, s 70(6).

⁶ PA 1977, s 70(2A)(b).

- 6.4 In the Consultation Paper we noted that exceptions (2) and (3) appeared to work well. There was support for not allowing a groundless threats action where enquiries were for the sole purpose of identifying the primary actor, or where the primary actor could not be found. We thought that similar provisions should apply to design rights and trade marks.
- 6.5 However, we had more concerns about the other two provisions. In particular, we felt that it was not possible to have a general exclusion for “factual information”. There were circumstances when even low-key factual information may be effective in driving away customers, and could be used to cause damage to a trade rival. We also expressed doubts about the “good faith” defence set out in section 70(2A) of the Patents Act 1977.
- 6.6 We proposed clearer exceptions, to provide a “safe harbour” of communications that will not amount to threats, which were targeted at specific circumstances. Where these circumstances applied, we thought that it would be useful to spell out in more detail what information correspondence may contain. We have received very helpful feedback on these proposals and have developed our thinking in the light of the comments we received.

THIS CHAPTER

- 6.7 In this chapter we outline a new exclusion for legitimate communications made to secondary actors, which is intended as a safe harbour for those communicating with secondary actors. It is intended to replace the current exemptions for “mere notification” and “factual information” with a more specific provision to give greater guidance about what may be said.
- 6.8 As we discuss below, the new exclusion will apply to communications made for a legitimate commercial purpose, such as making enquiries to discover the trade source or conveying factual information to remove an innocent infringement defence. Where it applies, we recommend statutory guidance about what may be said, including that the right exists and is in force. It may also include copies of any registration, specifications or drawings that will identify the right in issue together with any restrictions or limitations. However, the exclusion would not apply where the defendant cannot show that they had reasonable grounds for believing both that the right was in force and that the assertions were true.
- 6.9 Respondents wanted a flexible approach which also gave some reassurance and clarity about what could safely be said. We have attempted to balance flexibility with certainty by setting out a general principle that communications should be for a legitimate purpose, and the information given should be necessary for that purpose. We then recommend statutory examples of what amounts to a legitimate purpose and what information may safely be given.

- 6.10 In addition to the new statutory safe harbour, we discuss two further issues. For patents, threats to secondary actors are excluded where the primary actor cannot be found despite best endeavours being used to find them.⁷ We recommend that a similar exclusion should apply to all rights. Finally, we recommend the repeal of the good faith defence in section 70(2A) of the Patents Act 1977.

REPLACING GENERAL EXEMPTIONS FOR “MERE NOTIFICATION” AND “FACTUAL INFORMATION” WITH MORE SPECIFIC PROVISIONS

- 6.11 In the Consultation Paper we explained that we thought that the current exemption for “mere notification” that a trade mark or design is registered or that a design is protected by design right is too limited to be of any great use. A person given such notification who is not familiar with intellectual property law may not understand the significance of being made aware of that piece of information.
- 6.12 However, we did not propose that the law should be changed to mirror the 2004 reforms for patents. What may be communicated as factual information is also unclear. As pointed out in a leading text, informing someone that you intend to sue in seven days is factual information. Yet the reforms cannot have intended that such information may be imparted with impunity.⁸
- 6.13 We proposed that the two existing general exemptions for mere notification and the provision of factual information should be removed.⁹ We thought that they should be replaced with a clearer and more extensive safe harbour, which would apply in defined circumstances.
- 6.14 The proposal to replace the general exemptions for “mere notification” and “factual information” with a more specific safe harbour received a mixed reception. There were 18 responses, of which nine agreed that either one or both exceptions should be abolished. Seven consultees disagreed and felt they should be reformed instead. The remainder made comments only.

Support for the proposal

- 6.15 The Judges of the Court of Session considered that there should not be general exemptions. Instead the issue was:

One of interpretation in the particular circumstances of whether a communication goes beyond mere notification of a right or the provision of factual information and is really a veiled threat.

- 6.16 The British Brands Group felt that:

Mere “notification” letters are rarely of any substantive assistance to either the sender or the recipient. It would be preferable to have a clearer indication of what threats can be made, and to whom, than to have a mere notification exception.

⁷ PA 1977, s 70(6).

⁸ *Terrell on the Law of Patents* (17th ed 2011) para 22-18.

⁹ Question 14, CP 212 para 8.55. See further CP 212 paras 8.41 to 8.55.

6.17 The IP Federation believed that a rights holder:

Should be able, one way or another, to put a potential infringer (even a secondary infringer) on notice of the rights holder's rights. Provided other exemptions are available that will allow this to be achieved, a general exemption for notifications is not needed.

Support for retaining a general exemption

6.18 Conversely, Angela Fox thought it should be possible to give notice of the right in question. She argued that:

There must be a safe harbour for notifying third parties of the existence of registered rights. As things stand the mere notification provision is of little assistance against infringers to whom an exempted letter before claim cannot be sent. However, in principle it will do nothing to further the overriding objective if there is no provision for safely notifying others of the existence of registered rights.

6.19 Professor Sir Robin Jacob expressed a similar view. He said:

This must be retained. True it is that a "mere notification" may really mean "but for the threats provisions I would be threatening you". But it is enough to enable negotiations to start. And remember that there are legal reasons why a party would wish to give notice – for instance removing any prospect of an innocence defence in patents and fixing a secondary copyright infringer with knowledge.

6.20 Marques considered it "important that rights holders can write to traders without fear of reprisals to make a 'mere notification' of their rights and to combine that with a request for information (and documents) about the trade source".

Reforming the exemption

6.21 Several consultees agreed that the existing provisions are problematic. The IP Working Party, the City of London Law Society (CLLS) and the Intellectual Property Lawyers Association (IPLA) considered that what constitutes mere notification "is clear" and the exemption was "necessary"; for example, to perfect a claim of secondary infringement of design rights or to ensure that all the necessary elements of a criminal offence are present.¹⁰ However, the exemption to provide factual information was not clear "and should be amended". They explained:

In any infringement situation requiring knowledge there may be good, and indeed necessary, reasons to simply be able to notify a potential infringer, particularly if they are not the "trade source in the UK", of the existence of the rights.

¹⁰ For example the TMA 1994, s 92, discussed at para 7.40 below.

Moreover, in our view, the recipient would find the letter more helpful if it was permissible for the notification letter to also provide factual information to identify the article/design/product/process causing concern.

It was also suggested that it might be helpful if a rights holder could legitimately state that they had written in accordance with a specific statutory provision, so the purpose of the letter was made clear.

6.22 Some consultees accepted that the provisions should be reformed, provided they still permitted legitimate communication. The Chartered Institute of Patent Attorneys (CIPA) said that the exemption for factual information should be retained. However, it was necessary to define what the term covered, at least in the notes to the legislation, “to provide a guide for what assertions can be made without falling within the threats provisions”. CIPA also pointed out that “in practice ‘mere notification’ provisions do provide a mechanism by which rights holders can overcome a defence of innocent infringement”, in order to make a particular claim.

6.23 They suggested that a “more substantive mere notification provision” should be introduced. This might cover situations where it is clear that proceedings are not being threatened, but instead the person is being alerted to the existence of the right and, therefore, the need to take advice. They conceded that some recipients of the information may not want to go to the trouble of taking advice but:

On the other hand, experience is that “mere notification” often leaves the unsophisticated business no wiser as to what if anything they should do, and it is appropriate that they should be guided to the risks of misusing third party intellectual property rights.

6.24 Herbert Smith Freehills LLP also felt that the current exemptions are not satisfactory. They considered that:

The difference between “mere notification” and a threat is in the eye of the receiver and the view of the court, neither of which make it easy to compose mere notifications or for clients or their advisors to be able to rely on them not triggering a threats action.

They added:

There needs to be a way to notify someone of your rights, as a warning, without this being an actionable threat. This must be broad enough to allow meaningful communication and clearly stated in the law or official guidance so that rights holders need not be in fear of threats actions if they follow the guidance and comply with the Civil Procedure Rules.

THE NEED FOR A SAFE HARBOUR

- 6.25 Some common themes ran through consultees' views on the issue of excluding certain types of communication with secondary actors. Consultees wanted the safety of knowing what they could say to secondary actors without the risk of incurring liability for groundless threats. Although they valued some elements of the current exemptions, they also wanted greater clarity over what could be said. At the same time, consultees recognised that there had to be limits as to what could be communicated to minimise the risk of abuse.
- 6.26 In the light of the responses we think it is important to provide a statutory safe harbour, allowing rights holders to approach potential secondary actors when it is legitimate to do so. The challenge, however, is to provide sufficient certainty to rights holders, while providing flexibility to deal with a variety of different reasons for communication.
- 6.27 The safe harbour we recommend has three elements:
- (1) the communication is for a legitimate commercial purpose;
 - (2) it does not go further than necessary; and
 - (3) the threatener has a reasonable belief in the truth of the statements made.
- 6.28 Below we discuss each in turn.

WHEN IS IT LEGITIMATE TO APPROACH A SECONDARY ACTOR?

- 6.29 In the Consultation Paper we proposed that there should be no liability for making threats where the communication was for one or more of the following purposes:
- (1) to track down the trade source of the infringement;
 - (2) to prevent an infringer from raising an innocent infringement defence which would deny the rights holder damages or an account of profits; or
 - (3) where communication is to open negotiations over licence terms.
- 6.30 We also asked whether there were other types of legitimate communications with secondary actors.

Enquiries to track down the trade source of the infringement

- 6.31 We have been told that, in many cases, the first a rights holder knows of an infringement of their right is at the point of sale. A rights holder will naturally want to limit the extent of the economic damage that can result, and the most effective means of doing so is to identify and close down the source of the infringement. In such circumstances a retailer or supplier is the person best placed to help with enquiries to locate the source. As the Institute of Trade Marks Attorneys (ITMA) put it, the retailer must know where they are sourcing the goods at the very least.

- 6.32 Rights holders wanted to be able to ask for that information without running the risk of a threats action. However, some restricted what they said in case their communication triggered a threats action. This impeded effective communication between disputing parties and reduced the chance of pursuing the “right” person – that is, the trade source of the infringement.
- 6.33 Introduced in 2004, sections 70(5)(b) and (c) of the Patents Act 1977 permit a person to make enquiries of another in order to find out whether and by whom the patent has been infringed. Stakeholders had told us that the reform had worked well but there remained some uncertainty about what exactly could be asserted.
- 6.34 In the Consultation Paper, we made a series of interlinked proposals. First, as a general principle, we proposed that a similar reform should be made for trade marks and design rights so that enquiries could safely be made to find the trade source of the infringement.
- 6.35 Currently for patents, enquiries can be made for two purposes: either to discover whether the patent has been infringed or to find out who is committing the infringement.¹¹ We thought that might be too wide. We asked whether the purpose for which enquiries could be made should be limited to discovering the identity of the trade source of the infringement.¹²
- 6.36 Here we discuss the responses on these two issues. We also thought that the law should be made clearer about what may be communicated, and proposed a non-exclusive list of what may be said.¹³ We return to the list in the next section.¹⁴

Extending the exclusion to trade marks and design rights

- 6.37 There was unanimous support among the 20 consultees who responded for the general principle that a rights holder should be able to make enquiries without incurring liability for threats. Consultees argued that this should apply to all rights.
- 6.38 The response from the British Brands Group is a typical example. They felt that “all IP rights should be treated in the same way with regards to all threats”. The Group also noted that “the general perception is that the variation to the patents regime had helped to focus attention on the source of primary infringement, so the exemptions should be extended” to the other rights.

¹¹ The exemption only applies where the acts of infringement are those specified in s 70(4)(a) of the PA 1977, which are the making or importing of a product for disposal or the use of a process.

¹² Question 18, CP 212 para 8.62.

¹³ Questions 15, 16, 17 and 18, CP 212 para 8.62.

¹⁴ See paras 6.69 to 6.90 below.

6.39 ITMA commented:

There are circumstances where an infringement will be first identified at a point of sale. Once a purchase is made, it is usually possible to find the trade source, but there may be occasions, for example in relation to counterfeit goods, where reasonable enquiries of the retailer are necessary to help identify the trade source. We think that there should be a clearly prescribed right to allow enquiries of secondary infringers to ask them to identify the primary infringer(s) or their supplier – that is, the next step in the supply chain. Clearly they might not be able to identify the primary infringer, but they must know their own source at least, and it is reasonable to ask for that information.

6.40 CIPA also agreed with the proposal. They thought that this was:

In the interests of procedural efficiency in that it allows the primary infringer to be identified more quickly, and so minimise the damage suffered by the rights holder.

6.41 However, CIPA accepted that the current patents provisions needed review, as they “lead to advisors having to write convoluted letters which are almost incomprehensible to potential infringers”.

Only to identify the trade source?

6.42 We proposed that only enquiries to identify the source of the infringement should be exempt. This differs from the current law, where enquiries can also be used to find out if a right is being infringed. The responses were evenly split, with seven in support and seven against. Six consultees commented on the proposal without indicating a preference, although the majority of the comments put forward reasons why the law should not be changed as we had proposed.

6.43 Reddie & Grose LLP agreed with the proposal but thought that:

This may be tricky to implement in practice, since discovering the identity of a primary infringer will almost always involve an assessment of what acts that party has performed and therefore whether a right has potentially been infringed.

6.44 The Licensing Executives Society (LES) disagreed and thought that it should be possible to make enquiries to discover whether there had been an infringement. They said:

This line of enquiry may assist the rights owner in establishing whether the secondary infringer is also the primary infringer (eg by asking questions about the decision making process behind the infringing article – eg whether the design or the decision to apply the trade mark was made “in-house” or by external suppliers).

6.45 The British Brands Group also rejected the proposal:

Merely identifying the primary infringer presupposes that the right has been infringed. There may be situations where it is necessary to seek further information to establish whether or not the right is actually infringed.

6.46 Haseltine Lake LLP thought that both types of enquiry would be “constructive for a business person making a bona fide approach to a competitor to initiate dialogue with a view to avoiding IP litigation”. They added:

Where secondary infringers are contacted there ought to be a requirement for the IP rights holder to: a) inform the secondary infringer whether it has or has not contacted the primary infringer; and b) provide the secondary infringer with brief particulars of the correspondence between the parties (if there has been extensive correspondence the provision of copies of that to a secondary infringer may itself have the overtones of a threat).

6.47 CIPA pointed out that patents are not just for products but also cover processes. This means that “a patentee may need to know more about what has been offered to a retailer or what process has been used or offered for use”. Enquiries may therefore be required to find out whether infringement has taken place. Furthermore, specific problems arose where a trader engages in pre-sale promotion, or where it is an expensive product which cannot reasonably be trap purchased,¹⁵ or where the process used to produce it is unclear. Being able to obtain more information was potentially a “valuable basis” for avoiding unnecessary disputes where there is no infringement and for getting in early – before a trader invests in the market and becomes more reluctant to leave it, which may make litigation more likely.

Enquiries to track down the trade source of the infringement: conclusion

6.48 Under section 70(5)(b) of the Patents Act 1977, it is considered legitimate to “make enquiries of another person for the sole purpose of discovering whether, or by whom, the patent has been infringed”. Below we recommend that this should also be considered a legitimate reason in relation to trade marks and design rights.

6.49 The balance of argument is against limiting the words of section 70(5)(b) to enquiries to discover *by whom* the patent has been infringed. Instead, consultees favoured the wider concept of enquiries to discover “whether or by whom” the patent has been infringed.

¹⁵ A trap purchase is the purchase of goods for the purpose of collecting evidence to determine whether it infringes an intellectual property right.

Notice of the right and the innocent infringement defence

- 6.50 The second legitimate purpose we identified was where it was necessary to make a person aware of the existence of a right in order to dispel a defence of innocent infringement. If the defence is successful, the rights holder is denied damages for any loss or an account of profits. We identified a series of provisions in patents and design rights legislation where a person who infringes in ignorance of the right may not be ordered to pay damages or give an account of profits.¹⁶ To remove this defence, the rights holder must tell the infringer that the right exists.
- 6.51 There were 18 responses, with 17 in agreement and one against. However, some consultees were uneasy about how we were approaching this issue. It was pointed out that there are many more instances, beyond those we had identified, where a rights holder is obliged to communicate with a potential infringer in order to achieve a particular legal outcome.¹⁷ These too would need to be catered for. There was concern that by singling out particular purposes where communication would not be a threat, this kind of reform could result in a regime that was rigid, complicated and overly prescriptive. As CIPA put it, there was “a risk of the law becoming completely entangled in order to cover all situations”.

Conclusion

- 6.52 There was strong support for making it easier for rights holders to alert innocent infringers of the existence of the right. However, we accept that the provision should not be overly prescriptive. Below we recommend that the legislation should look at the overarching question of whether the communication was for a legitimate purpose. One example of a legitimate purpose would be where a rights holder’s remedy depends on the infringer being aware of that right.

Negotiations over licence terms

- 6.53 Stakeholders told us that communication with a person is not always a precursor to litigation, but can sometimes be used as a means to regularise an infringement and to secure royalty payments. We asked whether communication for this purpose should also be exempted.¹⁸
- 6.54 The responses were very mixed. Nine consultees supported the proposal, though some expressed reservations. There were seven outright rejections and four consultees made comments only, mainly negative.

¹⁶ See CP 212 para 8.65 and following. Clause 10 of the Intellectual Property Bill [HL] 2013-14 will amend the RDA 1949, s 24B to make the financial remedies more consistent between Community and national design rights.

¹⁷ For example, to perfect a claim of secondary infringement of design right: see CDPA 1988, s 227. Some criminal offences require knowledge of the right, for example TMA 1994, s 92; clause 13 of the Intellectual Property Bill [HL] 2013-14 will introduce a similar offence for registered designs; these criminal offences are discussed at paras 7.39 to 7.44 below.

¹⁸ Questions 21 and 22, CP 212 para 8.76.

Support for the proposal

- 6.55 LES considered it “important that a rights owner has the ability to contact a secondary infringer to initiate negotiations over the grant of a licence”. This “provides a rights owner with a practical option to try and resolve its claim on a commercial basis without recourse to the courts” and reflected the principles in the CPR.
- 6.56 Reddie & Grose LLP said that communication should not comprise a threat where it was “a precursor to genuine licence negotiations”. They thought that a specific defence “would be best”. The British Brands Group made a similar point, but their support was predicated on the basis that the communication was entered into in good faith.

Arguments against the proposal

- 6.57 Professor Sir Robin Jacob roundly rejected the proposal. He said:

The Commission seems to think that this sort of situation is widespread. Not in my experience. IP owners want to stop both primary and secondary infringers. Of course litigation or threatened litigation may settle, but the prospect of a large licensing stream will not normally be the reason for an initial communication even to a primary infringer. As for communicating to a secondary infringer, with a view to licensing him or her (without involving the primary infringer) that is near fanciful.

- 6.58 The IP Working Party, CLLS and IPLA commented that:

Our view is that this could enable a rights holder to extort licence fees from someone other than the trade source without ever engaging the trade source. If the threats provisions are to be retained, this would surely undermine their purpose. Licence terms should be negotiated with the trade source in the UK.

- 6.59 Scott & York Intellectual Property Law thought that “full exemption would seem to leave room for an effective threat to be made”. ITMA also disagreed with the proposal for this reason, believing that it would “increase the ability to cloak a threat of infringement proceedings as an invitation to negotiate a licence”.

- 6.60 CIPA did not think that this type of communication should automatically be exempt. They reasoned that:

Just as the trader has less incentive to defend an infringement action, so too they have less incentive to resist payment of a fee for remaining in the market and this still places the manufacturer or primary economic interest owner at a potential disadvantage. If there is a bona fides test then such an exemption may be reasonable.

Negotiations over licence terms: conclusion

- 6.61 The balance of opinion was against providing a specific exemption where a rights holder contacted a secondary actor to open licensing negotiations. It was thought that this could be used as a cloak for threats to damage trade rivals. Furthermore, several consultees thought that the law should discourage licence negotiations with secondary actors rather than with the trade source. We do not recommend this exclusion.

Other legitimate purposes

- 6.62 It was suggested that seeking to engage in settlement discussions could sometimes be a legitimate purpose for communicating with secondary actors.
- 6.63 Haseltine Lake LLP thought that there should be a “protected first approach” solution “to allow an IP professional to safely make a first approach on behalf of a client”, after which the “without prejudice” practice can be employed. They said:

Settlement negotiations ought to be protected, but only if all parties are involved, that is, the secondary infringer must be made aware of discussions with the primary infringer.

- 6.64 However, Haseltine Lake LLP clearly envisaged that this would not include all settlement discussions with secondary actors, adding that:

The central dispute is and should be with the primary infringer and if the rights holder chooses to take steps against a secondary infringer it ought to be without the protection of an exemption to the groundless threats regime.

When is it legitimate to approach a secondary actor: conclusion

- 6.65 We now think that our attempts to identify legitimate reasons for contacting secondary actors were overly prescriptive. Any framework to provide a safe harbour must have identifiable boundaries, but it also needs to be flexible and responsive. A regime that is overly prescriptive will produce complex law that is difficult to apply and presents risks for those not familiar with intellectual property.
- 6.66 There was some useful and welcome advice in the joint response from the Patent Judges. They said:

In trying to draw the line between proper communications and abusive ones, it needs to be borne in mind that it all depends on the circumstances, and circumstances are infinitely variable. As the analysis in the Consultation Paper demonstrates, it follows that it is very difficult to draw up tightly-drafted prescriptive rules which serve all the objectives of the law. Furthermore, the more detailed the rules, the more complex they are. This in itself is undesirable for the reason given above.

6.67 We now think that the legislation should state the general principle: the exclusion from groundless threats provisions should only apply to communications which have a legitimate commercial purpose. The legislation should then give the following examples of things which may constitute a legitimate purpose:

- (1) enquiries for the sole purpose of discovering whether, or by whom, the right has been infringed; and
- (2) where a rights holder's remedy depends on the infringer being aware of the right, the rights holder may alert a potential infringer of the right.

6.68 These examples would not be exhaustive. The courts would be entitled to find that other purposes were also legitimate.

WHAT MAY BE COMMUNICATED?

6.69 There was strong agreement that the law should be clearer about what assertions could be made about a right.¹⁹ In the Consultation Paper we proposed non-exclusive lists of what information could be communicated about the right in question without incurring liability for threats.

6.70 In Question 17 we proposed a list to apply to enquiries to track down the primary actor and in Question 20 we proposed a list to dispel innocent infringement defences. The lists were in identical terms, and received the same responses. Consultees who commented on both lists either repeated their comments for each with little alteration or referred back to their previous answer. Here we deal with both together.

6.71 We proposed that permitted information should include the following:

- (1) the right exists;
- (2) it is valid;
- (3) it is in force;
- (4) details about the right including specifications, drawings, claims, restrictions on the right, depictions of the mark or design or any other information that describes the right; and
- (5) details about the alleged similarities between the rights holder's patent, trade mark or registered or unregistered design right and the product, process, mark or design in question.

¹⁹ Of the 18 consultees who addressed Question 16, only one disagreed and one other made comments only.

Consultees' views on what may be communicated

- 6.72 We received 19 responses. All agreed with the underlying principle of providing guidance in this manner. A minority of consultees expressed concerns about particular items, mainly because they were considered either too subjective or to be dealing with questions of law.²⁰
- 6.73 The IP Federation were:
- In favour of clarity as to exactly what can be said to potential infringers without the unlawful threats provisions being triggered. As such, a clear list of permitted statements/assertions such as the above [a reference to the two proposed lists] would be welcomed.
- 6.74 Herbert Smith Freehills LLP considered the five items listed “all seem reasonable to require from anyone asserting a right”.
- 6.75 The British Brands Group also thought that it would be “helpful” to be able to safely assert that a right “exists, that it is valid and that the offending product or process falls within its scope”, together with details of how it does so.
- 6.76 There was some divergence of opinion as to whether the lists should be exclusive or non-exclusive, as proposed. LES thought the latter and cautioned against restricting what may legitimately be communicated as there may be circumstances where it is necessary to impart other information, such as the history of the design or mark or volume of sales. Conversely, Haseltine Lake LLP thought that the lists put forward should be exclusive so that it was precisely clear what was permitted.
- 6.77 The BBC agreed with the proposals and added that it would be useful if the party asserting the right was “obliged to state that to the best of their knowledge and belief the right is valid and subsisting”.
- 6.78 Marques thought that rights holders:
- Need to be able, in their letters, to identify their right, assert its existence (rather than validity), identify the goods/services and refer to the nature of the alleged infringement occurring (without asserting by whom), e.g. by reference to the relevant statute.

Comments on the individual items

- 6.79 Where consultees commented on the individual items in the list, two caused particular concern. These were item 2 (that the right is valid) and item 5 (details of alleged similarities).

²⁰ Eleven consultees agreed with the lists in their entirety; eight expressed reservations about one or more items included in them.

- 6.80 CIPA thought that the proposals began to provide a “good framework” for inter party communication and considered that the first three items in the list were “essential to identifying the rights in issue and confirming their status”. However, they felt that item 4 (allowing details of the right to be given) and item 5 were open to interpretation and therefore “could serve to preserve confusion regarding what action is permitted within the exemption”. For item 4, they considered that where details of the right are given, these should include any limitations, and copies of the right should be provided where this is helpful. Item 5 was “a little more troublesome” as this began to involve setting out the case for infringement.
- 6.81 Reddie & Grose LLP objected to items 2 and 5 as these “may be a subjective issue and a matter of opinion”. When giving details about the right under item 4 they felt that this should be restricted to factual information describing the right and not, for example, assertions about the scope of a patent.
- 6.82 Scott & York Intellectual Property Law were also “uneasy” about allowing assertions of validity, as this was a key question to be determined by a court:
- It seems to us that a person who is not entirely familiar with the patents/trade marks/designs Acts might take an assertion that a right “is valid” at face value.
- 6.83 The IP Working Party, CLLS and IPLA felt that item 5 went too far. They considered that it should only be permitted to give details of similarities in order to trace the source of the infringement, and that there should be a statement made to that effect. It was suggested that it would be helpful for the rights holder to be able to state that the communication was made subject to statute.
- 6.84 Professor Sir Robin Jacob likewise objected to item 5 as similarity was a matter for the recipient to assess. However, he agreed with the inclusion of the first four.
- 6.85 ITMA thought it unnecessary to go further than “notifying the secondary infringer of the right in question in order to enable it to adequately identify the right in issue, and asking for details of the trade source at the outset”. Stating that the right exists, is in force and giving details about it were objective and externally verifiable; however, asserting validity and alleged similarities were subjective and so should not be necessary.

What may be communicated: conclusion

- 6.86 There was strong support for our proposal that the law should be made clearer about what information may be communicated. We recommend that guidance should take the form of a non-exclusive list. The purpose of the provision is to permit the parties to resolve their cases amicably, and we do not wish to be unduly restrictive about what can be communicated.
- 6.87 In the light of the comments we have received, we recommend the following list:
- (1) **The right exists.** Being able to inform a third party that the right in question exists proved to be uncontroversial. This will replace the exclusion for “mere notification” in the current law where it is relied on in cases where a rights holder is obliged to notify a third party of the right.

- (2) **The right is in force.** Registered rights require regular renewal in order to remain in force. This is something a rights holder should know and is externally verifiable.
- (3) **Details of the right.** These may be needed to enable the recipient to identify the right in issue. Where it would be helpful, copies of the right may be included. We agree with CIPA's suggestion that where details are given, they must include any limitations or other restrictions on the right. We also agree that the details should not amount to an opinion or assertion about particular qualities of the right, for example as to the scope of a patent.
- (4) **Identification of the goods and appropriate enquiries.** Several consultees pointed out that one could not ask a retailer about the source of their goods without identifying the goods in question. The letter should not be permitted to say "these goods infringe our patent", but it should be able to say "we are interested in these goods – please tell us where they came from".

Items that have not been included in the list

- 6.88 As a result of comments made by consultees, two other items that we suggested could be included in the list have not been and we discuss these next.²¹

THE RIGHT IS VALID

- 6.89 Concern was expressed that this is a matter of legal opinion. Whether a right is valid is always subject to doubt but, as Scott & York Intellectual Property Law said, a person not familiar with intellectual property law might take the assertion "at face value". We do not think that an assertion of validity is required or adds to productive communications, but it could be used as a bullying tactic.

DETAILS ABOUT THE ALLEGED SIMILARITIES

- 6.90 This was felt to be the most troublesome by consultees because it strayed too near the rights holder putting their case for infringement. We agree with this assessment, and with that of Professor Sir Robin Jacob that whether there are similarities is something for the recipient to decide. We have concluded that these kinds of details go too far; once the recipient has sufficient details to identify the right in question it is for them to decide on how they then wish to proceed.

SHOULD THERE BE A REQUIREMENT OF GOOD FAITH?

- 6.91 In the Consultation Paper we accepted that there are risks in permitting a rights holder to approach a person, such as a retailer or customer, in circumstances that would otherwise trigger the threats provisions. Threats could be dressed up as legitimate communication. We proposed that as a check on the potential misuse of permitted communication, there should be a requirement that communication is conducted in good faith.²²

²¹ See para 6.71 above.

²² Question 24, CP 212 para 8.77.

- 6.92 There were 17 responses to the proposal, 14 of which were in broad agreement. Although consultees recognised the need for some mechanism to prevent misuse, many had concerns about imposing a good faith requirement. Three consultees rejected the proposal outright, and two consultees made comments only.

How would good faith be established?

- 6.93 Although the proposal received general support, many consultees expressed concern about how good faith would be established. For example, CIPA agreed that a good faith requirement could be useful:

Without a requirement for “good faith”, the façade of intention to enter into licence agreements, or to notify or track down trade sources could be used merely to be a way of serving to strangle the supply chain of a competitor performing the primary infringement without even contacting the primary infringer (and so avoiding the costs of litigation in forcing the competitor from the market).

- 6.94 However, CIPA also foresaw drawbacks if the reform was not approached with “considerable care” as it was not clear what the basis of the “good faith” would be. They cautioned:

If such a provision is introduced it needs to be one which can effectively be relied upon otherwise it will make the provisions exempting certain forms of notification expensive to operate and potentially of little value.

They gave the example of licence negotiations that ultimately broke down where there was no prior history of the rights holder granting third party licences, and asked whether they would then be at risk of a claim of lack of good faith. Overall, CIPA “would prefer to see this as part of a completely new regime, which is less detailed about what acts can and cannot be performed, rather than an extra hurdle to be bolted onto the current regime”.

- 6.95 Other consultees also asked for more detail about what good faith entailed. ITMA commented:

We are broadly in agreement that there should be an obligation of good faith when approaching an alleged secondary infringer. It would be preferable if there were criteria, but we appreciate the difficulty in setting out what amounts to good faith.

- 6.96 LES suggested a range of factors that might indicate the communication was made in “good faith” which included:

Only making assertions that are, to the best of the right owner’s knowledge, valid and supported by evidence; or

Ensuring that any licence offer is not unduly prohibitive in the circumstances with reference either to existing (and comparable) licences granted by the rights owner and/or market practice; or

Providing the secondary infringer with a reasonable period of time in which to make enquiries of its supplier and/or consider any licence offer or requested undertakings.

- 6.97 The British Brands Group suggested that the rights holder should have “a genuine, bona fide belief that the rights are infringed (akin to a declaration in a Statement of Truth)”.

Rejection of a good faith requirement

- 6.98 The IP Working Party, CLLS and IPLA did not agree that permitted communication should be subject to a general requirement of “good faith”, on the basis that it was a principle that would have to be developed by the court in the context of groundless threats. They said:

Such a standard would bring inherent uncertainty to the law. We believe that cases of bad faith can be dealt with in other ways, either because the perpetrator commits another tort, or a regulator’s intervention will be an effective deterrent.

Good faith requirement: conclusion

- 6.99 We accept that good faith is an uncertain concept, and that we need to give a steer about what is meant in this context. We have already stated that the communication should be for a legitimate commercial purpose. This is an objective test, to be determined by the court.
- 6.100 In addition, we think that the threatener should have a reasonable belief in the truth of their assertions. In particular, they should believe, on reasonable grounds, that any assertions made in the communication are true.
- 6.101 We have considered where the burden of proof should lie on this issue. We appreciate that it could be problematic if rights holders were unable to take advantage of the safe harbour unless they can show reasonable grounds for believing what is asserted. It would mean that a person writing to a retailer to ascertain whether a product infringed a patent, and who was infringing, might end up in court being required to give evidence about why they believed the patent was in force and the assertions made were true.
- 6.102 However, we consider that it should be for the rights holder to bear the burden of showing reasonable belief. The facts that would discharge the burden will be within the rights holder’s knowledge or, at the least, would be more readily available to them. For example, a rights holder should know whether the registration of a right is current and would have access to that information. We think that requiring the secondary actor to show a lack of reasonable belief places too great an evidential burden on them.²³

²³ We criticised the current “good faith” defence for patents in PA 1977, s 70(2A)(b) for this reason and we recommend that the defence should be abolished: see CP 212 paras 8.83 to 8.86, and paras 6.135 to 6.141 below.

- 6.103 In the Consultation Paper we gave the case of *Quads 4 Kids v Thomas Campbell* as an example of why groundless threats provisions were still needed.²⁴ The claimants sold children's dirt bikes through eBay. When the defendant notified eBay that he had registered the designs of the bikes, eBay did not check the allegation. Instead, they removed the bikes from online listings. In fact the registrations of the designs had been deferred. They could not be used as the basis of an infringement action unless the design had been copied, and there was no evidence of copying.
- 6.104 We think the reasonable belief requirement would be useful in cases of this sort to ensure that such communication, where there are no reasonable grounds for belief, is caught by the threats provisions. The case is also a useful example of when a fact that goes to belief – the deferment of registration - is more readily available to the rights holder than the person threatened.
- 6.105 As we have explained, communication with a secondary actor can be highly damaging and therefore instances where it does not trigger the threats provisions should be exceptional. If there is doubt about the veracity of what is being communicated then communication with a secondary actor should not be entered into. The risk that it may ultimately be shown that there were no reasonable grounds on which to found belief should rest with the threatener who seeks to avoid liability for making threats. Therefore, we recommend that the party who seeks to rely on the exclusion has the burden of showing it applies.
- 6.106 Below we recommend that the exclusion should not apply where the threatener cannot show that they have a reasonable belief in what is being asserted. We think that the crucial issue is whether the belief is objectively reasonable, rather than whether it is subjectively genuine. Otherwise traders may have no protection against those who are honest but deluded.

CONCLUSION ON THE NEW STATUTORY SAFE HARBOUR

- 6.107 Some common themes ran through consultees' responses. These were that:
- (1) The current provisions that provide that certain kinds of communication will not be a threat are unsatisfactory.
 - (2) There is a need for a safe harbour whereby communication can take place between a rights holder and secondary actors.
 - (3) There is a lack of guidance as to when communication will not be treated as a threat.
 - (4) It is unclear what kinds of information can be safely communicated.
 - (5) Any framework put in place to provide a safe harbour must be flexible and responsive but have identifiable boundaries. A regime that is overly prescriptive will produce complex law that is difficult to apply and presents risks for those not familiar with intellectual property.

²⁴ [2006] EWHC 2482 (Ch), [2006] Info TLR 338.

- (6) The framework should include a means to minimise the misuse of the freedom to communicate without incurring liability for making threats.
- 6.108 We have attempted to address these concerns by recommending a new exclusion from the groundless threats provisions for legitimate communications made to secondary actors. Following the advice from stakeholders, we have made the exception subject to a broad principle: the communication should be for a legitimate commercial purpose, and any assertions made should be necessary for that purpose.
- 6.109 This is a flexible concept which may be developed by the courts. However, it is also important to give a clear steer as to what communications will come within the broad principle underpinning this exclusion. To this end, we have provided further guidance about what they may say and when they may say it.
- 6.110 We consider that the legislation should provide examples of what will amount to a legitimate commercial purpose; these are drawn from the current law and from consultees' responses. We think that these will cover the great majority of cases where communication with a secondary actor is necessary. However, the function of the examples is twofold. First, they provide certainty for those who fall within the examples. Second, they will also provide guidance to the courts as to when communication will be permitted in analogous circumstances.
- 6.111 We have been persuaded by arguments put forward by consultees that the examples should not be exhaustive. This would make the law too inflexible. We consider that as the law develops further instances where communication should be permitted will arise; for example, the purpose put forward by Haseltine Lake LLP where settlement negotiations are entered into by the rights holder, the primary actor and the secondary actor. Our recommendations will therefore recognise and facilitate this.
- 6.112 We therefore recommend that the legislation should provide guidance in the form of examples. Finally, we think that excluding liability for threats where there is a legitimate commercial purpose must be subject to the important check on abuse, which is the requirement that the party seeking to do this should have reasonable grounds for believing that the information communicated was true.
- 6.113 **We recommend that communications should be excluded from the groundless threats provisions if they are made for a legitimate commercial purpose, and if the information given is necessary for that purpose.**
- 6.114 **The statute should provide examples of legitimate commercial purposes.**
- 6.115 **These should include:**
- (1) **enquiries for the sole purpose of discovering whether, and by whom, the patent has been infringed; and**
 - (2) **where a rights holder has a remedy which depends on the infringer being aware of the right, the rights holder may alert a potential infringer of the right.**

- 6.116 **The statute should provide examples of the information which may be communicated.**
- 6.117 **These should include:**
- (1) that the right exists;**
 - (2) that the right is in force;**
 - (3) details of the right including, where appropriate, copies of any registration, specifications or drawings; where details are given, they must include any limitations or other restrictions on the right; and**
 - (4) information to identify the goods and to make appropriate enquiries.**
- 6.118 **The exclusion should apply only where the person seeking to rely on it has reasonable grounds for believing that the information communicated is true. The burden of showing there are reasonable grounds is on the person seeking to rely on the exclusion.**

THREATS TO SECONDARY ACTORS WHERE THE PRIMARY ACTOR CANNOT BE FOUND

- 6.119 The 2004 reforms introduced a new defence in cases of threats of patent infringement proceedings, whereby a party may safely threaten a secondary actor in some circumstances.²⁵ The defence applies where the person making the threat can show that they have used their best endeavours, without success, to discover the identity of the person who manufactured or imported the product or used the process.²⁶ In early discussions, stakeholders told us that they found this defence useful and we proposed a similar defence for trade marks and design rights.²⁷
- 6.120 We also asked whether the requirement that the person making the threat had used “best endeavours” to track down the primary actor was sufficiently clear about what was needed. On talking to stakeholders we found that the understanding of what amounted to “best endeavours” ranged widely. For example, one stakeholder believed it was sufficient to send recorded delivery letters to a last known address, while another had used a private detective. Sometimes, the variation was based on the value of the right and the extent of the infringement. In other cases there did not appear to be much consistency in approach. We proposed, as an alternative, that the party should be required to have taken all practical steps and to have informed the recipient of the threat what those were before the defence could be raised.²⁸

²⁵ PA 1977, s 70(6).

²⁶ See CP 212 paras 8.78 to 8.82.

²⁷ Question 25, CP 212 para 8.82.

²⁸ Questions 26(1) and (2), CP 212 para 8.82.

Consultees' views

- 6.121 The proposal to extend the defence to trade marks and design rights proved to be uncontroversial, with unanimous support among the 16 consultees who responded to the question. Where reasons were given, they were that the defence was useful; that the reform would promote consistency between the rights, and that it would simplify the law.
- 6.122 There was a more mixed response to the proposal to replace the “best endeavours” requirement with one of taking “all practical steps”. All consultees agreed, however, that the recipient of the threat should be notified of what had been done to locate the source of the infringement. Opinions differed as to how much detail would have to be given, but we think that it should be enough to enable the person threatened to judge whether the requirement to try to locate the primary actor had been satisfied.²⁹

Best endeavours, all practical steps or reasonable endeavours?

- 6.123 The IP Working Party, CLLS and IPLA argued that the requirement should be amended to “reasonable endeavours”. They thought that replacing the current requirement for “best endeavours” with “all practical steps” could result in “disproportionately costly or lengthy investigations” being carried out before the defence is available. They explained:

“Best endeavours” has a specific meaning in (contract) law which implies essentially doing everything within the rights holder’s power, including for example, hiring enquiry agents etc.

“Reasonable endeavours” would presumably include at least writing a “source tracing” letter to the target in question first, to ask them to identify the source.

In our view, the provisions should not arguably require a rights holder to go to extraordinary lengths, or to write to an extraordinary number of potential targets, potentially over an extended period of time, to try to find the trade source. Indeed, writing multiple letters to multiple retailers could have an overall chilling effect on the market for the goods, which is the very reason the threats provisions exist in the first place.

- 6.124 The British Brands Group considered “a short, simple and not overly prescriptive test would be preferred – such as ‘reasonable endeavours’”.

²⁹ The IP Working Party, CLLS and IPLA.

- 6.125 CIPA had concerns that a test of “all practical steps” would be “extremely difficult to evaluate in practice” and suggested that instead the requirement should be for “all reasonable steps”, where the question of reasonableness was influenced by the value and extent of the infringement. They asked:

As an example, does taking all practical steps in relation to a patent infringement extend to carrying out analysis of the product to seek to determine where it has been manufactured, and possibly to determine with what materials so that the source of manufacture can be ascertained; or dismantling a complex product to determine whether there is any internal marking which would indicate its source? And indeed should it require anything other than steps taken in relation to the trader such as asking the trader?

Threats to secondary actors where the primary actor cannot be found: conclusion

- 6.126 Consultees supported the introduction of similar defences for trade marks and design rights and we make that recommendation. This leaves open the issue of what the standard of the requirement to find the primary actor should be. Our proposed test of “all practical steps” did not find favour, and was about as unpopular as the current requirement that “best endeavours” are used.
- 6.127 These are not new concerns. They were raised during the consultation on the 2004 reforms for patents. In the Government’s response document to the consultation findings, it was noted that three respondents had suggested that the law should be changed so that it would be possible to threaten the “first in the supply chain” where reasonable endeavours had failed to locate the primary infringer within the UK jurisdiction.³⁰ It had been argued that this would open up a reasonable avenue for dispute resolution where the rights holder had made every effort to locate the primary actor.
- 6.128 The Government agreed that the patents threats provision should be amended to accommodate the suggestion, but felt that a person should be required to try hard to find the primary actor. As a consequence the standard was set at “best endeavours”.
- 6.129 Our consultation showed clear concern that the best endeavours standard was set too high, as was our suggested replacement. Stakeholders told us that it is in a rights holder’s best interests to locate the trade source of an infringement to close it down and prevent further damage. This provides a powerful motive to take effective steps to find the source. In some cases, this may involve simply asking a trader where they have obtained their stock. However, an extensive and costly infringement may call for more intensive steps, such as using a detective agency. The question is what is reasonable in the particular circumstances.
- 6.130 We now think that requiring all practical steps to have been taken sets the bar too high. Instead, for patents, trade marks and design rights it should be enough to use reasonable endeavours.

³⁰ Department of Trade and Industry and the Patent Office, *Consultation on the proposed Patents Act (Amendment) Bill: Summary of responses and the Government’s conclusions* (2003) para 133.

- 6.131 **We recommend that, for patents, the current defence for making threats to secondary actors is retained but reformed to the extent that the threatener must use reasonable endeavours to discover the primary actor.**
- 6.132 **We recommend that, for trade marks, where threats of infringement proceedings are made by a person to another who would be entitled to bring a threats action, it will be a defence for the person making the threat to show that they have used reasonable endeavours to locate, without success:**
- (1) the person who has applied the mark or caused the mark to be applied to goods or their packaging;**
 - (2) the person who has imported such goods; or**
 - (3) the person who has supplied services under the mark.**
- 6.133 **We recommend that, for registered and unregistered design rights, where threats of infringement proceedings are made by a person to another who would be entitled to bring a threats action, it will be a defence for the person making the threat to show that they have used reasonable endeavours to locate, without success:**
- (1) the person who has made the product or article; or**
 - (2) the person who has imported the product or article.**
- 6.134 **We recommend that – for patents, trade marks, registered and unregistered design rights – the person making the threat shall inform the person threatened either before or at the time of making the threat of the reasonable endeavours used to find the persons identified in the proposals set out above, and provide sufficient detail for the person threatened to identify what those steps were.**

INVALID PATENTS – BELIEF IN VALIDITY DEFENCE

- 6.135 This defence was introduced into patents legislation in 2004. Prior to this, a person aggrieved by a threat was not entitled to a remedy where it could be shown that the acts in respect of which the threat was made were, or would be, infringing. However, this defence would only apply where the right in question was valid at the time the threat was made. If it was shown that the right was invalid in a relevant respect, therefore, a person aggrieved would have a remedy. Section 70(2A)(b) changed this. Now a remedy is not available in such circumstances where the defendant shows that at the time of the threat “he did not know, and had no reason to suspect, that the patent was invalid in that respect”.³¹
- 6.136 We thought that the defence was unsatisfactory for several reasons:

³¹ PA 1977, s 70(2A)(b).

- (1) It places the risk that the right is invalid on the claimant in the threats action, who is also the one to have suffered any damage caused by the threat. We think that is inappropriate. The rights holder is best placed to evaluate validity and should bear the risk.
- (2) It denies the claimant all remedies for threats despite having shown that the right is invalid. Without a declaration or injunction, the rights holder is free to continue with the threats.
- (3) The defence arises at a late stage in the proceedings. As a consequence, a genuine rights holder will still have faced a threats action on what is essentially a preliminary issue.
- (4) The claimant in a threats action faces a heavy evidential burden as they may not rely on a general assertion that the right is invalid, but must instead put forward a positive case as to why it is and on what basis.³²
- (5) It is unclear how the defence promotes its stated aim, which is to permit reasonable discussion and settlement. Ultimately, any settlement would be reached in respect of an invalid right.

6.137 We proposed that the defence should be abolished.³³

6.138 There were 19 responses, 11 in support and four against. The remainder made comments only. Most of those who supported the proposal did so for some or all of the reasons we had set out. The IP Working Party, CLLS and IPLA underlined the difficulty facing a claimant in a threats action. They said that in many patents cases there may be a “squeeze”, whereby a patent could be invalid either for obviousness or insufficiency. In such cases it may be difficult for a party alleging invalidity to correctly predict on which basis a court may ultimately decide the point.

6.139 Reddie & Grose LLP thought that there should be some sort of “good faith” defence, “in order to encourage negotiations where the patentee genuinely believes the right to be valid and infringed”. We consider that the recommendations on when it should be possible to communicate safely with a person who would otherwise be entitled to rely on the threats provisions answer this concern.

6.140 We have concluded that the current defence available for patents should be removed, and the law for patents brought into line with that for trade marks and registered design rights. Where it is established that the acts complained of by the rights holder are, or would be, infringing but the patent is shown to be invalid, the person aggrieved by the threat is entitled to the full range of remedies for threats.

6.141 **We recommend that section 70(2A)(b) of the Patents Act 1977 should be repealed.**

³² See *FNM Corp Ltd v Drammock International Ltd* [2009] EWHC 1294 (Pat), 2009 WL 1657121, discussed in the Consultation Paper at CP 212 paras 3.32 to 3.33 and 8.85.

³³ Question 27, CP 212 para 8.86. See further CP 212 paras 8.83 to 8.86.

CHAPTER 7

PROFESSIONAL ADVISER LIABILITY AND OTHER ISSUES

INTRODUCTION

- 7.1 Under the current threats provisions, an aggrieved person may bring an action against anyone who makes a threat, including professional advisers. In this chapter we start by examining the problems this causes. We recommend a change in the law, so that a professional adviser, such as a solicitor or registered attorney should not be liable for making threats where they have acted in their professional capacity and on instructions.
- 7.2 In the Consultation Paper we asked whether any other problems existed beyond those we had identified.¹ Consultees raised three possible problems, relating to:
- (1) threats to sue for infringement made while an application for a patent was pending;
 - (2) whether threats of actions for delivery up were included in the threats provisions; and
 - (3) criminal sanctions for registered design rights.
- 7.3 Later in this chapter we discuss each in turn.

THE PERSONAL LIABILITY OF PROFESSIONAL ADVISERS

- 7.4 Liability for making threats is not limited to the rights holder: any person who issues a threat risks a threats action being brought against them. Liability arises in one of two ways. First, the person making the threat may be acting as an agent for the rights holder. Secondly, as currently drafted, the various provisions apply to “a person” or “any person” making a threat.² The upshot is that a legal or professional adviser may be held jointly or severally liable for making threats, even when acting on client instructions.³

¹ Question 2, CP 212 para 7.92.

² PA 1977, s 70(1); TMA, s 21(1); CTMR reg 6; CDPA 1988, s 253(1); RDA 1949, s 26(1); and CDR reg 2(1).

³ See *Reckitt Benckiser (UK) Ltd v Home Pairfum Ltd* [2004] EWHC 302 (Ch), [2004] FSR 37; see further CP 212 paras 8.33 to 8.40.

- 7.5 In the Consultation Paper we described how professional liability could be manipulated by disputing parties to drive a wedge between adviser and client.⁴ We explained that it added to costs, by making advisers behave defensively.⁵ Advisers may need to seek an indemnity, or notify their professional indemnity insurer, or in some cases may be unable to continue to act for the rights holder. Advisers may also be reluctant to put their name to letters, which means that threats are not taken as seriously, disadvantaging small businesses in particular.
- 7.6 In Australia the issue has been addressed. Section 132 of the Patents Act 1990 states that a legal practitioner or registered patent attorney is not liable in respect of “an act done in his or her professional capacity on behalf of a client”. Similar immunities exist for trade marks and designs. We did not find evidence of this leading to an increase in the misuse of threats by advisers, and the change appears to be working well.
- 7.7 We asked consultees whether a lawyer, or registered patent or trade mark attorney, acting in their professional capacity on client instructions should not be liable for threats.⁶

Consultees’ views on the personal liability of professional advisers

- 7.8 The proposal was widely supported. Seventeen consultees agreed with the proposal while one opposed it. Professor Sir Robin Jacob disagreed because the risk of liability was a “healthy restraint on cowboy (and other) legal advisors”. He argued that giving an exemption would not deal with the “supposed problem of the creation of a conflict between client and lawyer” as the client could still sue the lawyer if the letter incurred liability for the client.
- 7.9 Where consultees agreed, they did so for broadly similar reasons. Some confirmed the use of potential liability as a “regular” source of tactical manoeuvring,⁷ while others cited the tension that can develop between adviser and client. Some felt that this added to costs or caused disruption in the handling of a dispute.⁸ Finally, there was concern that those practitioners unfamiliar with the provisions could be inadvertently caught out and incur liability for making threats.
- 7.10 It was acknowledged that the provisions played a role in deterring misconduct by professional advisers, but it was felt that such cases were more appropriately dealt with through regulation by a professional body rather than the general law. For example, Reddie & Grose LLP accepted that there needed to be:

⁴ CP 212 para 8.34.

⁵ CP 212 para 7.47.

⁶ Question 13, CP 212 para 8.40. In Scotland the exclusion will most likely apply to solicitors and registered attorneys.

⁷ Angela Fox, whose view was echoed by LES.

⁸ The BBC, the IP Working Party, CLLS, IPLA, Wedlake Bell LLP, the British Brands Group and Herbert Smith Freehills LLP.

Some mechanism to avoid abuse by professionals (although this is rare). Possibly there should be some sort of “flagrant” or “reckless” exclusion but judging that would be difficult. Regulatory bodies should include a specific mention of threats in their guidelines on professional practice but they have very limited powers of censure for failure to follow their guidelines. IPReg⁹ who regulates the Patent and Trade Mark professions has only two options: no action or striking off the Register.

- 7.11 The Chartered Institute of Patent Attorneys (CIPA) agreed with the proposal but thought others might not. They said:

There are specific circumstances when the rights holder may not have the resources to recompense the complainant for damage which has been done to their business by an ill-informed legal adviser. But these circumstances are rare. So to the extent that the Law Commission does decide to retain some liability, which CIPA does not believe it should, then it should be restricted to circumstances where no recompense is available from the rights holder. CIPA considers that instead of a threats action, this should be a professional conduct point, but not to be taken while litigation is on-going.

The personal liability of professional advisers: conclusion

- 7.12 The right to sue lawyers for the threats they make on behalf of their clients can be manipulated by disputing parties. It adds to the complexity and costs of litigation as advisers may refuse to sign letters, ask for indemnities or (in some cases) are no longer able to act for their clients. We accept that in some circumstances personal liability restrains unduly aggressive behaviour, but we think that this can and should be dealt with by professional bodies.
- 7.13 We have concluded that a lawyer or registered attorney who acts on client instructions and in a professional capacity should not be held personally liable for making threats. However, an adviser who goes beyond their instructions or acts in a personal capacity would risk liability. We have considered the suggestion from Reddie & Grose LLP that there should be an exception for flagrant or reckless behaviour, but we do not think that this is necessary.
- 7.14 **We recommend that a lawyer, registered patent attorney or registered trade mark attorney should not be liable for making threats where they have acted in their professional capacity and on instructions from their client.**

⁹ The Intellectual Property Regulation Board.

Should others be excluded from liability?

- 7.15 In *SDL Hair Ltd v Next Row Ltd*,¹⁰ a director was found liable for making threats even though he acted on behalf of the company and did not hold a personal interest in the patent being asserted. We have considered whether the exemption for lawyers should be extended to directors and officers acting on behalf of the company. We have concluded that it should not.
- 7.16 The crucial difference is that a legal or professional adviser who is acting on instructions in a professional capacity has their conduct overseen and regulated by their professional body. We think that the misuse of threats is properly characterised as professional misconduct and should be dealt with as such. As there is no equivalent check on misuse for company officers or employees, removing the risk of personal liability would open the way for an increase in the misuse of threats.
- 7.17 At a recent seminar,¹¹ another concern was raised. It was suggested that threats could be made by individuals on behalf of shell companies with no assets, thus depriving the aggrieved party of an effective remedy.
- 7.18 For these reasons we do not think that there should be other exceptions for those acting on behalf of rights holders.

PENDING PATENT APPLICATIONS AND THE THREATS PROVISIONS

- 7.19 Haseltine Lake LLP identified a possible problem where threats to bring infringement proceedings are made while an application for a patent is pending.¹²

The problem

- 7.20 From the date when an application for a patent is published, the applicant is granted provisional rights under section 69 of the Patents Act 1977. Subject to two important restrictions, section 69(1) provides that the applicant is entitled to claim for damages in respect of an act which would have constituted an infringement if the patent had been granted from that time. The claim is not for the infringement of the application but is instead a retrospective claim for the infringement of the patent.¹³
- 7.21 The two restrictions are that the applicant is only entitled to bring a claim for infringement:

- (1) after a patent has actually been granted; and

¹⁰ [2013] EWPC 31; see para 3.8 above for the facts of the case.

¹¹ Held in December 2013 and hosted by DAC Beachcroft.

¹² The issue was raised in the context of a broader comment on the current threats regime, which they considered was not flexible enough to distinguish between threats used to intimidate a competitor and those used to interfere with the trade channels of a competitor.

¹³ See *Brain v Ingledew Brown Bennison & Garrett (No 1)* [1996] FSR 341 at 354.

- (2) if the act would constitute an infringement of both the patent as applied for and the patent as granted.¹⁴
- 7.22 The problem arises because of the length of time that can pass between the date of publication and the date of grant. Haseltine Lake LLP commented that it is a particular problem for European Patents due to the “inherently slow examination procedure in the EPO”.¹⁵ They commented that for applications that have had an initial international (PCT) phase, an application is not processed until it is between 19 and 31 months old.
- 7.23 During the period in which the application is pending it is possible to threaten to bring proceedings for infringement. The threat is construed as being a threat to bring proceedings when the patent is granted and can therefore trigger section 70 of the Patents Act 1977.¹⁶
- 7.24 This has implications where the threatener then wants to rely on the defence of justification, which requires that the acts complained of would “constitute an infringement of a patent”.¹⁷ To establish this, it is necessary to show that the patent as granted would be infringed – which is not possible if the hearing of the threats action takes place before grant. In such circumstances the court has held that the justification defence will fail.¹⁸
- 7.25 Haseltine Lake LLP suggested that this leads to “bizarre and arbitrary outcomes as far as threats of infringement of provisional rights are concerned” as the availability of the defence turns on how quickly an application is processed.¹⁹ The practical effect, as a leading textbook identifies, is that “a party who has applied for a patent should be cautious about issuing threats unless the patent is likely to reach grant before trial”.²⁰
- 7.26 We consulted our advisory group to find out whether this situation was commonly encountered and whether any practical solutions are already available.²¹

¹⁴ PA 1977, s 69(2).

¹⁵ The European Patent Office (EPO).

¹⁶ *Brain v Ingledew Brown Bennison & Garrett (No 1)* [1996] FSR 341 at 347-348.

¹⁷ PA 1977, s 70(2A).

¹⁸ *Brain v Ingledew Brown Bennison & Garrett (No 2)* [1997] FSR 271 at 274-275.

¹⁹ They felt that there was less of a problem for other rights, for which the pendency terms were much shorter.

²⁰ *Terrell on the Law of Patents* (17th ed 2011) para 22-28; see, to similar effect, *Brain v Ingledew Brown Bennison & Garrett (No 2)* [1997] FSR 271 at 275.

²¹ The membership of the advisory group is given at para 1.42 above.

- 7.27 The general consensus was that this is not a common problem and that few people threaten on the basis of an application, because of the risk that the claims might change or the patent might not be granted. It was felt that this was an inherent risk where threats are made before grant and it was difficult to see why the threatening party should not bear it. The greater mischief was the wrong to the aggrieved party if the threat is unjustified. It was suggested that if someone has gone to the expense of taking a threatener to court, it is probably because considerable damage is being done to their business and the applicant is refusing to stop issuing threats.
- 7.28 It was felt that where such cases arose they could be actively case managed by the courts in order to do justice between the parties. The utility of the interim injunction was noted, particularly as it can be granted on terms that protect the position of both parties. It was also suggested that a stay could be ordered and made subject to undertakings, such as to pursue the application diligently. Finally, while it was accepted that the EPO could be slow, it was pointed out that a court can ask the EPO to expedite matters and that the existence of third parties who may be infringing the right was a good ground for doing so.

Pending patent applications and the threats provisions: conclusion

- 7.29 We think that the problem lies with the EPO application procedure rather than with the threats provisions.²² The length of time it takes to determine an application introduces a risk that the justification defence may not be available. The question is who should bear the risk?
- 7.30 This situation does not arise where threats are made to primary actors, such as manufacturers or importers, or in respect of primary acts of infringement. Our recommendations in Chapters 5 and 6 further reduce the scope for the problem to arise by extending the range of excluded threats. However, the issue will remain where threats are made to retailers, customers and others.
- 7.31 We think that an applicant with a genuine case should be able to issue threats, but it would be a wrong step to prevent those affected by them from bringing a threats action until a patent has been granted. This would leave those most vulnerable to threats without protection during the pendency period. Therefore, the risk that the patent is not granted in time for the final hearing of a threats action should rest with the applicant for the patent. The courts already have effective case management powers at their disposal to deal justly with the parties.
- 7.32 Given these considerations, we have concluded that there is no need for any special provisions to deal with this issue.

²² That conclusion alone puts the issue beyond the remit of this project.

DELIVERY UP

- 7.33 Four consultees queried whether an action for the delivery up of infringing goods, products, materials or articles comes within the ambit of the threats provisions.²³ They thought that the law on this was unclear.

The problem

- 7.34 The question is whether actions for delivery up amount to “proceedings for infringement” for the purposes of the groundless threats provisions. Intellectual property law is not entirely consistent on this issue. As we explore below, the Patents Act 1977 appears to classify an action for delivery up as a form of infringement proceedings, but the other legislation is less clear cut.
- 7.35 Section 61 of the Patents Act 1977, which is titled “Proceedings for infringement”, deals with delivery up alongside actions for damages, injunctions or account of profits. This strongly suggests, for patents at least, that claims for delivery up are infringement proceedings for the purposes of section 70. The legislation for trade marks and design rights is structured differently. Section 14 of the Trade Marks Acts 1994, which is titled “Actions for infringement”, does not include a claim for delivery up; that is dealt with separately at section 16.²⁴ A similar distinction is made for design rights.²⁵ The IP Working Party argued that proceedings for delivery up may not be infringement proceedings as the remedy is:

Directed against anyone who happens to have infringing articles in their possession, custody or control for commercial purposes but there is no knowledge requirement: in short, the possessor may well not be an infringer at all.

²³ IP Working Party; IPLA; CLLS (who agreed with the IPLA response, without adding further comment on this point) and Marques.

²⁴ Section 16 is titled “Order for delivery up of infringing goods, material or articles”. See also CTMR 2006, reg 5(3) which provides that TMA 1994, ss 15 to 19 apply in relation to a Community trade mark as they apply to a registered UK trade mark.

²⁵ See RDA 1949, ss 24A and 24C; CDPA 1988, ss 229 and 230; and CDR 2005, regs 1A and 1B.

- 7.36 Despite the differences in the legislation, we think that the better view is that claims for delivery up are proceedings for infringement.²⁶ All claims for delivery up require the rights holder to establish that the products or articles in question are an infringement of the relevant intellectual property right.²⁷ In this way, delivery up is simply one remedy, among others, that is available to a claimant who is successful in showing infringement of their right.²⁸ The claim may be made against a person who has possession, custody or control of the infringing article for commercial purposes, such as a supplier or retailer, even where they did not commit the infringement. As a consequence, a threat of this nature can cause considerable commercial damage and, like threats to sue for infringement, should come within the threats provisions.

Delivery up: conclusion

- 7.37 We think that any confusion over this issue needs to be resolved. We recommend that the legislation should clarify that a threat of an action for delivery up should be treated as a threat of proceedings for infringement.
- 7.38 **We recommend that claims for the delivery up of goods, articles or products should be treated as proceedings for infringement for the purposes of the threats provisions for patents, trade marks and design rights.**

CRIMINAL SANCTIONS

Introduction of criminal sanctions for registered design right infringement

- 7.39 CIPA raised a concern about the proposed introduction of criminal sanctions for the deliberate copying of a registered design.²⁹ At the time the response was submitted, Clause 13 of the Intellectual Property Bill (IP Bill) provided that it will be an offence where a person, without the consent of the rights holder and in the course of business, copies a registered design to make a product that is exactly or substantially similar to that design, knowing or having reason to believe that the design is registered.³⁰ CIPA suggested that a misused threat of criminal proceedings will be “perceived as far more significant to a competitor’s customers than civil litigation” and will therefore “create far more damage”.

²⁶ We have been unable to find case law to confirm the point one way or the other.

²⁷ TMA 1994, s 16(1); CTMR 2006, reg 5(3); RDA 1949, s 24C(1); CDPA 1988, s 230(1); CDR 2005, reg 1B(1); and PA 1977, s 61(1)(b).

²⁸ Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011) paras 63.48-63.49. See also *Kerly’s Law of Trade Marks and Trade Names* (15th ed 2011) para 20-118, where it is suggested that in cases where the applicant has not already brought a successful infringement action, “the applicant must show on the balance of probabilities that the goods are in fact infringing, not merely that they might be or are arguably so”.

²⁹ Clause 13 of the Intellectual Property Bill [HL] 2013-14 amends the RDA 1947 to create the new offence.

³⁰ Inserting section 35ZA into the RDA 1949.

- 7.40 Similar criminal sanctions already exist for other rights.³¹ For example, the Trade Marks Act 1994, section 92(1) provides that an offence will be committed where a person, with a view to gain for himself or another or with intent to cause loss to another, applies to goods or their packaging a sign identical to, or likely to be mistaken for, a registered trade mark without the consent of the rights holder.
- 7.41 We have looked at the current law for indications that the existing criminal sanctions for other rights have been used to the effect that CIPA fear. In a 2010 report for the Intellectual Property Office, it was noted that it is open to rights holders to bring a private prosecution and that certain organisations, such as the Federation Against Copyright Theft and the Anti-Counterfeiting Group, can provide advice or assistance to help rights holders prepare a case. However, the report commented that generally criminal enforcement is initiated by the police or trading standards authorities and is exercised at their discretion.³²
- 7.42 We have canvassed stakeholders in order to find out whether they have used private prosecutions to enforce intellectual property rights (or threats of these) and were told that rarely, if ever, have they done so. Stakeholders instead preferred to leave the matter in the hands of the relevant prosecuting authority.
- 7.43 Since its introduction, clause 13 has undergone amendment that we think will reduce the scope for misuse.³³ A person must now “intentionally” copy the design to make a product “exactly to that design” or “with features that differ only in immaterial details” from the design.³⁴ A person who offers, stocks, puts on the market or uses the product must also know or have reason to believe the design has been “intentionally” copied without consent.³⁵
- 7.44 As the explanatory notes to the IP Bill make clear, clause 13 will provide trading standards authorities with similar powers of enforcement for design offences as they currently have for copyright and trade mark offences. We can see no obvious reason why rights holders’ behaviour may change on the introduction of the new offence, so that there is a greater use of threats to prosecute compared with current use of existing sanctions for other rights. Therefore, we do not see that there is a compelling case to treat the new offence any differently to existing offences by bringing it within the ambit of the threats provisions.

³¹ As noted in the Research Paper to the Bill: see Ward, Ares and Maer, *Intellectual Property Bill [HL]: Research Paper 13/70* (December 2013) p 11.

³² Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010) p 50.

³³ Despite campaigns to extend the offence to unregistered designs it remains applicable only to registered design.

³⁴ Clause 13, inserting section 35ZA(1)(a) into the RDA 1949.

³⁵ Clause 13, inserting section 35ZA(3) into the RDA 1949.

CHAPTER 8

THE “BEST BUY” GAP

INTRODUCTION

- 8.1 In this chapter we look at what we have called the “Best Buy” gap. A threat to sue for the infringement of a Community Trade Mark by bringing proceedings in a foreign court, even when directed at traders in the UK, is not caught by the threats provisions: the threat must be one to sue in the UK. This is the consequence of the decision in *Best Buy Co Inc v Worldwide Sales Corp Espana SL*.¹ *Best Buy* was concerned with Community Trade Marks (CTMs). We are not aware of any decided case that applies the principle in *Best Buy* to European Patents or Community designs as yet. However, we can see no reason why that would not be the case.
- 8.2 In the Consultation Paper we explained that this created a gap in the protection against threats that could be exploited in order to avoid the threats provisions.² Below, we first look at the *Best Buy* case in some detail and the issues that were raised. Then we explain what we think the practical implications are. Finally, we explore an issue raised by a consultee, which was how the Best Buy gap might interact with the enforcement of Unitary Patents once those rights become available.

THREATS TO SUE IN FOREIGN COURTS: THE BEST BUY GAP

- 8.3 The material facts of the *Best Buy* case are these:

Best Buy Co Inc was a US corporation which sold consumer electronics under the Best Buy name in the US. It, together with its UK subsidiary, planned to open similar shops in the UK and other European countries using the Best Buy name.

Worldwide Sales Corporation was a Spanish company which owned two CTMs that incorporated the words “Best Buy”.

A dispute arose between the parties that was triggered by an application to register a CTM by a member of the Best Buy group that included the words “Best Buy”; Worldwide objected to the application.

In correspondence, Worldwide’s Spanish lawyers wrote to Best Buy’s London solicitors to say that Worldwide had learned that Best Buy was planning to expand into “the European market including the Spanish one”. It was said that the use of the Best Buy mark in those areas, as well as in advertising and the media, conflicted with Worldwide’s intellectual property rights and would entitle Worldwide “to take the appropriate legal action to defend its interests” (the September letter).

¹ *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618, [2011] FSR 30.

² CP 212 paras 5.39 to 5.49.

The letter also contained an offer to try and reach a negotiated solution. Best Buy's solicitors responded by agreeing to negotiations but made it clear that these would be without prejudice to Best Buy's contention that they were not infringing the CTMs.³ The negotiations failed.

8.4 Best Buy brought an action in the High Court for groundless threats under section 21 of the Trade Marks Act 1994 which also applies to CTMs.⁴ Mr Justice Floyd began by identifying the elements of the action. Best Buy would be entitled to a remedy where:

- (1) there was a threat of proceedings for the infringement of a mark, other than the application of the mark to goods or their packaging, the importation of such goods or the supply of services under the mark;
- (2) Best Buy could show they were a person aggrieved by the threat;
- (3) Worldwide could not show that the acts in respect of which proceedings were threatened were or would be infringing if carried out; and
- (4) even if it could be shown the acts were or would be infringing, Best Buy could still have a remedy if it could show the CTMs were invalid.

The issue – what proceedings must be threatened?

8.5 Mr Justice Floyd noted that so far as he was aware, the case was the first time the threats provisions had been applied to a Community-wide right. There was an issue, however, that had to be resolved before it could be decided whether section 21 applied on the facts of the case. Community rights do not necessarily have to be enforced in the UK. The question for the court was whether the first requirement – that there is a threat of proceedings – had to be understood as being that proceedings would be brought in the UK.

³ Where parties want to see if they can negotiate a settlement this is often done on a “without prejudice” basis. This means that anything they say to each other cannot be referred to in court if the negotiations break down.

⁴ CTMR 2006, reg 6.

- 8.6 The reason that there may be a choice of venues for an infringement claim is because a CTM is a unitary right that applies across all 28 member states. Although member states are required to designate specific national courts to be CTM courts and Community design rights (CDR) courts to deal with these rights, some claims can (or have to) be brought in the designated courts of another state.⁵ This includes claims for infringement.⁶ One example of when this might be is where the defendant to an infringement action is domiciled in a state other than the UK.⁷
- 8.7 Nothing in the current threats provisions expressly limits the protection to cases where the threat is to bring proceedings in the UK, to threats made in the UK or to threats in respect of acts committed in the UK. Nor does the legislation expressly deal with what should happen when the threat is made in respect of a right, such as a CTM, which extends to jurisdictions other than the UK. Therefore, in *Best Buy* the issue for the court was what connection (if any) to the UK was required in order that section 21 applied to any threat that may have been made.
- 8.8 It was argued for Best Buy that the provisions applied to any registered trade mark provided the court had jurisdiction to hear it. The Trade Marks Act 1994 was not specific about the locality of the proceedings,⁸ which meant section 21 was wide enough to cover an action for infringement of a UK registered trade mark court even if brought in a foreign court. The same principle should therefore apply for CTMs by analogy.

⁵ Claims for infringement can only be brought before the designated CTM/CDR courts in a member state; see Council Regulation (EC) No 207/2009 on the Community trade mark, art 95(1) and Council Regulation (EC) No 6/2002 on Community designs, art 80(1). The decision of a CTM/CDR designated court will be enforceable across the EU however: see Council Regulation No 44/2001 on Jurisdiction, chapter III and Fawcett and Torremans, *Intellectual Property and Private International Law* (2nd ed 2011) para 19.57.

⁶ See Council Regulation on the Community trade mark, art 96 and Council Regulation on Community designs, art 81.

⁷ Complex rules of jurisdiction regulate where cases should be heard; see Council Regulation on the Community trade mark, art 97(1) and Council Regulation on Community designs, art 82(1). See also CP 212 para 5.28.

⁸ Even when extended to threats made in respect of CTMs by CTMR 2006, reg 6.

- 8.9 The opposite was argued for Worldwide. It was said that section 21 must be understood to apply only to threats of proceedings in the UK.⁹ Otherwise it would be a trap for the unwary in every other member state, who could not be assumed to have heard of this “peculiarly UK provision”.¹⁰ It may also be the practice, or even a requirement, in a member state that the rights holder contacted the alleged infringer to say what their grievance is. The judge preferred this argument and noted that section 21 was one of a group of sections that dealt with the relief that a UK court may grant where a trade mark has been infringed.¹¹ The extension of section 21 to CTMs did not affect this. The section therefore was not concerned with the harmful effects of proceedings threatened in other jurisdictions.¹²
- 8.10 Mr Justice Floyd was aware that in reaching his conclusion this could provide a means to avoid the provisions altogether. He said:
- I accept that one consequence of this is that a harmful threat could be made by making it clear that the only proceedings contemplated will be abroad. But this would not be the only anomaly created by this home-grown action. It cannot sensibly be argued, for example, that the section extends to threats of infringement of foreign nationally registered marks: a registered trade mark is one registered under the Act. So one can threaten with impunity to bring an action here for infringement of a foreign mark.¹³
- 8.11 The threats action failed because Mr Justice Floyd held that, although the September letter contained a threat, the communication between the parties had been on a “without prejudice” basis and therefore the letter could not be relied on in court. That decision was appealed and so, although the Court of Appeal did not have to reach a decision on the finding that a threat had to be of proceedings in the UK, Lord Neuberger MR considered that conclusion to be right.¹⁴

Express and implied threats to sue in the UK

- 8.12 The surest way to make it clear that proceedings for infringement will not be brought in the UK courts is to expressly say which foreign court they will be commenced in. However, the venue where proceedings may be brought can also be implicit.¹⁵

⁹ While the Judge did not address the point directly, it appears that this includes a threat to bring proceedings anywhere in the UK. A threat to raise an action in the Court of Session would therefore be actionable in the High Court, and vice versa.

¹⁰ *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2010] EWHC 1666 (Ch), [2010] FSR 35 at [14].

¹¹ The meaning of court is defined by TMA 1994, s 75 to mean a UK court unless the context requires otherwise.

¹² *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2010] EWHC 1666 (Ch), [2010] FSR 35 at [15].

¹³ Above at [16], by Floyd J.

¹⁴ *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618, [2011] FSR 30 at [24].

¹⁵ See para 2.27 above; see further CP 212 paras 2.15 to 2.17.

- 8.13 There was no express threat in *Best Buy* and the Court of Appeal approached the question of whether the September letter contained an actionable threat in stages. The first was what did the September letter mean – did it constitute a threat? The second was whether it was a threat of proceedings in the UK.¹⁶ On the first of these the test the court applied was:

What a reasonable person in the position of the recipient of the letter, with its knowledge of all relevant circumstances as at the date the letter was written, would have understood the writer of the passage to have intended, when read in the context of the letter as a whole.¹⁷

- 8.14 Lord Neuberger MR highlighted three assertions: that the marks were “reputed and distinctive”; that Best Buy’s actions were already “causing irreparable and irreversible damage”; and that this would entitle Worldwide to “take appropriate legal action to defend its interests”. He said that these led to the conclusion the September letter would be understood as being a threat.¹⁸
- 8.15 Lord Neuberger MR also found that, on a fair reading of the September letter, the recipient would have understood that the threatened proceedings would be brought in the UK. The factors that led to this conclusion were that it was clear from the letter that Worldwide’s claims and concerns extended throughout the EU and were not limited to Spain. There were references to its trademark registrations and use being “in Spain and Europe”. Worldwide’s complaint was that Best Buy’s use was “on the European market” and negotiations to settle the dispute were for the marks to co-exist “in Spain and other European countries”. Unless there was something in the surrounding circumstances that pointed to the contrary, the threat was Europe wide.
- 8.16 It had been suggested that the notion that Worldwide intended to sue in all member states was fanciful. The court replied that, if a Europe-wide threat was made, the fact that when it eventuates the claim is brought only in one member state was still compatible with a threat to sue in all states. A threat to sue was not a promise to sue. While it may have been fanciful to interpret the letter as threatening proceedings in Slovenia, for example, “it was far from fanciful” to conclude it was intended to sue in the UK as both parties knew that Best Buy intended to launch their European business in the UK.¹⁹

¹⁶ There were two other stages: to which acts of alleged infringement did the threat go and would the September letter be understood to be without prejudice? We return to these below.

¹⁷ This formulation of the test was recently applied in a patent case, *FH Brundle v Perry* [2014] EWHC 475 (IPEC).

¹⁸ *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618, [2011] FSR 30 at [22].

¹⁹ Above at [28], by Lord Neuberger MR.

- 8.17 In fact, under our reforms the threat in *Best Buy* would no longer be actionable as the threat was made to a primary actor; Best Buy intended to supply services under the mark. Under the current law it was actionable because the letter also referred to other alleged infringements such as using the mark in advertising. However, as we explained in Chapter 5, we recommend that a letter of this type should no longer constitute an actionable threat. That said, the general principle would apply where a threat was made to a secondary actor.

European Patents

- 8.18 Although the nature of a European Patent is very different to that of a Community right we think that *Best Buy* would be applied.²⁰ The European Patent Convention established a single point of entry for an application for a European Patent into the 38 signatories' national patent registries.²¹ A successful application gives the applicant a bundle of national patents in those states for which they were applied. National law governs the extent of the patent holder's rights, the remedies and procedure for infringement action.²² We think that the principle in *Best Buy* would apply to these rights in the same way as the Community rights but is unlikely to cause any significant problems. Where a threat does not specify where proceedings may be brought we think that the same considerations would apply as for a Europe-wide threat in respect of a Community right.

THE ISSUES RAISED BY BEST BUY

- 8.19 In the Consultation Paper we identified the Best Buy gap in the protection against threats as being a potential loophole where liability for threats could be avoided by threatening to sue in a foreign court. We asked about whether this was a problem.²³
- 8.20 We highlighted a possible case where a UK manufacturer was damaged by a threat made to a retailer with extensive business in the UK, but who (like Amazon) was domiciled in Luxembourg. We noted that under the Community Trade Mark Regulations, it would be possible to sue in the state where the retailer was domiciled, and then to enforce the judgment in the UK. The retailer, faced with the prospect of having a judgment enforced against them in the UK may decide to drop the product, thereby causing the UK manufacturer to lose sales in the UK.

²⁰ A European Patent is a bundle of rights and not a unitary right. It takes effect as a national right in those states for which it has been applied for. See CP 212 paras 5.3 to 5.12 for a fuller description.

²¹ The signatories are the 28 EU member states and 10 other non-EU states.

²² European Patent Convention, art 64(3).

²³ Question 28(4), CP 212 para 9.10.

- 8.21 Although some consultees saw that the Best Buy gap could be used as a loophole in the way we described and that could potentially cause problems, most were not convinced that it did, and certainly not for the existing rights. The IP Working Party, the City of London Law Society (CLLS) and the Intellectual Property Lawyers Association (IPLA) thought that “no problems are caused in practice by threats to sue in another jurisdiction”. However, they did recognise that the threats provisions could pose problems for EU-wide rights holders who are based or advised elsewhere in the EU. The IP Federation did not believe threats to sue elsewhere in the EU to be “abusive” or necessarily something that “must be addressed/prevented”. The Institute of Trade Marks Attorneys (ITMA) thought that it might be “a possible problem, although the courts have been prepared to find that such threats often amount to [threats to] sue in the UK”.
- 8.22 On the question of whether threats to sue in a foreign court should be actionable in the UK, Wedlake Bell considered that they should not. If some rights holders threatened litigation overseas to avoid the provisions, many of those jurisdictions had “similar perfectly adequate groundless threats regimes in place” and the matter should be left to the courts in which proceedings are threatened to police the use of threats. Haseltine Lake LLP thought that if it were to be the case that threats to sue in the EU were to be actionable, “there ought to be a consistent approach throughout the EU, or at least some degree of reciprocity”.

Developing case law

- 8.23 We think that the approach taken by the Court of Appeal in *Best Buy* in determining whether a particular communication is actionable indicates that the courts will continue to interpret the concept of a threat widely and remain astute to recognise threats when they are made.
- 8.24 The rule in *Best Buy* is a developing concept, which the courts are unlikely to interpret narrowly. The majority of consultees did not consider that it caused problems for existing Community rights or European Patents. We agree. We think that in the example given above, the courts would be able to adapt the rule in *Best Buy* to include threats which were reasonably interpreted as being threats to enforce in respect of acts carried out in the UK. The consensus was that there did not need to be statutory intervention to deal with hypothetical problems of this type.

Conclusion on Best Buy, Community rights and European Patents

- 8.25 We think that *Best Buy* should be interpreted widely and purposively, so that the UK threats provisions should apply where the threat can be understood as meaning that proceedings may be brought in the UK or a judgment obtained in a member state court will be enforced in respect of acts carried out in the UK. Such a requirement provides the necessary connection between the threat and the UK. Without it, the threats provisions would become a trap for the unwary across the EU, not just for threats that might be for proceedings in the UK as now, but for threats of litigation in any of the 28 member states. We also consider that, were it the intention for the threats provisions to have such a broad effect in respect of Community rights, this would have been reflected in the legislation. We think that removing the requirement that the threat should be of proceedings in the UK would be unhelpful and, in all likelihood, unwelcome.

- 8.26 We accept that there may be some cases in which damage is done to a UK trader by allegations made to foreign suppliers or retailers. To address this issue, however, we think that it would be necessary to introduce a new action for false allegations of infringement, as outlined in Chapter 4.
- 8.27 However, one consultee raised the issue of how the *Best Buy* requirement might work with Unitary Patents once these are available in the very near future, and we look at this below.²⁴

UNITARY PATENTS AND BEST BUY

- 8.28 The Unitary Patent represents the last piece of the jigsaw of EU-wide rights. A Unitary Patent will be a single right, valid across the 25 EU member states which have signed the Agreement on a Unified Patent Court (the UPC Agreement).²⁵
- 8.29 The consultation response from the Chartered Institute of Patent Attorneys (CIPA) raised an issue concerning the threats provisions and the enforcement of Unitary Patents, once the impending changes to the law of enforcement of patents granted by the European Patent Office (EPO) take effect. These changes are expected to come into effect in 2015. They explained the problem:

From that time, the EPO will be granting patent protection for the UK either via a bundle of national patents (including an EP(UK) patent) or will be granting a European patents with unitary effect (which we will refer to as the “Unitary Patent”). With the exception of opted out EP(UK) cases, enforcement of all these patents will take place in the Unified Patents Court (“UPC”), not in the courts of the United Kingdom.²⁶ This is different from Community Trade Marks and Community Designs where national courts are designated to act as community courts. A threat to bring proceedings to enforce a patent in the UPC may not specify where those proceedings will take place. They may take place in the UK’s local division. Or they might take place in another division. If the bulk of patent litigation moves to the UPC, then any UK provisions relating to unjustified threats of patent infringement might become of marginal relevance, only applying when the patents have been granted by the UK IPO.

²⁴ CIPA.

²⁵ Council Agreement on a Unified Patent Court (2013/C 175/01). Not all EU member states are signatories. Unitary Patents will not be available until the UPC Agreement has been ratified by 13 member states, including the UK, France and Germany; it is expected that this will take place in 2015. See <http://www.ipo.gov.uk/pro-types/pro-patent/p-policy/pro-p-upandupc/pro-p-upcfaqs.htm>.

²⁶ The UPC does not fall within the definition of “court” in the Patents Act 1977 (see s 130(1)).

Even if the UK threats provisions included an unjustified threat to bring proceedings under a Unitary Patent, let alone continue to apply to all UK patents granted by the EPO, there is an issue as to how these might be handled. To defend a threats action, the IP rights owner may need the court to consider infringement and the threatened party will want the court to consider the validity of the IP right. However, the UK courts will (subject to the transitional provisions) cease to have jurisdiction over patents granted by the EPO.

There are no provisions relating to threats written into the Unified Patent Court agreement. There are therefore outstanding questions as to which court, if any, will have jurisdiction over threats made in relation to Unitary Patents. Will this be national courts based upon where the recipient or where the issuer of the threat is located? How then are the UK courts to deal with an overseas patent owner who threatens someone in the UK with litigation in the UPC? By the time any legislation proposed by the Law Commission is implemented, the UPC may well be effective.²⁷

- 8.30 As with the existing Community rights, there will be a range of venues in different states where enforcement proceedings may be brought. Unlike those rights, where there are designated Community rights courts in each of the member states, the situation is further complicated in that only specified courts in certain states will be competent to deal with particular types of patent.

Court structure for Unitary Patents: the Unified Patent Court

- 8.31 The UPC is a court that is common to the 25 member states which have signed the Unitary Patent Agreement. Although it is a single legal entity, it is comprised of a Court of First Instance, a Court of Appeal and a Registry.²⁸ The Court of Appeal and the Registry will both be situated in Luxembourg. The Court of Appeal will hear appeals against decisions of the Court of First Instance.²⁹
- 8.32 The Court of First Instance is sub-divided into a central division and local/regional divisions.³⁰ The central division is comprised of a general seat in Paris, a section in London dealing with cases relating to chemistry and a section in Munich dealing with cases relating to mechanical engineering.³¹

²⁷ The Intellectual Property Bill [HL] 2013-14, clause 17 introduces a power to implement the UPC Agreement in the UK, with orders required to be approved by both Houses.

²⁸ Agreement on a Unified Patent Court, art 6.

²⁹ Above, art 73.

³⁰ Above, art 7.1.

³¹ Above, art 7.2 and Annex II.

- 8.33 Local divisions may be set up in any participating contracting member state by request.³² Alternatively, two or more contracting member states may set up a regional division, which acts as the local division for those member states.³³
- 8.34 There are two important differences to the CTM/CDR court structure. The first is that unlike the designation of existing national courts as CTM/CDR courts, UPC divisions will be new judicial bodies which deal exclusively with Unitary Patent cases. The second is that the setting up of local/regional UPC divisions is optional; it is therefore possible that some contracting member states will have a local division or be part of a regional division, but others will rely solely on the central division.
- 8.35 The UPC will have exclusive jurisdiction over Unitary Patents, and over European Patents on issues of infringement and validity after a transitional period of concurrent jurisdiction with national courts.³⁴ This means that only UPC divisions will have jurisdiction to hear claims for infringement of Unitary Patents and after the transitional period no other courts will be able to hear matters concerning European Patents.
- 8.36 There are then complex rules to determine which particular UPC divisions have jurisdiction to hear any given claim for infringement.³⁵ As with the jurisdiction rules for Community rights, there will be circumstances when a claim must be heard in a particular UPC division. For example, it will generally be the case that claims must be brought in the local/regional division where the infringement has occurred or where the defendant has its residence or principal place of business.³⁶ Decisions of a UPC division are enforceable in all signatory states.³⁷

Effect of the rules of jurisdiction

- 8.37 The system of Unitary Patents makes it easier to consolidate infringement litigation into one UPC division. This deals with the problems that arise where claims are split for European Patents, where it may be necessary to undertake litigation in all 38 contracting states.³⁸

³² Agreement on a Unified Patent Court, art 7.3.

³³ Above, art 7.5.

³⁴ Above, art 83.1.

³⁵ Above, art 33.

³⁶ Above, arts 33(1)(a) and 33(1)(b) para 1.

³⁷ Above, art 82.

³⁸ See, generally, Fawcett and Torremans, *Intellectual Property and Private International Law* (2nd ed 2011) ch 7 and para 11.115.

8.38 However, it will often be the case that if the rights holder is to sue for infringement of their Unitary Patent, they must sue in a foreign UPC division. If the UK does not set up a local division or a regional division based in the UK, all Unitary Patent infringement claims will have to be heard abroad except those that can be brought before the London section of the central division. The UK is currently discussing options around hosting local and regional divisions, though no formal decision has been taken.³⁹ Even if a local/regional division in the UK is set up, it may well be the case that a rights holder would be entitled to bring an action against a UK infringer in a foreign UPC division and then enforce the judgment in the UK.

The consequences for groundless threats

8.39 As CIPA have pointed out, there are no provisions concerning threats written into the UPC Agreement. As it remains unclear about how national law, such as the threats provisions, may work with the UPC we do not feel it would be appropriate to do more than urge that consideration is given to the problem in the near future. It may well be the case that there is no significant role for the threats provisions so far as Unitary Patents are concerned. However, we think that it would be unfortunate if, in default of a clear decision, it is left so that the provisions apply to a small rump of those Unitary Patents that will be dealt with by the central division sitting in London – that is, those that cover chemistry – and then only if this is treated as bringing proceedings in the UK.⁴⁰ We think that this would make the law both arbitrary and impractical.

8.40 Our provisional view is that the threats provisions should apply to any threat in relation to a Unitary Patent which would cause a reasonable person in the position of the recipient to believe that either proceedings would be brought against them in the UK or that a judgment would be enforced against them in the UK. This would be needed to provide protection to those who may face loss in the UK if they are given no protection against groundless threats.

8.41 We are aware that if a groundless threats claim brought in a UK court raises issues of infringement and validity, which can only be decided by the UPC, those issues would then need to be remitted to the appropriate court to deal with them. This may cause some procedural complexity. The only alternative to this complexity, however, would be to negotiate a Europe-wide groundless threat provision to accompany the Unitary Patent. We think that this could be usefully based on the Paris Convention as outlined in the Consultation Paper.

THE BEST BUY GAP: AN ARGUMENT FOR WIDER REFORM IN THE LONG-TERM

8.42 As we have argued, we generally agree with the decision in *Best Buy*, provided that it is interpreted in a wide, purposive way. We think that the provisions should apply to any communication which a reasonable person in the position of the recipient would interpret as a threat to bring proceedings or to enforce a judgment against them in the UK or to enforce against acts carried out in the UK.

³⁹ See <http://www.ipa.gov.uk/pro-types/pro-patent/p-policy/pro-p-upandupc/pro-p-upc-faqs.htm>.

⁴⁰ Although proceedings in relation to Unitary Patents may be brought in the UK the UPC is not part of the UK court system.

- 8.43 We recognise that it is not the complete answer to the vagaries of when the threats provisions apply and when they do not. The gap arises due to the focus of the groundless threats action, which is on the threat of proceedings and not the allegation of infringement.
- 8.44 As we have identified in Chapter 4, a trader may be damaged by allegations made to suppliers, customers or investors, which fall short of threats. This may be a particular issue where an allegation of infringement is sent to a UK trader's overseas supplier. This may cause damage to the UK trader when the supplier ceases to deal with them. Nevertheless, a reasonable recipient in the position of the supplier may not interpret the communication as a threat to bring proceedings or to enforce judgment against them in the UK.
- 8.45 There are also problems in combining a national law of groundless threats with harmonised rights such as the Unitary Patent. As patent litigation becomes ever more international, we think that there is a case for developing more harmonised threats regimes.
- 8.46 In Chapter 4 we outlined a new form of protection based on the Paris Convention, which would apply to false allegations relating to trade mark, design rights or patent infringement that tend to discredit the establishment, goods or activities of another trader. We think this could provide a solution. It would concentrate on the effect of the allegation rather than its specific content. Therefore, under the new action, there would be a claim where the effect of the allegation was to cause loss, or potential loss, in the UK; it would not depend on specific threats to sue in any particular court.
- 8.47 The new action would also recognise that threats and allegations are forms of unfair competition. It would therefore bring the UK into line with much of the EU, and make it easier to develop a fully harmonised regime in the future.

CHAPTER 9

ASSESSING THE IMPACT OF REFORM

INTRODUCTION

- 9.1 We have not been asked to provide a formal impact assessment at this stage. However, we considered the impact of the reforms in the Consultation Paper and asked for evidence. In this chapter, as background, we start by looking at two recent reports: a 2012 London School of Economics and Political Science working paper on patent litigation in the UK, and a 2010 report on the enforcement of intellectual property rights by smaller UK firms produced for the commissioned by the Intellectual Property Office. We then summarise what we said in the Consultation Paper and outline the evidence we received, and reach a conclusion.
- 9.2 On the proposed reform itself, consultees found that this is an area in which it has generally not been possible to quantify either the benefits or the costs of reform. As Haseltine Lake LLP put it:
- It is difficult to estimate how much costs would be reduced by as this will differ on a case by case basis and other factors may be material in any particular case.
- 9.3 We also think that there may have been some reticence in sharing quantitative data with us because it can be commercially sensitive. However, there was general agreement that the evolutionary reforms we proposed would bring real benefits and result in only minimal costs. Below we draw on consultees' comments to explain the savings which reform is likely to bring.

GAUGING THE EXTENT OF LITIGATION IN ENGLAND AND WALES

- 9.4 The 2012 working paper, *Patent Litigation in the UK*, reviewed the available empirical evidence on the enforcement of patents in England and Wales.¹ The report noted research that found the courts of England and Wales to be widely regarded as “thorough”, which had given rise to an “anti-patent” reputation.² This has led:

Potential claimants in infringement cases to seek to avoid litigation in the UK, whereas potential defendants and other parties regard the UK as a propitious jurisdiction for challenging the validity of patents and/or claiming non-infringement.³

¹ Helmers and McDonagh, *Patent Litigation in the UK* (LSE Law, Society and Economy Working Papers 12/2012).

² The Scottish courts, on the other hand, are regarded as being rights holder friendly: see Buchan and Grassie, “Intellectual property disputes in Scotland” (2011) 6(2) *Journal of Intellectual Property Law & Practice* 120 at 125.

³ Helmers and McDonagh, *Patent Litigation in the UK* (LSE Law, Society and Economy Working Papers 12/2012) p 4; see also Moss, Jones and Lundie-Smith, “Just how “anti-patent” are the UK courts?” (2010) 5(3) *Journal of Intellectual Property Law & Practice* 148.

- 9.5 The working paper looked at all patent cases filed at the Patents Court from 2000 to 2008 and those heard at the Patents County Court (now the Intellectual Property Enterprise Court) during the years 2007 and 2008. There were 255 patent cases filed over the nine year period at the Patents Court.⁴ In the Patents County Court there were 64 intellectual property related cases in 2007 and 2008, 12 of which related to patents.⁵
- 9.6 Overall the data showed that about 43% of all court cases alleged infringement of a patent and 31% sought the revocation of a patent. Of these, only about half went to a final hearing. We have concentrated on these two figures as it is the real and perceived cost of infringement proceedings that gives threats to sue their force, and because both are associated with threats actions. Infringement will become relevant if the defendant raises the justification defence. As the justification defence will not be available where the right is shown to be invalid in a relevant respect, the defence is often met by a challenge to the validity of the patent, frequently accompanied by a counterclaim for revocation of the right.
- 9.7 Although the breakdown of the cases into subject matter does not identify threats actions separately, we think it is reasonable to presume that there will be some of these actions included in the numbers. For the Consultation Paper we reviewed case law over the previous 15 years and identified 39 reported judgments in threats actions, which worked out to an average of 2.6 cases per year.
- 9.8 The working paper looked at the costs of patent litigation and noted that “it is generally acknowledged that the costs of taking a patent case at the PHC [Patents Court] are substantial”. The paper cited a 2011 guide to litigation that suggested that if a patent case went to full hearing, the average total costs (both parties) was in the order of £3 million.⁶ A 2010 study found that it was common for costs in straightforward cases to be “in the region of £200,000 to £500,000”, and up to £1 million for more complex cases.⁷ The working paper data for cases that went to full trial showed total costs (both parties) of between £1 million and £6 million. The working paper noted that the reasons for the relatively high costs, compared to other jurisdictions, lay in the specific features of the legal system of England and Wales.⁸ In particular:

⁴ Cases that were an appeal of an administrative decision taken by the IPO were not included in the data surveyed.

⁵ Trade mark disputes were the most numerous (42%) followed by copyright then design rights.

⁶ Freshfields Bruckhaus Deringer, *A guide to patent litigation in Europe – England and Wales* (September 2011).

⁷ Duncan, *Challenging Competitors’ Patents in the UK – Patent Revocation* (2010, D Young & Co Intellectual Property Articles & Updates).

⁸ As had been noted in the Preliminary Report to the Jackson Report: see *Civil Litigation Costs Review: Preliminary Report* (May 2009) part 7, ch 29 at paras 5.1-5.11. In Scotland, while the legal costs involved in dealing with intellectual property disputes tend to be higher than other commercial disputes, they compare favourably with those in England and non-UK jurisdictions: see Buchan and Grassie, “Intellectual property disputes in Scotland” (2011) 6(2) *Journal of Intellectual Property Law & Practice* 120 at 125.

Costs are generated due to the existence of oral hearings, which require the expertise of solicitors and the advocacy of barristers, the need for extensive cross-examination of expert witnesses, as well as the requirements of the on-going duty of disclosure of any relevant documents.

- 9.9 The 2010 report, *Intellectual Property Enforcement in Smaller UK Firms*, researched attitudes and practices of micro businesses (0-9 employees) and small and medium enterprises (10-249 employees), as well as the cost implications of enforcement.⁹ Two surveys were conducted, the first an online survey which received 170 responses and the second a follow up telephone survey which generated a further 255 responses.
- 9.10 80% and 87.5% of those who responded to the online and telephone surveys, respectively, rated intellectual property rights as important for their business. It was also found that 25% of the firms that replied had been involved in an intellectual property dispute within the last five years.¹⁰ Perhaps most significant for current purposes, the surveys showed that solicitors' letters often resolved disputes. Respondents to the online survey provided information on 46 disputes, in 37 of which there was an exchange of letters between solicitors. This led to the settlement of 15 of those disputes without the need for recourse to other methods of resolution. High level negotiation between firms was used in 15 instances. Other methods of resolution – such as use of the Intellectual Property Office's mediation services, small claims or county courts – were rare. Six of the disputes were litigated in the High Court.

THE CONSULTATION PAPER DISCUSSION

- 9.11 In the Consultation Paper we argued that although only a few groundless threat actions are brought, the current threats provisions add to legal costs in many infringement disputes.

How many groundless threats actions are brought?

- 9.12 We started with a rough estimate of the number of groundless threats actions brought in England and Wales each year. We identified 39 reported judgments on groundless threats over the last 15 years – an average of 2.6 cases a year. Most intellectual property litigation is settled before final judgment. According to research, 80% of patent litigation settles before a first instance judgment is obtained.¹¹ If this were applied to the figure above, there would have been 195 threats actions brought over the past 15 years – an average of 13 a year.

⁹ Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010).

¹⁰ A dispute was defined as any type of commercial dispute involving intellectual property, whether or not this led to legal proceedings.

¹¹ CJA Consultants Ltd, *Patent Litigation Insurance: A Study for the European Commission on the feasibility of possible insurance schemes against patent litigation risks: Final Report* (June 2006) para 8.4.1. The figure is based on practitioner estimates.

- 9.13 However, we thought that this underestimates the number of threats cases, as threats claims are particularly likely to be concluded once an interim injunction is obtained which prevents further threats. The number of groundless threats judgments would therefore represent a smaller proportion of the number of threats actions brought than for patent litigation. Nor does this estimate include threats actions before the Patents County Court (now the Intellectual Property Enterprise Court), or cases in which no litigation was started.

The long shadow cast over all infringement disputes

- 9.14 The importance of groundless threats legislation does not lie in the number of threats actions brought, but in the influence the threats provisions have on the way that infringement disputes are conducted. We were told that the current threats law is a factor in all infringement disputes and often leads to additional costs.
- 9.15 Legal advisers spend too long negotiating their way through complex provisions before drafting pre-action correspondence. In some cases, they advise rights holders to sue first, without a warning, thereby starting litigation which might have been avoided. They may also ask clients for indemnities to cover the adviser's own liabilities, which take time (and money) to explain and negotiate.

The proposed reforms

- 9.16 We thought that the evolutionary reform would produce clear benefits and only minimal costs.
- 9.17 Our wider reform would introduce a new tort of false allegations. We acknowledged that this would lead to additional costs, at least during a transitional period as the change "bedded in".

Questions

- 9.18 We asked consultees for evidence on the costs and benefits of reform. To set a baseline against which to gauge the impact of the proposed changes, we first asked about how the current law affects business practices. Then we asked about our proposals for evolutionary reform. Finally, we sought views on the impact of the wider reform we proposed.

THE IMPACT OF THE CURRENT LAW

The effect on infringement disputes generally

- 9.19 Consultees agreed that the groundless threats provisions cast a shadow over much infringement litigation. Scott & York Intellectual Property Law commented that the provisions "impact on all Cease and Desist letters issued on behalf of our clients".
- 9.20 Angela Fox explained that the current law causes:

Real difficulties in the cost-effective resolution of IP disputes before proceedings are issued that are arguably not outweighed by any perceived benefit in protecting business owners from damage arising from unjustified threats of infringement proceedings.

The costs of considering and explaining pre-action correspondence

- 9.21 It was said that the complexity and uncertainties of the current regime contribute considerably to legal costs. The IP Federation explained:

In particular, advisers must take considerable time and care ensuring that their correspondence is compliant with the relevant statutes and hence does not provoke an unlawful threats action.

- 9.22 The Institute of Trade Marks Attorneys (ITMA) pointed to the effect of the provisions in suppressing the exchange of information. In particular, advisers needed to spend time with a client discussing the risk of a retaliatory threats action which “can only tend only towards increased costs and diminished information”.

- 9.23 The IP Working Party, the City of London Law Society (CLLS) and the Intellectual Property Lawyers Association (IPLA) confirmed that the current provisions add expense. This was because:

Legal advice is not limited to infringement/validity prospects, but has to also cover a potentially complicated strategy decision about whether to write pre-action correspondence at all and how to frame any such letter, on whose headed notepaper, or whether to simply issue proceedings and thereby risk not complying with the “talk first” policy of the [Civil Procedure Rules].

The added cost of an “issue first, talk later” approach

- 9.24 The IP Working Party, CLLS and IPLA explained that a consequence of the provisions was that it was safer to sue than talk. They said:

Proceedings are inevitably issued at the outset (with the additional cost that entails) in cases including against the trade source in the UK, which would undoubtedly settle without proceedings being necessary if an ordinary letter before action could be safely sent.

- 9.25 Haseltine Lake LLP experienced the same effect. They thought the provisions:

Make it more likely that an IP rights holder goes straight into litigation where a breach is apparently taking place.

- 9.26 They explained that in the early stages of a dispute, correspondence about threats was often a side issue which served to “increase costs and entrench animosity between the parties but often, ultimately, falls away”. They found that with trade marks and designs they relied:

On the precise wording of the threats provisions ... The rather artificial compartmentalisation of what is and what is not a threat means that infringement often cannot be addressed head on in a clear way.

- 9.27 George Hamer also thought that the provisions drove cases to court. Although this might save on pre-action costs, it often hampered the chances of settlement because:

The alleged infringer resents not being given a chance to cease his activities without proceedings, which may well cause him to dig in his heels.

A detrimental effect on small and medium enterprises

- 9.28 The IP Working Party, CLLS and IPLA were concerned about the effect of the provisions on smaller enterprises. They said:

While the threats provisions are present in part to prevent SMEs and smaller parties being bullied by big rights owners threatening their market, the provisions also adversely affect SMEs and smaller parties who are themselves rights owners, forcing them to either issue proceedings in cases where a settlement ought to be possible, or end up not attempting to enforce their rights at all.

- 9.29 CIPA also found that the provisions presented:

Quite real obstacles in being able to open dialogue on potential infringement, and how this distorts the field for smaller players. Compliance with the provisions costs clients money, every time there is a risk of those provisions being engaged. The more complicated the provisions, the longer it takes to consider them in relation to the proposed activity or to come up with ways around them.

- 9.30 Reddie & Grose LLP thought that the provisions were, on the whole, beneficial for responsible practitioners as they encouraged caution and ensured that proper care and attention was paid in infringement disputes. However:

When used as a tool by aggressive litigators, they can rack up expense and deter small rights holders from pursuing infringement of their rights.

Impact on those who receive threats

- 9.31 We wanted to know how the current law impacted on those who might be on the receiving end of a threat to sue for infringement, such as retailers and others traders. We asked about two things:

- (1) the frequency of threats concerning a patent, trade mark or design rights infringement; and
- (2) how they react to such correspondence.¹²

- 9.32 Only two consultees responded. The BBC said that they had been subject to a groundless threat of trade mark proceedings only once or twice in the last 8 years.

¹² Question 32, CP 212 para 10.5.

9.33 Haseltine Lake LLP commented that:

Our experience from advising clients is that low-level company-to-company threats concerning IP infringement are commonplace, often made in ignorance of the legal provisions and probably technically actionable, but they rarely result in litigation unless a law firm can be made a defendant. Most business people can easily see that in normal cases a threats action merely precipitates an infringement action, which is normally what the parties are seeking to avoid.

EXCLUDING THREATS MADE TO PRIMARY ACTORS

9.34 In Chapter 5 we recommended an exclusion for all threats in relation to the product made to those who have carried out or intend to carry out a primary act. This would remove the risk of falling into the “trap” of triggering the threats provisions by referring, even indirectly, to other acts. For trade marks and design rights this may happen, for example, when undertakings are asked for in order to settle a dispute. Although asking for an undertaking to cease manufacture is exempt, an undertaking to cease manufacture *and sale* may trigger an action.

9.35 We thought that the reform would save costs in devising complex letters and would make it easier to communicate early on in a dispute. Disputing parties and their advisers could more actively comply with the obligations placed on them by the Civil Procedure Rules (CPR) and share information. This in turn would reduce the number of disputes reaching court, though we commented that the reduction may be small.

9.36 We anticipated that costs associated with this proposal would be minimal as it built upon principles that had been part of patents law for some time. We asked whether consultees agreed with our analysis.¹³

Savings on legal costs

9.37 Haseltine Lake LLP agreed that there would be costs savings; they said:

An important consequence which we anticipate is that costs would be reduced as it will be far more straightforward to draft correspondence and undertakings. It would also avoid the time and costs incurred in a satellite debate about threats which (as is often the case in practice) is not ultimately pursued.

We think the impact would be beneficial on UK industry and commerce as a whole, provided that the reformed provisions clearly encourage responsible commercial behaviour and penalise the irresponsible. As we say above we see a great benefit in a consistent approach being adopted in relation to all IP rights.

9.38 The IP Working Party, CLLS and IPLA agreed that clearly stated rules as to what a rights holder may say in order to set out their case, and to whom, would avoid the “added cost of crafting a letter within the current threats provisions”. There would also be savings as it would be easier to advise clients.

¹³ Questions 33 and 34, CP 212 para 10.12.

Fewer cases going to court

- 9.39 There was agreement that the reforms would tend to reduce litigation. Scott & York Intellectual Property Law thought that the reform would reduce the number of cases litigated because it would lessen the tendency to proceed to court as the “safe” alternative to issuing a cease and desist letter. Angela Fox also commented that it would remove the need “to issue a protective claim form first”.
- 9.40 The IP Working Party and IPLA felt the extension would help to avoid litigation as it would “increase pre-action dialogue” and allow a rights holder to set out their complete case against the recipient, “including expressly mentioning the sale of articles (which is consistent with the CPR)”. This might lead to a resolution of the dispute without having to start legal proceedings.
- 9.41 In the Consultation Paper we commented that the reduction in litigation may be small. The IP Working Party, CLLS and IPLA said that the reform “should result in a small but not insignificant reduction in the number of cases litigated”.
- 9.42 Several consultees pointed out that very few groundless threats actions are actually litigated, so the reform was unlikely to have much effect on the number of threats actions. Haseltine Lake LLP pointed out that, often, allegations of threats were the subject of correspondence but not ultimately pursued in litigation. The British Brands Group expressed a similar view. They thought it “unlikely to affect the number of cases litigated. Very few cases are commenced on unjustified threats”.
- 9.43 Professor Sir Robin Jacob thought that the costs of the reform would be minimal but he did not think it would make any real difference to costs or the amount of litigation. He explained:

I do not count for this purpose those instances where proceedings are simply issued and then settled. The “proceedings” in that sort of case are really no more than part of the negotiation. The proposals will make no difference to disputed litigation.

Minimal cost of reform

- 9.44 No one suggested that the reform would lead to significant costs. The British Brands Group believed that:

The cost of extending existing principles to trade marks and designs should be relatively low, since it would not require substantial new advice from their counsel.

- 9.45 Scott & York Intellectual Property Law agreed that:

The costs of reform would be minimal, given that regulated lawyers, patent and trade mark attorneys all have to engage in CPD.¹⁴ It could also reduce the cost of engaging an advisor, in the longer term, once the changes have been assimilated.

¹⁴ Continuing Professional Development; this is a requirement that practitioners continue to study and update themselves on law and practice.

9.46 CIPA explained that any change to the law leads to familiarisation costs:

Any legal reform has a cost impact, as those advising need to train in the new provisions. Further, any lack of clarity in the law is likely to bring the cost of new litigation, until a body of case law has built up.

However, if the reforms were implemented in a careful, balanced way these costs would be low:

Overall, a less complex regime must lead to lower running costs. Ideally the sort of reform would be one which accords with what a business would regard as a fair and reasonable practice, and therefore could be something that the parties can read and understand for themselves without requiring a trained legal advisor to explain it. Alternatively (or in addition) reform could provide some mechanistic formulae which could be used by businesses to discover relevant information, without the need of engaging legal advisors to acquire that information.

9.47 Haseltine Lake LLP agreed that the costs would depend on how the reform was implemented; they said that it:

Very much depends on what form the changes actually take. If the reforms do not clearly encourage commercial responsibility they could cause increased costs for industry and commerce. Having said that, we would expect the costs of such a reform to be on the low side, if a key aim of the reform is to bring all IP rights into line with each other and in many respects along the lines of the existing regime for patents.

PROTECTING LEGAL ADVISERS FROM PERSONAL LIABILITY

9.48 In Chapter 7 we recommended that legal advisers should not be personally liable for threats when they act in their professional capacity on client instructions. This change in the law would remove the opportunity for disputing parties to use the threats provisions tactically, to create tension or conflicts between advisers and clients. Advising a client would be more straightforward as there would no longer be a need to explain the complexities of how an indemnity works or why one is needed. It would also make it easier for small businesses to engage with alleged infringers.

9.49 We anticipated that the costs that might result from this reform would be minimal. Although the risk of liability may currently act as a disincentive for advisers to misuse threats to sue, we thought that this could and should be dealt with as professional misconduct. The reform might introduce a risk that where a rights holder is impecunious, a person aggrieved by a threat issued on their behalf would be left without a remedy. However, we thought that this would be rare.

9.50 We asked consultees whether they agreed with our analysis.¹⁵

¹⁵ Questions 35 and 36, CP 212 para 10.18.

Saving costs

- 9.51 Most consultees agreed that the reform would reduce costs. Angela Fox thought the proposed reform was “critical”. She said:

As matters currently stand, the risk of liability on the part of legal representatives who merely act for clients has the potential to create conflicts of interest and to cause clients increased expense where they have provided indemnities to their advisors or where they consider it necessary to instruct new advisors because their existing advisors have become parties to the proceedings.

- 9.52 Haseltine Lake LLP thought the change would be “highly beneficial” as:

Law firms are attractive targets for threats claimants because they are likely to be insured, precautionous and willing to settle. The ones that get targeted are often (but not always) ones that are not experienced in IP matters.

- 9.53 The IP Working Party, CLLS and IPLA agreed that the reform would have a positive impact as advisers “do get sued or threatened with threats actions, in practice”. They considered that the:

Reforms would avoid wedges being driven between client and adviser by strategic use of a threats action (or threatened threats action) against the professional adviser who has sent the letter and avoid the need to engage multiple advisers (and the additional costs of doing so) in such a situation.

- 9.54 Others agreed that costs would be saved, but they thought that the effect may be small. Scott & York Intellectual Property Law commented that “we rarely have to seek indemnities from clients, due to the fact we try extremely hard to track down primary infringers”.

- 9.55 The British Brands Group commented that the potential liability of advisers is rarely a big issue and did not disrupt the relationship between lawyer and client. However, there would be savings:

The Group believe that providing protection would be unlikely to reduce the cost of engaging an adviser to act and draft pre-action correspondence, but it may reduce the cost of early stage IP litigation overall, by making communication clearer and more straightforward.

- 9.56 Professor Sir Robin Jacob was the only consultee to disagree with the reform, stating:

I do not know what is meant by "evidence". Giving lawyers a free hand to threaten will simply increase threatening behaviour.

The effect on small businesses

- 9.57 Several consultees thought that the reform would benefit small businesses. British Brands Group said that exempting legal advisers from liability would make it easier for small businesses to contact alleged infringers. Scott & York Intellectual Property Law commented that it would:

Decrease the worry to small businesses inherent in providing an indemnity to their lawyers and would thus make it easier for small businesses to deal with alleged infringers.

- 9.58 The IP Working Party, CLLS and IPLA commented that when an adviser was sued personally, it was doubtful whether the adviser's professional indemnity insurers "will be willing to pay for the defence on the professional adviser's behalf". The policy covers the adviser's duty of care to the client, and may not necessarily cover a groundless action brought against the adviser. As a consequence:

A professional adviser is dependent instead on the covenant strength of any indemnity from the client in its client retainer. This will inevitably disadvantage SMEs.

This also means big law firms/attorney firms may be able to choose to self-insure, and smaller firms, perhaps more likely to have been retained by SMEs, are not in a position to do so.

- 9.59 Haseltine Lake LLP thought that the key to making it easier for small businesses to contact infringers was:

To educate small businesses about what they can and cannot do. However, the more straightforward the law, the simpler the message to be conveyed to businesses and the more they can do themselves without legal intervention.

WIDER REFORM

- 9.60 The final area of reform on which we sought views was in respect of our proposal concerning a new tort of false allegations.¹⁶ We outlined, in general terms, what we thought the new tort might look like. We recognised that it would represent a very significant change in the law. We also explained that even if it was supported in principle, this could not lead to immediate reform as there was more work required to put flesh on the bones of what was proposed.

Unforeseen consequences

- 9.61 Haseltine Lake LLP saw "merit" in the underlying principles and aims of a new tort, but thought that the change is "not necessary and is likely to have substantial adverse and unforeseen consequences".

¹⁶ Question 37, CP 212 para 10.22. The model we proposed was based on the Paris Convention for the Protection of Industrial Property, arts 10*bis* and 10*ter*: see CP 212 paras 9.32 to 9.36.

9.62 Qualcomm were also worried about the consequences of the reform; they said:

Such an approach would create significant uncertainty by throwing out many decades of jurisprudence and introduce new language into the statute, much of which is open to interpretation. Furthermore, such a change in UK law could have further unforeseen consequences in other areas of law and would require considerable reflection.

Uncertainty and cost

9.63 Consultees commented that wider reform would lead to uncertainty and costs. As the IP Federation put it:

We believe the wider approach would lead to increased uncertainty and costs in the short to medium term. It is possible, but by no means certain (eg depending on how case law developed), that it would lead to reduced costs in the longer term.

9.64 CLLS commented that the period of uncertainty would be short:

Whilst there could be a short period of some uncertainty (although we do feel that most lawyers will know if something “wrong” has been done), this would be off-set by the longer term benefits of a tort that is easier to understand and less prone to “clever lawyering”.

9.65 Conversely, the IP Working Party and IPLA thought that the new tort would lead to “a lengthy period of considerable uncertainty until the new tort had been developed by the courts”.¹⁷

9.66 Finally, the Patent Judges commented:

The obvious objection to this approach is that it would be more uncertain than the current rules. We would suggest, however, that certainty is impossible to achieve with the current approach, even if reformed in the evolutionary manner suggested.

Staged reform

9.67 Reddie & Grose LLP thought the new tort would be “a positive move”, but suggested that any reform should take place in stages; they said:

Since such a wider approach may take some time to implement, we believe that this wider approach should not be *instead of* an evolutionary approach to reform (extending the 2004 patent changes to other rights) but *in addition* to it.

9.68 Scott & York Intellectual Property Law were concerned that the introduction of the new tort “would cause delay in implementing any reform” and that this was not “desirable”.

¹⁷ They had preferred the evolutionary model for reform.

CONCLUSION ON THE IMPACT OF REFORM

- 9.69 Only a few groundless threats actions are brought each year, but the law of groundless threats affects the way that legal advisers approach all disputes about patent, trade mark and design rights infringement. It adds small but real costs to many disputes in the following ways:
- (1) Advisers must devise complex strategies about how to communicate with the alleged infringer. As the IP Working Party, CLLS and IPLA put it, they must decide “whether to write pre-action correspondence at all and how to frame any such letter, on whose headed notepaper”. It takes time (and cost) to explain these strategies to clients.
 - (2) Pre-action letters may not set out the case clearly, making disputes less easy to resolve.
 - (3) In some cases, rights holders may sue first, without any pre-action communication. This may “entrench animosity” between the parties and therefore prolong disputes.
 - (4) Legal advisers may ask rights holders for indemnities against the possibility that the adviser may be sued personally; these take time (and cost) to explain.
 - (5) Small rights holders who cannot provide indemnities may end up writing letters in their own name. This disadvantages them as their letters are less likely to be taken seriously.
 - (6) In extreme cases, the threats provisions can be used aggressively to rack up costs, which impacts disproportionately on smaller business.
 - (7) Where legal advisers are sued, they may not be able to continue to act for their clients.
- 9.70 There was general agreement that our evolutionary reforms would reduce these costs. We think that they are a deregulatory measure.
- 9.71 We recommend widening the exclusion for threats made to primary actors, and introducing a new, clearer provision for legitimate communications with secondary actors. These reforms will make it easier to write full, clear letters to an alleged infringer, reducing the time spent devising complex strategies and helping disputes to be settled reasonably.
- 9.72 Furthermore, granting immunity to legal advisers acting on instructions will remove the need for advisers to ask for indemnities. Again this will reduce costs, and allow small businesses to send stronger letters to alleged infringers, signed by professional advisers.
- 9.73 Meanwhile, consultees thought that any costs associated with these reforms would be minimal. Although any change in the law involves some transitional costs of familiarisation, these are likely to be low as the reforms build upon principles that have been part of patent law for some time. Patents, trade marks and design rights will be brought into line, making it easier for advisers to understand the provisions.

9.74 We have noted the comments in respect of the wider reform proposed, and the concerns about an extended period of uncertainty and the risk of unforeseen consequences. These would need to be taken into account should we return to the issue of introducing a new wider tort.

CHAPTER 10

LIST OF RECOMMENDATIONS

CHAPTER 3: THE NEED FOR REFORM

- 10.1 We recommend that protection against groundless threats of infringement proceedings should be retained.

[paragraph 3.26]

- 10.2 We recommend that groundless threats protection should continue to apply to UK and Community unregistered design rights.

[paragraph 3.45]

- 10.3 We recommend that the law of groundless threats of patent, trade mark and design rights infringement should be reformed.

[paragraph 3.101]

CHAPTER 5: EXCLUDING THREATS MADE TO PRIMARY ACTORS

- 10.4 We recommend that a groundless threats action may not be brought for threats to bring proceedings for infringement made to a primary actor, that is a person who has carried out, or intends to carry out the following:

For patents

- (1) The making or importing of a product for disposal, even where the threat refers to any other act in relation to that product.
- (2) The use of a process, even where the threat refers to any other act in relation to that process.

For registered and unregistered design rights

- (3) The making or importing of an article or product for disposal, even where the threat refers to any other act in relation to that article or product.

For trade marks

- (4) The application of a mark, or causing a mark to be applied, to goods or their packaging, even where the threat refers to any other act in relation to those goods.
- (5) The importation for disposal of goods to which, or to the packaging of which, the mark has been applied, even where the threat refers to any other act in relation to those goods.
- (6) The supply of services under the mark, even where the threat refers to any other act in relation to the supply of those services.

[paragraph 5.94]

10.5 We recommend that threats proceedings may not be brought for a threat to bring infringement proceedings:

- (1) For design rights, for the making or importing of anything “for disposal”.
- (2) For trade marks, for the application of the mark to goods or their packaging or for “causing the mark to be applied”.
- (3) For trade marks, for the importation “for disposal” of goods to which, or to the packaging of which, the mark has been applied.

[paragraph 5.99]

CHAPTER 6: LEGITIMATE COMMUNICATIONS WITH SECONDARY ACTORS

10.6 We recommend that communications should be excluded from the groundless threats provisions if they are made for a legitimate commercial purpose, and if the information given is necessary for that purpose.

10.7 The statute should provide examples of legitimate commercial purposes.

10.8 These should include:

- (1) enquiries for the sole purpose of discovering whether, and by whom, the patent has been infringed; and
- (2) where a rights holder has a remedy which depends on the infringer being aware of the right, the rights holder may alert a potential infringer of the right.

10.9 The statute should provide examples of the information which may be communicated.

10.10 These should include:

- (1) that the right exists;
- (2) that the right is in force;
- (3) details of the right including, where appropriate, copies of any registration, specifications or drawings; where details are given, they must include any limitations or other restrictions on the right; and
- (4) information to identify the goods and to make appropriate enquiries.

10.11 The exclusion should apply only where the person seeking to rely on it has reasonable grounds for believing that the information communicated is true. The burden of showing there are reasonable grounds is on the person seeking to rely on the exclusion.

[paragraphs 6.113 to 6.118]

- 10.12 We recommend that, for patents, the current defence for making threats to secondary actors is retained but reformed to the extent that the threatener must use reasonable endeavours to discover the primary actor.
- 10.13 We recommend that, for trade marks, where threats of infringement proceedings are made by a person to another who would be entitled to bring a threats action, it will be a defence for the person making the threat to show that they have used reasonable endeavours to locate, without success:
- (1) the person who has applied the mark or caused the mark to be applied to goods or their packaging;
 - (2) the person who has imported such goods; or
 - (3) the person who has supplied services under the mark.
- 10.14 We recommend that, for registered and unregistered design rights, where threats of infringement proceedings are made by a person to another who would be entitled to bring a threats action, it will be a defence for the person making the threat to show that they have used reasonable endeavours to locate, without success:
- (1) the person who has made the product or article; or
 - (2) the person who has imported the product or article.
- 10.15 We recommend that – for patents, trade marks, registered and unregistered design rights – the person making the threat shall inform the person threatened either before or at the time of making the threat of the reasonable endeavours used to find the persons identified in the proposals set out above, and provide sufficient detail for the person threatened to identify what those steps were.

[paragraphs 6.131 to 6.134]

- 10.16 We recommend that section 70(2A)(b) of the Patents Act 1977 should be repealed.

[paragraph 6.141]

CHAPTER 7: PROFESSIONAL ADVISER LIABILITY AND OTHER ISSUES

- 10.17 We recommend that a lawyer, registered patent attorney or registered trade mark attorney should not be liable for making threats where they have acted in their professional capacity and on instructions from their client.

[paragraph 7.14]

- 10.18 We recommend that claims for the delivery up of goods, articles or products should be treated as proceedings for infringement for the purposes of the threats provisions for patents, trade marks and design rights.

[paragraph 7.38]

(Signed) DAVID LLOYD JONES, *Chairman*
ELIZABETH COOKE
DAVID HERTZELL
DAVID ORMEROD
NICHOLAS PAINES

ELAINE LORIMER, *Chief Executive*
5 March 2014

APPENDIX A

COMPARATIVE TABLES OF CURRENT LAW AND THE REPORT RECOMMENDATIONS

CURRENT LAW

		Exclusions / defences to the claim							
	For there to be a groundless threats claim	Defence of justification if the acts complained of are, or would be, infringing	Defence of justification does not apply if right is invalid in a relevant respect	Defence of justification will apply, despite the right being invalid in a relevant respect, if the threat was made in good faith	Exclusion of threats that refer only to primary acts	Exclusion of all threats to primary actors (those who have committed a primary act)	Exclusion of all threats to those who intend to commit a primary act	Defence where the threatener had used best endeavours, without success, to locate the relevant primary actor	Exclusion of certain communications that are statutorily deemed not to be threats
Intellectual Property Right	Has been a threat to sue for infringement. Claimant has been aggrieved Defendant made the threat	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes: factual information about the patent; enquiries to discover whether patent has been infringed by a primary act, and by whom; assertions about the patent for such enquiries.
Patent	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes: mere notification that a trade mark is registered or that an application for registration has been made.
Trade mark (including C TM)	Yes	Yes	Yes	No	Yes	No: this is the Cavity Trays problem	No	No	Yes: mere notification that a design is registered or protected.
Design right (registered or unregistered, including CDR)	Yes	Yes	Yes	No	Yes	No: this is the Cavity Trays problem	No	No	Yes: mere notification that a design is registered or protected.

UNDER THE REPORT RECOMMENDATIONS

		Exclusions / defences to the claim						
For there to be a groundless threats claim	Has been a threat to sue for infringement Claimant has been aggrieved Defendant made the threat	Defence of justification if the acts complained of are, or would be, infringing	Defence of justification does not apply if right is invalid in a relevant respect	Defence of justification will apply, despite the right being invalid in a relevant respect, if the threat was made in good faith	Exclusion of threats that refer only to primary acts	Exclusion of all threats to primary actors (those who have committed a primary act or who intend to commit a primary act)	Defence where the threatener had used reasonable endeavours, without success, to locate the relevant primary actor	Exclusion of certain communications that are statutorily deemed not to be threats
Intellectual Property Right	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Patent	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Trade mark (including CTM)	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Design right (registered or unregistered, including CDR)	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes

APPENDIX B MEMBERSHIP OF THE WORKING PARTIES AND GROUPS

We received 9 consultation responses from trade, professional or industry bodies. Two of these included a breakdown of members who were involved in who in composing these responses. We list those members here.

The Law Society of England and Wales Intellectual Property Working Party

Isabel Davies (Chair)

Mark Anderson (Anderson Law LLP)

Tim Bamford (Withers)

Madeleine Brookman (ME)

Gareth Dickson (Edwards Wildman)

Ann Critchell-Ward (TomTom)

Jeremy Drew (RPC)

Peter Ellis (Browne Jacobson LLP)

Robin Fry (DAC Beachcroft)

William Gornall-King (Boyes Tuner LLP)

Matthew Harris (The Waterfront Partnership)

James Love (James Love Legal)

Mark Owen (Taylor Wessing)

Carolyn Pepper (Reed Smith)

John Sykes (Lupton Fawcett Lee and Priestley)

Nick Wenban-Smith (Nominet)

Philip Westmacott (Bristows)

The City of London Law Society Intellectual Property Law Committee

Joel Smith (Herbert Smith Freehills LLP) (Chairman)

RTJ Bond (Speechly Bircham LLP)

Ms S Byrt (Mayer Brown International LLP)

C Chitham (Axiom Law)

Ms G Collins (Lawrence Graham LLP)
S Gare (Greenberg Traurig LLP)
M Knapper (Norton Rose Fulbright LLP)
Ms R Lawrence (Powell Gilbert LLP)
SR Levine (DLA Piper UK LLP)
IC Lowe (Nabarro LLP)
R Mallinson (Taylor Wessing LLP)
Ms VG Marsland (Clifford Chance LLP)
Ms S Middlemiss (Slaughter and May)
Ms CM Smith (Rouse Legal)
I Starr (Ashurst LLP)
R Swindells (Field Fisher Waterhouse LLP)
P Thorton (Hogan Lovells International LLP)

APPENDIX C

THE GROUNDLESS THREATS PROVISIONS

PATENTS ACT 1977

Section 70

70.— Remedy for groundless threats of infringement proceedings.

(1) Where a person (whether or not the proprietor of, or entitled to any right in, a patent) by circulars, advertisements or otherwise threatens another person with proceedings for any infringement of a patent, a person aggrieved by the threats (whether or not he is the person to whom the threats are made) may, subject to subsection (4) below, bring proceedings in the court against the person making the threats, claiming any relief mentioned in subsection (3) below.

(2) In any such proceedings the claimant or pursuer shall, subject to subsection (2A) below, be entitled to the relief claimed if he proves that the threats were so made and satisfies the court that he is a person aggrieved by them.

(2A) If the defendant or defender proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of a patent—

(a) the claimant or pursuer shall be entitled to the relief claimed only if he shows that the patent alleged to be infringed is invalid in a relevant respect;

(b) even if the claimant or pursuer does show that the patent is invalid in a relevant respect, he shall not be entitled to the relief claimed if the defendant or defender proves that at the time of making the threats he did not know, and had no reason to suspect, that the patent was invalid in that respect.

(3) The said relief is—

(a) a declaration or declarator to the effect that the threats are unjustifiable;

(b) an injunction or interdict against the continuance of the threats; and

(c) damages in respect of any loss which the claimant or pursuer has sustained by the threats.

(4) Proceedings may not be brought under this section for—

(a) a threat to bring proceedings for an infringement alleged to consist of making or importing a product for disposal or of using a process, or

(b) a threat, made to a person who has made or imported a product for disposal or used a process, to bring proceedings for an infringement alleged to consist of doing anything else in relation to that product or process.

(5) For the purposes of this section a person does not threaten another person with proceedings for infringement of a patent if he merely—

(a) provides factual information about the patent,

(b) makes enquiries of the other person for the sole purpose of discovering whether, or by whom, the patent has been infringed as mentioned in subsection (4)(a) above, or

(c) makes an assertion about the patent for the purpose of any enquiries so made.

(6) In proceedings under this section for threats made by one person (A) to another (B) in respect of an alleged infringement of a patent for an invention, it shall be a defence for A to prove that he used his best endeavours, without success, to discover—

(a) where the invention is a product, the identity of the person (if any) who made or (in the case of an imported product) imported it for disposal;

(b) where the invention is a process and the alleged infringement consists of offering it for use, the identity of a person who used the process;

(c) where the invention is a process and the alleged infringement is an act falling within section 60(1)(c) above, the identity of the person who used the process to produce the product in question;

and that he notified B accordingly, before or at the time of making the threats, identifying the endeavours used.

Section 77

77.— Effect of European patent (UK).

(1) Subject to the provisions of this Act, a European patent (UK) shall, as from the publication of the mention of its grant in the European Patent Bulletin, be treated for the purposes of Parts I and III of this Act as if it were a patent under this Act granted in pursuance of an application made under this Act and as if notice of the grant of the patent had, on the date of that publication, been published under section 24 above in the journal; and—

(a) the proprietor of a European patent (UK) shall accordingly as respects the United Kingdom have the same rights and remedies, subject to the same conditions, as the proprietor of a patent under this Act;

TRADE MARKS ACT 1994

Section 21

21.— Remedy for groundless threats of infringement proceedings.

(1) Where a person threatens another with proceedings for infringement of a registered trade mark other than—

- (a) the application of the mark to goods or their packaging,
- (b) the importation of goods to which, or to the packaging of which, the mark has been applied, or
- (c) the supply of services under the mark,

any person aggrieved may bring proceedings for relief under this section.

(2) The relief which may be applied for is any of the following—

- (a) a declaration that the threats are unjustifiable,
- (b) an injunction against the continuance of the threats,
- (c) damages in respect of any loss he has sustained by the threats;

and the plaintiff is entitled to such relief unless the defendant shows that the acts in respect of which proceedings were threatened constitute (or if done would constitute) an infringement of the registered trade mark concerned.

(3) If that is shown by the defendant, the plaintiff is nevertheless entitled to relief if he shows that the registration of the trade mark is invalid or liable to be revoked in a relevant respect.

(4) The mere notification that a trade mark is registered, or that an application for registration has been made, does not constitute a threat of proceedings for the purposes of this section.

COMMUNITY TRADE MARK REGULATIONS 2006

Regulation 6

6.— Groundless threats of infringement proceedings

(1) The provisions of section 21 apply in relation to a Community trade mark as they apply to a registered trade mark.

(2) However, in the application of those provisions in relation to an international trade mark (EC)—

(a) the reference in section 21(3) to the registration of the trade mark shall be treated as a reference to the protection of the international trade mark (EC);

(b) the reference in section 21(4) to notification that a trade mark is registered, shall be treated as a reference to notification that a trade mark is an international trade mark (EC); and

(c) the reference in section 21(4) to notification that an application for registration has been made, shall be treated as a reference to notification that a trade mark is the subject of an international application or international registration designating the European Community.

REGISTERED DESIGNS ACT 1949

Section 26

26.— Remedy for groundless threats of infringement proceedings.

(1) Where any person (whether entitled to or interested in a registered design or an application for registration of a design or not) by circulars, advertisements or otherwise threatens any other person with proceedings for infringement of the right in a registered design, any person aggrieved thereby may bring an action against him for any such relief as is mentioned in the next following subsection.

(2) Unless in any action brought by virtue of this section the defendant proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute, an infringement of the right in a registered design the registration of which is not shown by the claimant to be invalid, the claimant shall be entitled to the following relief, that is to say:—

- (a) a declaration to the effect that the threats are unjustifiable;
- (b) an injunction against the continuance of the threats; and
- (c) such damages, if any, as he has sustained thereby.

(2A) Proceedings may not be brought under this section in respect of a threat to bring proceedings for an infringement alleged to consist of the making or importing of anything.

(3) For the avoidance of doubt it is hereby declared that a mere notification that a design is registered does not constitute a threat of proceedings within the meaning of this section.

COPYRIGHT DESIGNS AND PATENTS ACT 1988

Section 253

253.— Remedy for groundless threats of infringement proceedings.

(1) Where a person threatens another person with proceedings for infringement of design right, a person aggrieved by the threats may bring an action against him claiming—

- (a) a declaration to the effect that the threats are unjustifiable;
- (b) an injunction against the continuance of the threats;
- (c) damages in respect of any loss which he has sustained by the threats.

(2) If the plaintiff proves that the threats were made and that he is a person aggrieved by them, he is entitled to the relief claimed unless the defendant shows that the acts in respect of which proceedings were threatened did constitute, or if done would have constituted, an infringement of the design right concerned.

(3) Proceedings may not be brought under this section in respect of a threat to bring proceedings for an infringement alleged to consist of making or importing anything.

(4) Mere notification that a design is protected by design right does not constitute a threat of proceedings for the purposes of this section.

COMMUNITY DESIGN RIGHT REGULATIONS 2006

Regulation 2

2.— Remedy for groundless threats of infringement proceedings

(1) Where any person (whether entitled to or interested in a Community design or not) by circulars, advertisements or otherwise threatens any other person with proceedings for infringement of a Community design, any person aggrieved thereby may bring an action against him for any such relief as is mentioned in paragraph (2).

(2) Subject to paragraphs (3) and (4), the claimant shall be entitled to the following relief—

- (a) a declaration to the effect that the threats are unjustifiable;
- (b) an injunction against the continuance of the threats; and
- (c) such damages, if any, as he has sustained by reason of the threats.

(3) If the defendant proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of a registered Community design the claimant shall be entitled to the relief claimed only if he shows that the registration is invalid.

(4) If the defendant proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of an unregistered Community design the claimant shall not be entitled to the relief claimed.

(5) Proceedings may not be brought under this regulation in respect of a threat to bring proceedings for an infringement alleged to consist of the making or importing of anything.

(6) Mere notification that a design is—

(a) a registered Community design; or

(b) protected as an unregistered Community design,

does not constitute a threat of proceedings for the purpose of this regulation.

(6A) In relation to a design protected by virtue of an international registration designating the Community, the reference in paragraph (3) to a registration being invalid includes a reference to the effects of the international registration being declared invalid in accordance with Article 106f of the Community Design Regulation.

