

Law Commission

Consultation Paper No 212

**PATENTS, TRADE MARKS AND DESIGN
RIGHTS: GROUNDLESS THREATS**

A Consultation Paper

THE LAW COMMISSION – HOW WE CONSULT

About the Law Commission: The Law Commission was set up by section 1 of the Law Commissions Act 1965 for the purpose of promoting the reform of the law.

The Law Commissioners are: The Rt Hon Lord Justice Lloyd Jones, *Chairman*, Professor Elizabeth Cooke, David Hertzell, Professor David Ormerod QC and Frances Patterson QC. The Chief Executive is Elaine Lorimer.

Topic of this consultation: Reforming the law of groundless threats in patent, trade mark and design right litigation.

Geographical scope: United Kingdom.

Availability of materials: The consultation paper, background papers and impact assessment are available at:

http://lawcommission.justice.gov.uk/areas/unjustified_threats.htm

Duration of the consultation: 17 April 2013 to **17 July 2013**.

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We are happy to accept responses in any form – but we would prefer, if possible, to receive emails attaching the pre-prepared response form available on our website.

After the consultation: After analysis of the responses, we will decide on our final recommendations and present them to Government by Spring 2014.

Consultation principles: The Law Commission follows the Cabinet Office Consultation Principles, which provide guidance on type and scale of consultation, duration, timing, accessibility and transparency. The Principles are available at: <https://update.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>.

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

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GLOSSARY

INTELLECTUAL PROPERTY INSTITUTIONS

IPO – Intellectual Property Office.

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

EPO - European Patent Office.

The EPO is the executive body for the European Patent Organisation. It was established under the European Patent Convention and is responsible for the granting of patents under the Convention. The EPO does not make decisions on infringement which is instead dealt with under national law. On issues of invalidity, both the EPO and national courts have jurisdiction to revoke a European patent.

OHIM – Office for the Harmonization 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. Community rights can be applied for directly at the OHIM or through the IPO. OHIM may deal with disputes as to validity.

WIPO - World Intellectual Property Organisation.

An agency of the UN to promote the protections of intellectual property rights throughout the world. There are currently 185 member states.

THE COURTS AND OTHER 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.

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 Patents County Court

Despite its name, the court deals with less valuable or simpler cases concerning a wide range of intellectual property rights. In October 2012 a small claims track was introduced in to the Patents County Court to deal with disputes; it does not include patents and registered designs.

Community intellectual property designated courts

Community rights may only be enforced in these national courts.

The Community Trade Mark courts in the UK are the Chancery Division of the High Court, as well as certain county courts including the Patents County Court and the Court of Session for Scotland and the Northern Ireland High Court. These courts have exclusive jurisdiction over claims for infringement of a Community Trade Mark (CTM) and counterclaims for revocation or declaration of invalidity of a CTM.

For Community designs, the Community Design courts are the Chancery Division of the High Court and the Patents County Court, while the Court of Session and the Northern Ireland High Court have been designated for Scotland and Northern Ireland.

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 Court of Justice of the European Union

Previously 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 IP rights also lie to this court.

INTERNATIONAL LEGISLATION AND TREATIES

Paris Convention

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 countries 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. A European patent is granted for each designated state and is to take effect to the same extent as a national patent in that state.

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 did not come into force because of ratification problems. As a consequence there is as yet no "Community" patent.

Patent Co-operation 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 INFRINGERS

Primary infringers

Threats in respect of acts of primary infringement are excluded from the threats provisions. Primary infringers are usually the trade source of the infringement and their actions can do the most harm, for example, they are the manufacturer or importer of an infringing product. They are more likely to be aware of the right and the fact that they are infringing, and that is a reason why the law allows a rights holder to warn them off without incurring liability for making threats.

Secondary infringers

Threats in respect of acts of secondary infringement come within the threats provisions. Where a threat is groundless (in other words, there is no infringement or the right is invalid in some way) a person affected by it can bring a threats action. Secondary infringers are usually doing something a step removed from the infringement by the trade source, for example, by supplying or selling an infringing product. They may also be unaware that they are in fact infringing by doing whatever it is they are doing.

RELEVANT LEGISLATION

NATIONAL LEGISLATION

- (1) The Registered Designs Act 1949 and the Registered Design Rules 2006.
- (2) The Patents Act 1977 and the Patents Rules 2007 (SI 2007 No 3291).
- (3) The Copyright, Designs and Patents Act 1988 and 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.

Extracts from the legislation may be found at the Appendix, it can also be found on the IPO website (<http://www.ipo.gov.uk/pro-home.htm>)

EU LEGISLATION

Trade marks

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) 207/2009, replacing Council Regulation (EC) 40/94 which introduced the Community trade mark a supra-national right across the 27 EU states. Paragraph 6 of The Community Trade Mark Regulations 2006 (SI 2006 No 1027) applies the UK's groundless threats provision to Community trade marks.

Design rights

The Designs Directive

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

The Community Design Right Regulation

Council Regulation 6/2002/EC – introduced and regulates Community unregistered design rights and Community registered design rights. Regulation 2 of The Community Designs Regulations 2005 (SI 2005/2339) provides a remedy for groundless threats for Community registered and unregistered design rights.

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

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Kerly's Law of Trade Marks and Trade Names, (15th ed 2011).

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Report of the Committee to examine the Patent System and Patent Law, July 1970 – (the Banks Report).

Department of Trade: Patent Law Reform, (April 1975). The Government response to the Banks Report.

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Threats Actions: Recommendations of the Law Society's Intellectual Property Working Party (April 2006)

Institute of Trade Mark Attorneys, *Recommendation of the ITMA Law and Practice Committee: Threats provisions* (March 2011)

Jackson LJ, *Review of the Costs of Civil Litigation: Final Report* (2009) - (The Jackson Review)

Hargreaves, *Digital Opportunity A review of Intellectual property and Growth* (May 2011) - (The Hargreaves Report)

The Hargreaves Report and all IPO publications referred to in this Consultation Paper can be obtained from the IPO website (www.ipo.gov.uk).

INTRODUCTION

Well, then, the moment there is a patent case one can see it before the case is opened, or called in the list. How can we see it? We can see it by a pile of books as high as this [holding up the papers] invariably, one set for each Counsel, one set for each Judge, of course, and by the voluminous shorthand notes: we know 'Here is a patent case.'

Now, what is the result of all this? 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.¹ [Lord Esher, 1892]

1. In the 120 years since this statement, there have been improvements to the court system,² but the perception remains. Disputes relating to patents, trade marks and design rights are widely viewed as expensive, complicated and best avoided. A business can be severely disrupted until the issues at stake have been finally resolved. This gives threats of infringement proceedings their formidable force. When a threat is used appropriately, it provides important protection to the rights holders. When it is misused, however, it can do great damage.

THE NEED FOR PROTECTION

2. An early example of the power of groundless threats of infringement proceedings arose in 1868, in the case of *Wren v Weild*.³ Wren made spooling machines and was involved in negotiations for their sale to manufacturers, most of whom used Weild's competing machines. On hearing of this, Weild wrote to Wren's potential customers claiming that Wren's machines breached his patent. If they used them, Weild would demand royalties, or bring proceedings for infringement. Weild did not in fact commence any proceedings. All of the customers ceased negotiations. Wren sued for his loss but failed. He could not show that Weild has acted in bad faith with malicious intent to injure him, as the law then required.
3. In 1883 Parliament intervened. It enacted a statutory remedy for those aggrieved by groundless threats of patent infringement. Similar remedies were later included in the legislation relating to trade marks, registered design rights and unregistered design rights. As we discuss in Chapter 3, these various statutory provisions are couched in similar but by no means identical terms.
4. The provisions enable a person who is aggrieved by threats of infringement action to go to court to demand that the threatener justifies their threat. If not, the claimant is entitled to a declaration, injunction and/or damages.

¹ *Ungar v Sugg* (1892) 9 RPC 113, at 116 by Lord Esher.

² For example through the establishment of specialist courts and judges, and through the active management of cases. A more recent example is the introduction in October 2012 of a small claims track in the Patents County Court.

³ (1868-69) LR 4QB 730.

5. The way the provisions work is best illustrated with an example.

A, through its solicitor, sends a letter to 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 that in infringement proceedings.

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

6. In this scenario, B or C would be the claimants in a threats action;⁴ even though the threat was made to B because both B and C's interests were affected by it. A, or its solicitor, would be the defendants as the law regards both as having liability for making the threat.⁵ If B and C bring proceedings against A or the solicitor, they may seek damages, an injunction to stop the threats,⁶ and a declaration that they have not infringed.⁷ As claimants they must show a threat has been made and that it has affected them. A and its solicitor can defend the claim by proving the threat was justified because the patent was in fact infringed. Even if it was, however, B and C may still get a remedy if they can show the patent is invalid.
7. A modern example of the provisions at work is the case of *Zeno Products v BSM-Bionic Solutions Management GmbH*.⁸ The rights holder, BSM, produced a device to treat insect stings. When it discovered that Boots were stocking a similar type of device to treat acne, they asked their patent attorneys to write to a large number of individual Boots stores. The letter said that attorneys could not see a difference in the technical solution used and asked why:

... you are of the opinion that you need not take into consideration the patent of our client when marketing the product Zeno.

8. On receipt of these letters, Boots stopped stocking the device. Zeno used the statutory provisions to bring the matter before the court and persuade Boots to restock the device. The court found that Zeno's device did not infringe BSM's patent and made a declaration to that effect. It ordered an inquiry into possible damages.

CRITICISMS

9. 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.

⁴ The Pursuer in Scots law.

⁵ The Defender in Scots law.

⁶ An interdict in Scots law.

⁷ A declarator in Scots law.

⁸ [2009] EWHC 1829 (Pat).

10. The main criticism is that the provisions are incompatible with the ethos of the Civil Procedure Rules (CPRs), introduced for England and Wales in 1999 following the Woolf Report.⁹ The reforms encourage the parties to discuss their differences before going to court.¹⁰ Yet the threats provisions enable some of those who receive a letter before action to rush to court by issuing proceedings for groundless threats. This may give a tactical advantage to a well-resourced party, especially if it can join the threatener's legal advisers as a party to the action. 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.¹¹

11. There is no equivalent to the CPRs in Scotland. In some respects this may make it an attractive jurisdiction for speedy action to protect intellectual property rights.¹² But the policy considerations about possible abuse of claims of unjustified threats outlined in the previous paragraph apply equally there. Although there is only one reported case on unjustified threats,¹³ we are also aware of concerns surrounding potential liability arising from the threats provisions amongst intellectual property specialists in Scotland.
12. Not all threats of infringement proceedings are caught by the threats provisions. All of the provisions make a distinction between primary and secondary infringements. The aim is to distinguish between the trade source of the infringement (such as the manufacturer or importer) and softer targets (such as retailers or customers). The infringing actions of the trade source are likely to cause the greatest damage to a rights holder. This is why they are classified as being primary acts and are excluded from the protection of the threats provisions. A rights holder can therefore threaten a primary infringer without fear of being sued for making groundless threats.

⁹ Lord Woolf, *Access to Justice, Final Report to the Lord Chancellor on the civil justice system in England and Wales* (26 July 1996).

¹⁰ On 1 April 2013 the CPR underwent substantial amendment arising out of the review by Jackson LJ; *Review of the Costs of Civil Litigation: Final Report* (2009) and the Government consultation *Solving disputes in the county courts* (February 2012). Additional factors have been added to the overriding objective which may strengthen the obligation on the parties to a dispute to comply with rules and practice directions. We discuss this in Chapter 7.

¹¹ *Reckitt Benckiser UK v Home Pairfum Ltd* [2004] EWHC 302 (Ch), [2005] ETMR 94, [2004] FSR 37.

¹² See Robert Buchan and Gill Grassie, "Intellectual property disputes in Scotland" (2011) 6 JIPLP 120-127; Gill Grassie and Robert Buchan, "The Scottish IP dispute resolution regime - big changes all for the better" (2012) 41 CIPA Journal 621-623; Robert Buchan, "Protecting your intellectual property in Scotland" <http://www.inhouselawyer.co.uk/index.php/scotland-home/9914-protecting-your-intellectual-property-in-scotland>.

¹³ *Speedcranes Ltd v Thomson* [1972] SC 324.

13. Secondary infringers are further removed from the source of the infringement; they may be in no position to find out if the product or service they trade in infringes a right. As a consequence they may be completely unaware that they are infringing in their own right until that is brought to their attention.¹⁴ This seems simple in principle. Unfortunately, in practice, the distinction between primary and secondary infringement is highly technical and has caused problems, particularly where acts of primary and secondary infringement are committed by the same enterprise.
14. In 2004, reforms were made to the patent legislation. These reformulate the distinction between primary and secondary infringement, and exclude groundless threat actions in some cases where a rights holder is thought to have a valid reason to make the threat. These reforms, however, do not apply to trade mark and design litigation. As part of this project, we look at how the 2004 reforms are working and ask whether they should be extended to other rights.

THIS PROJECT

15. The Law Commission was asked by the Department for Business, Innovation and Skills and the Intellectual Property Office to look at the current law of groundless threats of infringement proceedings with a view to its reform.
16. The project started in April 2012. We set up a working group to assist us, with members drawn from the judiciary, lawyers, attorneys, rights holders and business. We also held several meetings with stakeholders. We are very grateful to all who have spoken to us, and who have helped us develop our provisional proposals.
17. We seek views on our proposals and replies to our questions by **17 July 2013**. Replies should be sent to the address on page (iii).
18. The project is scheduled to end in Spring 2014 with the publication of a final report setting out our recommendations.
19. 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 raises different (and highly contentious) issues.
20. The law of groundless threats applies throughout the United Kingdom. As part of the law of intellectual property, it is a matter reserved to the UK Parliament, and 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 consulted with the Scottish Law Commission on these Scottish aspects, but this is not a joint publication of the two Commissions.

¹⁴ Some acts of secondary infringement require knowledge of the right, or the lack of consent to its use, by the infringer.

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

THE NEED FOR BALANCE

21. Patent law aims to strike a balance. It must “reward and encourage inventors without inhibiting improvements of existing technology by others”.¹⁶ The same can be said of other rights: the law must reward those who develop brands and designs, without impeding a competitive market.
22. Achieving this balance is vital to the economy. As Professor Ian Hargreaves commented in his review of intellectual property law:

Today’s advanced economies live or die by their ability to get smarter. Growth comes not from competing on labour costs, raw materials or access to capital: our competitive edge depends on our capacity to innovate, especially in the high margin, knowledge intensive businesses which now exist across all sectors of the UK economy.

23. Many reports point to the importance of intellectual property rights. The 2006 Gowers Review noted that around 70% of a typical company’s value lies in its intangible assets, up from around 40% in the early 1980s. A recent review of the UK market sector found that between 2000 and 2008, approximately 48% of investment in knowledge was protected by intellectual property rights.¹⁷
24. 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.¹⁸

25. The guiding principle behind this review is that the law should enable rights holders to assert and defend their rights, but this must be balanced against curbs on abuse.

THE GLOBAL NATURE OF THE MARKET

26. Litigation over intellectual property rights has become international. This is illustrated by the global battle played out between some of the world’s major electronics companies. The disputes between Apple and Samsung, for example, number more than 50.¹⁹ Meanwhile the trade mark dispute over Budweiser beer between Anheuser Busch and Budejovicky Budvar has rumbled on for 25 years, is still not resolved, and has generated approximately 20 judgments in that time.

¹⁶ *Societe Technique de Pulverisation Step v Emson Europe* [1993] RPC 513 at 519 by Hoffmann LJ.

¹⁷ Farooqui, Goodridge and Haskel, *The Role of IPR in the UK Market Sector*, IPO July 2011, Part 1.

¹⁸ Jackson LJ; *Review of the Costs of Civil Litigation: Final Report* (2009) Pt 5, Ch 24 at para 1.2.

¹⁹ <http://www.fosspatents.com/2012/07/apple-seeks-25-billion-in-damages-from.html>

27. 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 rights. The last piece of the jigsaw is the Community (or unitary) patent, which may come into force in 2014.²⁰
28. It is important that any reform we propose functions within this global framework. We describe the European rights in Chapter 5. We have also considered how groundless threats are dealt with in seven other jurisdictions, and draw on the lessons of this research in Chapter 6.

ARE THE THREATS PROVISIONS STILL NEEDED?

29. There have been calls for the abolition of the threats provisions, for example in a 2006 report by the Law Society Working Party on Intellectual Property,²¹ and during the 2002 consultation on the reform of the Patents Act 1977. In 1970, the Banks Committee on Patent Law, however, had no hesitation in rejecting abolition as it would immediately lead to an increase in the kind of abuse the provisions are designed to prevent.²²
30. The threats provisions aim to prevent a rights holder shutting down the “network of supply” without the risk and cost of proceedings to justify their claim. The fear of litigation costs and the availability of alternative suppliers, including the rights holder, act as powerful incentives for a retailer or distributor to abandon a product and stock another. This is as true today, if not more so, as it was in the nineteenth century.
31. There has been a huge increase in the number of intellectual property rights. Steam engines and spooling machines have given way to smart phones and tablet computers which can be covered by a “thicket” of patents,²³ as well as design rights and trade marks. Samsung and Nokia each hold in excess of 5,000 mobile phone related patents in Europe and nearly 20,000 were granted by the European Patent Office in 2011. In the face of such proliferation, the risk of tripping over someone’s intellectual property right has increased and the litigation that might result has become more complex. This has, we think, increased the fear factor of threats.
32. We think the threats provisions still have a job to do, but that they need to be reformed.

PROBLEMS WITH THE CURRENT LAW

33. In Chapter 7 we set out what we see as the main defects in the current law.

²⁰ Although much uncertainty surrounds this. See Chapter 5 where we look at the Community rights and European patents.

²¹ The report recommended the existing threats provisions in relation to trade marks, registered and unregistered design be abolished. *Threats Actions: Recommendations of the Law Society’s Intellectual Property Working Party* (April 2006). The consultation was carried out by the Department of Trade and Industry and the Patents Office.

²² Report of the Committee to Examine the Patent System and Patent Law (1970) Cmnd 4407 at para 275.

²³ This refers to multiple patents in respect of a single product that overlap and for each of which an individual licence must be obtained.

The threats provisions are too narrow

34. There are four loopholes which a well-advised rights holder could exploit.
- (1) A well resourced rights holder can simply issue proceedings and then open negotiations.
 - (2) Through careful drafting, a letter can be worded so as to fall short of an actionable threat. However, it may still raise sufficient uncertainty about a product or a process that a trader thinks it is better to stop dealing in it, achieving the same commercial effect.
 - (3) A threat can be made to bring proceedings for something other than infringement, which has the same effect but is not covered by the threats provisions.
 - (4) For Community trade marks and Community design rights it is possible to “forum shop” and make threats of proceedings to be brought outside the UK.

The threats provisions are too wide

35. The provisions may be too wide in two respects.
- (1) Save for patents, a threat to a primary infringer which includes threats in respect of some other act of infringement is actionable. This means that a pre-action letter to manufacturer which asks them to refrain from selling the produce can found the basis of a groundless threat action.
 - (2) Not only is the rights holder liable for making a threat but so is any legal advisor who made it on their behalf. This is sometimes used tactically to drive a wedge between advisor and client.

Procedural problems

36. The Civil Procedure Rules which apply in England and Wales, place an obligation on the parties to a dispute to make genuine attempts at resolving their differences without resorting to litigation. It is open to the court to penalise a party who has not complied through costs sanctions.²⁴ Given the risk that any pre-litigation communication with secondary infringers may be construed as a threat, complying with the obligation is fraught with difficulty.

REFORM

37. We propose two different approaches to the reform of the current law.

²⁴ As explained at para 10 above the CPR underwent substantial amendment on 1 April 2013 that may strengthen the obligation on the parties to a dispute to comply with rules and practice directions. See also Chapter 7.

An evolutionary approach

38. In 2004, the threats provision for patents was reformed. It now exempts a wider range of communication with a secondary infringer. The rights holder or someone acting on their behalf may make factual statements and assertions about the patent. The exemption is linked with a new defence whereby it is permitted to make threats to a secondary infringer where best efforts have been used to track down the primary infringer but these have failed.
39. In Chapter 8, we propose reforms along similar lines to the provisions dealing with trade marks and design rights. We propose to expand the exclusion for threats made to primary infringers and provide specific exclusions for legitimate threats made to secondary infringers.
40. We do not think that there should be a general defence for all threats made in good faith. We do, however, make proposals to exclude enquiries to track down the primary infringer and threats where the primary infringer cannot be found. We ask whether other exclusions are needed, such as notifications to remove a defence of innocent infringement.

A wider approach?

41. 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.
42. In Chapter 9, we ask whether the UK should take a similar approach. We ask for views on a new tort of making false or misleading allegations of patent, trade mark or design infringement in the course of trade, which cause, or are likely to cause, loss to a competitor.

THE STRUCTURE OF THIS CONSULTATION PAPER

43. The Paper is in three Parts; Part 1 describes the current law. It is in six chapters.
 - (1) Chapter 1 provides a background summary for those unfamiliar with intellectual property law. It looks in turn at patents, trade marks and design rights, giving a broad outline of the law of validity, infringement and remedies. Those who are familiar with these rights may wish to start at Chapter 2.
 - (2) Chapter 2 introduces the threats provisions and describes the common elements that they share.
 - (3) Chapter 3 examines the changes made to the threats provisions for patents in 2004.

- (4) Chapter 4 considers the role of the common law. First it considers whether other common law torts provide an alternative to the statutory threat provisions. Then it looks at whether threateners can avoid the statutory provisions by using other causes of action such as passing off. It summarises two background papers, which are available on our website.
 - (5) Chapter 5 describes the European intellectual property rights and looks at the jurisdictional issues they raise for groundless threat actions.
 - (6) Chapter 6 looks at how other countries deal with the problem of groundless threats.
44. Part 2 considers reform. It is in three chapters:
- (1) Chapter 7 sets out the problems with the current law in the UK.
 - (2) Chapter 8 makes proposals for reform which takes an evolutionary approach. It would apply the gist of the 2004 reforms made to patents to trade marks and design rights.
 - (3) Chapter 9 asks whether a wider approach may be needed. There are no specific proposals, instead we seek views on a new tort of making false or misleading allegations about patent, trade mark or design rights.
45. Part 3 concludes the Paper; Chapter 10 provides a summary of the financial impact of the proposed reforms. Chapter 11 lists the proposals and questions.
46. The threats provisions are included as an Appendix at the end of the Paper.

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PART 1

THE CURRENT LAW

CHAPTER 1

BACKGROUND: PATENTS, TRADE MARKS AND DESIGN RIGHTS

INTRODUCTION

- 1.1 This Chapter provides background information for those unfamiliar with intellectual property law. Other readers may wish to proceed to the following chapters, which deal with the law of groundless threats. We give a brief outline of the legal rules relating to validity, infringement and remedies for patents, trade marks and design rights.¹ Only a valid right can be infringed, and only certain acts in respect of the right are infringing. Where infringement is proved there are special remedies in addition to those generally available in other areas of law.

THE BALANCE BETWEEN INNOVATION AND ENFORCEMENT

- 1.2 The importance of intellectual property rights to the UK economy is widely acknowledged. The Hargreaves Report noted that investment by UK businesses in intangible assets in 2008 outstripped investment in tangible assets by £137 billion to £104 billion.² More recently, the All-Party Parliamentary Intellectual Property Group, which took evidence from a wide range of individuals, legal, business and industry representative bodies, concluded that intellectual property is a “vital foundation of economic growth”.³
- 1.3 Intellectual property rights support economic growth by encouraging and rewarding innovation, research and development by creating an exclusive right of commercial exploitation,⁴ or to control who else may use them.⁵ For some businesses these rights may be the most valuable assets they own. Trade marks, for example, can help build brand loyalty and establish a market by providing reassurance to consumers before they buy as to origin, quality, or price. A strong trade mark, like Apple’s apple, can be instantly recognisable and convey a powerful message to a consumer.
- 1.4 The value of an intellectual property right is diminished by unauthorised use, called infringement and a rights owner is entitled to protect its asset. As noted in the Hargreaves Report:

¹ To examine the law in any greater detail would result in a Paper many times its current size. For those who would like to consider the law in greater detail we have listed the main leading texts in the Glossary.

² Hargreaves, *Digital Opportunity A Review of Intellectual Property and Growth* (May 2011) at para 1.12.

³ *The Role of Government in Promoting and Protecting Intellectual Property* (29 October 2012) at p 3.

⁴ Although not all rights create an exclusive right to use (for example unregistered design right protects against copying) they share the same purpose.

⁵ Usually through the grant of a licence on the payment of royalties.

A theme which connects all areas of IP is enforcement. IPRs cannot succeed in their core economic function of incentivising innovation if rights are disregarded.⁶

- 1.5 However a balance must be struck between “the need to protect ideas (for moral and commercial reasons) and the need to allow ideas to flow freely”.⁷ The right to enforce is not unlimited.⁸ The groundless threats provisions play an integral part in the enforcement regime for patents, trade marks and design rights and are part of the balancing act that preserves a rights holder’s entitlement to enforce their rights against infringement “without inhibiting improvements of existing technology by others”.⁹

PATENTS

Introduction

- 1.6 Patents are ancient rights originally granted through the exercise of Royal Prerogative. Early grants were made to trade guilds and corporations and, as now, were intended to encourage new industries. Unfortunately, they were also “conferred by the Sovereign as a convenient means of raising revenue”.¹⁰ The abuse of the power prompted calls for reform which resulted in the enactment of The Statute of Monopolies for England and Wales in 1623.¹¹ The modern form of UK patent is now granted under the Patents Act 1977 by the Intellectual Property Office (the IPO).¹² European patents are granted by the European Patent Office (EPO).

⁶ Hargreaves, *Digital Opportunity A Review of Intellectual Property and Growth* (May 2011), para 8.1.

⁷ “Brief from the AdvoKat: Hunting for IP’s Nemesis” (<http://ipkitten.blogspot.co.uk/2012/09/brief-from-advokat-hunting-for-ips.html>), posted on 24 September 2012.

⁸ Section 6(e) of the Statute of Monopolies 1623 provided that patents were invalid to the extent that they were “contrary to the law [or] mischievous to the state by raising prices of commodities at home, or hurt of trade, or generally inconvenient”.

⁹ *STEP v Emson Europe Ltd* [1993] RPC 513 by Lord Justice Hoffmann at 519. The comment was made in relation to the patent legislation but the underlying principle applies equally to trade marks and design rights.

¹⁰ The Swan Committee - Board of Trade: Patents and Designs Acts, Second Interim Report of the Departmental Committee, Cm 6789 (April 1946), at para 7.

¹¹ The Statute of Monopolies 1623 declared all monopoly rights void save for those grants for “new manufactures”. A grant was made to the “true and first inventor” for a period of up to 14 years. There was no equivalent Act in Scotland, although in 1641 a statute “discharging monopolies” was passed by a Parliament openly hostile to the use of the Royal Prerogative. This Act was, however, rescinded in 1661 after the Restoration of Charles II. “Scotch” patents continued to be granted until the Patent Law Amendment Act 1852.

¹² The 1977 Act ratified the European Patent Convention and Patent Co-operation Treaty, it is intended to harmonise the law in relation to patents. Some provisions of the 1977 Act are based on the Community Patent Convention, which although never brought into force, is nonetheless very influential in the interpretation of the law; see *Fujitsu Ltd’s Application* [1997] RPC 608 at 611 by Aldous LJ, approving the comments of Nicholls LJ in *Gale’s Application* [1991] RPC 305 at 322. See also Patents Act 1977, s 130(7).

The specifications and the claims

- 1.7 A patent is a monopoly right to commercially exploit an invention in return for its disclosure. The protection is limited to the invention as it has been clearly and concisely set out in the specification which will describe it and may contain drawings. It will contain claims which define the scope of what protection is being applied for.¹³ The disclosure of the invention must be such that it is “clear enough and complete enough for the invention to be performed by a person skilled in the art”.¹⁴
- 1.8 It is important that these requirements are met as many disputes turn on the claims and what comes within the patent. Failure to comply may mean the invention has not been disclosed clearly enough and that the patent may be revoked or declared invalid for “insufficiency”.¹⁵ If a product or the use of a process is alleged to have infringed the patent it must fall within one or more of the claims made for the invention as properly construed.¹⁶

Priority date

- 1.9 The maximum term for a patent is 20 years from the date the application is filed.¹⁷ The general rule is that the filing date is the priority date for the patent. It fixes the point in time at which validity of the patent will be assessed if it is challenged.

Patentability

- 1.10 Only a patentable invention may be validly registered. The invention must:
- (1) Be new (novel) in that it must not “form part of the state of the art” at its priority date.¹⁸ This turns on whether there has been an enabling disclosure, which is one that would enable the ordinary skilled person to perform the invention. For example, by describing the invention in a book that is then placed in bookseller’s window for sale.¹⁹
 - (2) Involve an inventive step (not obvious). An invention will be taken to involve an inventive step “if it is not obvious to a person skilled in the art, having regard to any matter that forms part of the state of the art...”.²⁰

¹³ Patents Act 1977, s 125(1).

¹⁴ Patents Act 1977, s 14(3), and see *Asahi Kasei Kogyo Application* [1991] RPC 485.

¹⁵ Patents Act 1977, s 72(1)(c). Another ground for revocation is the non-use of the patent; a patentee is given a monopoly right in the expectation that it will be employed.

¹⁶ *Belot Technologies Inc v Valmet Paper Machinery Inc (No 2)* [1995] RPC 705.

¹⁷ Patents Act 1977, s 5(1). This will also be the priority date although the applicant may in certain circumstances claim as the priority date the date of an earlier application; see Patents Act 1977, s 5(5). Certain patents for medicinal products can be extended through supplementary protection certificates because of the time it takes to get approval to bring these to market.

¹⁸ Section 2(1) of the 1977 Act which provides that the state of the art of the invention shall be taken to comprise all information which at any time before the priority date had been made available to the public (in the UK or elsewhere) by written or oral description, by use or any other way; see also Patents Act 1977, s 2(2).

¹⁹ *Lang v Gisbourne* (1862) 31 Beav 133 at 136.

²⁰ Patents Act 1977, s 3, see also European Patent Convention, art 56.

- (3) Be capable of industrial application. An invention is capable of industrial application if it can be “made or used in any kind of industry, including agriculture”.²¹
- (4) Not one excluded by the Act.

Excluded inventions

- 1.11 Some inventions are excluded and cannot be patented.²² These include discoveries, scientific theories literary, dramatic, musical or artistic works and computer programs.²³

Infringement

Who is liable for the infringement?

- 1.12 A patent is infringed when someone, without consent, does something that is an exclusive right of the rights holder.²⁴ An infringing act can be committed by a principal, or through an agent or employee; each will be liable in their own right.²⁵ A person who places an order for products to be made using a patented process “causes or procures” them to be made and “may well be said to have made them himself”.²⁶ They will have infringed as well as the actual manufacturer.

Infringing acts

- 1.13 Until section 60 of the 1977 Act there was no statutory definition of infringement.²⁷ Infringement can be direct or indirect. Direct infringement is:
- (1) where the invention is a product, the alleged infringer makes, disposes of, offers to dispose of, uses or imports or keeps it whether for disposal or not;²⁸

²¹ Patents Act 1977, s 4, see also European Patent Convention, art 57.

²² Above, s 1(2).

²³ These may be protected by copyright or design right. Section 3(1)(b) of the Copyright, Designs and Patents Act 1988 provides that computer programs are to be treated as literary works so they are protected by copyright.

²⁴ An infringement of a European patent is dealt with by national law; European Patent Convention, art 64(3).

²⁵ *Sykes v Howarth* (1879) 12 Ch D 826. See also *The Kursk* [1924] P 140.

²⁶ *Gibson and Cambell v Brand* (1841) 1 WPC 631 by Tindal CJ.

²⁷ The definition of infringement is taken from, but not identical to, the wording of Arts 25 and 26 of the Community Patent Convention (CPC). It has been observed that the differences in wording is unhelpful; *Beloit Technologies Inc v Valmet Paper Machinery Inc (No 2)* [1995] RPC 705 at 737 by Jacob J, who suggested in *Bristol Myers Squibb v Baker Norton* that it would be easier to treat the CPC, EPC and PCT as if they had direct effect, [1999] RPC 253 at 258.

²⁸ Patents Act 1977, s 60(1)(a).

- (2) where the invention is a process, the alleged infringer uses the process or he offers it for use in the United Kingdom knowing such use is without consent, or where it would be obvious to a reasonable person in the circumstances that is the case;²⁹
- (3) where the invention is a process, the alleged infringer disposes of, offers to dispose of, uses or imports any product obtained directly by means of that process or keeps any such product whether for disposal or not.³⁰
- 1.14 The meaning of most of the infringing acts is straightforward. The question of whether an alleged infringer was “making” a patented product was recently considered by the Supreme Court in *Schütz (UK) Limited v Werit (UK) Limited*.³¹ The decision involved an exercise in judgment and is a matter of fact and degree. Some cases may be clear or there may be a “single clinching factor”. In others, however, it may be necessary for the court to identify the “various factors which apply on the particular facts” and then weigh them up in order to conclude, as a matter of judgment, whether the alleged infringer has “made” the product.³² Infringing “use”, as *Terrell* notes, indicates “making practical use of the invention itself”.³³ For example, in *Neilson v Betts* the use of a patented protective capsule to transport beer from Glasgow (which the patent did not cover), via Liverpool (which it did), for onward sale in India infringed the patent even though the beer was not sold in Liverpool. The capsule was protecting the beer and so it was being used.³⁴
- 1.15 What is meant by “disposes of” has been interpreted in the light of the Community Patents Convention which uses the words “putting on the market”, so it is taken to mean disposal in the course of trade.³⁵ The meaning of “offers to dispose” is not limited to offers to sell. In *Gerber v Lectra* it was held to extend to pre-contractual negotiations and advertising for sale.³⁶
- 1.16 The meaning of “keeps” is not as broad as might at first appear. In *Smith, Kline & French Laboratories Ltd v RD Harbottle (Mercantile) Ltd*, warehousemen or carriers, in this case British Airways, who had merely kept possession of a product during transit, were not found to be infringing.³⁷ In *McDonald v Graham*, “keeps” was held to mean “keeping in stock” for trade purposes.³⁸
- 1.17 Where the invention is a process, infringement can take two forms: first, the use of the process itself and second, dealing in any product directly obtained by using the process.

²⁹ Patents Act 1977, s 60(1)(b).

³⁰ Patents Act 1977, s 60(10)(c).

³¹ *Schütz (UK) Ltd v Werit (UK) Ltd; Schütz (UK) Ltd No 2 v Werit (UK) Ltd* [2013] UKSC 16.

³² Above at [78].

³³ *Terrell on the Law of Patents*, (17th ed 2011) at para 14.37.

³⁴ (1871) LR 5 HL 1.

³⁵ See *Terrell on the Law of Patents*, (17th ed 2011) paras 14.32 and following.

³⁶ [1995] RPC 383 at 411 by Jacob J.

³⁷ [1980] RPC 363.

³⁸ [1994] RPC 407 at 431 by Ralph Gibson LJ.

Indirect infringement

- 1.18 It is an indirect infringement of a patent to supply or offer to supply without consent in the UK to a person not entitled to work the invention “any of the means, relating to an essential element of the invention, for putting the invention into effect when he knows, or it is obvious to a reasonable person the circumstances, that those means are suitable for putting, and are intended to put, the invention into effect in the United Kingdom”.³⁹
- 1.19 *Terrell* suggests that the meaning of “supply” should be understood as “putting on the market” as it clearly indicates the transfer of a thing to another.⁴⁰ Whether the element of an invention is essential or not is a question of fact. Knowledge of the intended use may be actual or objective and two things must be known. First, that the means supplied can put the invention into effect in the UK and second, that it is intended to do so.⁴¹

Exceptions to infringement

- 1.20 Acts that would otherwise be an infringement may not be in certain circumstances.⁴² For example, where the act is done for non-commercial or experimental purposes.⁴³ The experimental purposes exception plays an important role in striking a fair balance between enforcement and innovation. An inventor is granted a patent ultimately in the public interest to further scientific and technological innovation, therefore “the unlimited protection of the patent is not justified in a case where the further development of technology is hindered”.⁴⁴

Other defences

- 1.21 It is a defence to show that a patent is invalid or that it should be revoked.⁴⁵ There is no infringement if it can be shown that the patentee has expressly or impliedly consented to the acts complained of. Where “infringement” is innocent in that, at the time of the infringement, the infringer was not aware, and had no reasonable grounds for supposing that a patent existed, the financial remedies for infringement are restricted. No damages will be awarded or, if one was sought, no order for an account of profits will be made.⁴⁶

³⁹ Patents Act 1977, s 60(2).

⁴⁰ *Terrell on the Law of Patents*, (17th ed 2011) at 14-55.

⁴¹ *Grimme Maschinenfabrik GmbH & Co v Scott* [2010] EWCA Civ 1110, [2011] FSR 7. The offer for sale or the sale must be in the UK and the invention must be put into effect in the UK: *Menashe Business Mercantile v William Hill Ltd* [2002] EWCA Civ 1702, [2003] 1 WLR 1462, [2003] RPC 31.

⁴² Patents Act 1977, s 60(5); which is based on art 27 of the Community Patent Convention.

⁴³ Patents Act 1977, ss 60(5)(a) and (b).

⁴⁴ *Klinische Versuche (Clinical Trials) II* (Case X ZR 68/94) [1998] RPC 423, a decision of the *Bundesgerichtshof* (German Federal Court of Justice).

⁴⁵ For example because the invention is not patentable or the patent was granted to someone not entitled to it; see Patents Act 1977, s 72.

⁴⁶ Patents Act 1977, s 62.

TRADE MARKS

- 1.22 A trade mark is a badge of origin. It is a mark that makes one brand or service stand out as against another and provides reassurance about the qualities of the thing acquired in terms of identity, quality or price. It has been possible to register trade marks for products since 1875,⁴⁷ however UK law underwent a fundamental change with the enactment of the Trade Marks Act 1994.⁴⁸
- 1.23 Registration of a mark is not mandatory, but it provides valuable statutory protection against infringement.⁴⁹ Trade mark law is probably the most harmonised across the European Union. Consistency is supported by the practice of the courts to follow the wording of the Trade Mark Directive on which the 1994 Act is based where the two differ.⁵⁰

Obtaining a trade mark

- 1.24 Not all marks may be registered, registration is limited to:
- ...any sign capable of being represented graphically which is capable of distinguishing goods or services of one undertaking from those of other undertakings.⁵¹
- 1.25 Trade marks can take many forms including words, personal names, designs and the shape of the goods or their packaging.⁵² Less conventional forms are smells, sounds, skylines or colours.⁵³ In a recent case, *Société des Produits Nestlé SA v Cadbury UK Ltd*, a particular shade of purple was successfully registered.⁵⁴ Once a trade mark has been validly registered there is no time limit on how long registration continues provided it is renewed every 10 years.⁵⁵

⁴⁷ Under the Trade Marks Registration Act 1875. Service marks became registrable in 1986; see the Trade Marks (Amendment) Act 1984.

⁴⁸ The Trade Marks Rules 2008; SI 2008 No 1797, made under the 1994 Act, set out the procedural and other requirements for trade marks and trade mark applications.

⁴⁹ We consider alternative protection for unregistered marks in Chapter 4 and the related background paper published on our website.

⁵⁰ The 1994 Act was based on Trade Mark Directive 89/104/EEC which has been superseded by Directive 2008/95/EC. See also *British Sugar Plc v James Robertson & Sons Ltd* [1996] RPC 281 at 292.

⁵¹ Section 1(1) of the Trade Marks Act 1994. This is based on the Trade Mark Directive 1988, art 2. Some emblems may not be registered as trade marks because they are special emblems, for example Royal Arms and signs associated with the Royal family, see Trade Marks Act 1994, s 4.

⁵² Above, s 1(1).

⁵³ See further the Trade Mark Manual, Ch 3, Famous Buildings at www.ipo.gov.uk/tmmanual-chap3-exam.pdf.

⁵⁴ [2012] EWHC 2637 (Ch).

⁵⁵ Trade Marks Act 1994 s 43. This is subject to any successful challenge made to the validity of the registration or a claim that it should be revoked.

- 1.26 An application for registration is made to, and administered by, the Trade Mark Registry which is a part of the IPO.⁵⁶ Marks are registered for specified internationally agreed classes of goods and services, for example Class 8 is hand tools and hand operated implements; cutlery; side arms and razors and Class 33 is alcoholic beverages (except beer).⁵⁷ Since the 1994 Act this may be of less importance as protection against infringement extends to goods and services for which the mark is registered and for those that are similar provided there is the likelihood that the public would be confused.⁵⁸

Validity

- 1.27 Registration is itself “prima facie evidence of the validity of the original registration”.⁵⁹ A trade mark will be declared invalid where it has been registered in breach of one or more of the absolute or relative grounds for refusal of a registration.

Absolute grounds for refusal to register

- 1.28 The absolute grounds for refusal are concerned with some intrinsic quality of the mark, for example that it does not comply with the definition of a trade mark in one or more respects.⁶⁰

Not capable of graphic representation

- 1.29 The requirement that marks can be graphically represented ensures that there is greater certainty as to what is being registered and allows a comparison to be made between competing marks. The requirement may restrict what can be registered. Registration of the taste of an artificial strawberry flavour was refused on the ground that it was incapable of sufficiently clear and precise graphic representation.⁶¹

⁵⁶ A Community trade mark may also be applied for from OHIM which administers and maintains the Community trade mark register. On a national level, they are governed by the same legal principles as those that apply to national trade marks. See further Chapter 5.

⁵⁷ See the International Classification of Goods and Services under the Nice Agreement, (10th ed effective January 2012) of which 83 countries are currently signatories.

⁵⁸ Trade Marks Act 1994, ss 10(2) and (3). However, the effect of the decision in Case C-307/10 *IP Translator* [2012] ETMR 42 (a Community trade mark case) that an application must clearly and precisely indicate the goods and services for which protection is sought has introduced some uncertainty into the law.

⁵⁹ Trade Marks Act 1994, s 72.

⁶⁰ Section 3 of the Trade Marks Act 1994 sets out the absolute grounds for the refusal of an application to register a mark, see also the Trade Mark Directive, art 3. For Community marks, see the Community Trade Mark Regulation, art 7.

⁶¹ Case T-305/04 *Eden SARL v OHIM* [2006] ETMR 14.

Distinctive character

- 1.30 A trade mark must be sufficiently distinctive to identify one undertaking's brand or service from those of another's.⁶² The distinctive nature of the mark may be inherent or may have been acquired through use.
- 1.31 A recent case, *Société des Produits Nestlé SA v Cadbury UK Ltd*, illustrates the second point.⁶³ Cadbury's application for the registration of a shade of purple was opposed by Nestlé on the ground it was not capable of graphic representation. Nestlé also argued that registration of the colour would give Cadburys an unfair competitive edge. The court found that the colour had been clearly identified,⁶⁴ and that it had acquired a distinctive character since it first had been used by Cadbury in 1914.⁶⁵

Relative grounds for refusing to register a mark

- 1.32 The relative grounds apply where there is an earlier registered mark that is identical or similar to the later mark and the goods or services to which each relates are also either identical or similar.⁶⁶ The grounds are in the same terms as the definition of infringement, which we look at below.⁶⁷

Revocation

- 1.33 The registration of a mark may be revoked on prescribed grounds, for example because there has been a lack of genuine use or where it has become a common name in the trade for a product.⁶⁸

Infringement

- 1.34 Registration gives the rights holder exclusive rights in the mark which are infringed where it is used without consent.⁶⁹
- 1.35 There are three categories of infringement. Each requires the use in the course of trade without consent:

⁶² Trade Marks Act 1994, s 31(b), Trade Mark Directive, art 3(1)(b), and see Community Trade Mark Regulation, art 52(2).

⁶³ [2012] EWHC 2637 (Ch), [2013] ETMR 2.

⁶⁴ As Pantone 2685C.

⁶⁵ The examiner's finding that the colour had acquired distinctiveness had not been challenged by Nestlé. The case of *Libertel Groep BV v Benelux Merkenbureau* Case C-104/01 [2003] ECR I-3793, [2004] Ch 83 had established that a colour could be registered as a trade mark if it is described and a Pantone reference is provided;

⁶⁶ Trade Marks Act 1994, s 5. The section is based on art 4 of the Trade Mark Directive; see also art 8(2) of the Community Trade Mark Regulation.

⁶⁷ See Trade Marks Act 1994, s 5 and s 10.

⁶⁸ Above, s 46.

⁶⁹ Trade Marks Act 1994, s 9, Trade Mark Directive, art 5(1), and see also Community Trade Mark Regulation, art 9(1). Consent may be express, for example by a licence, or implied. The meaning of consent is consistent throughout the EU and must be given by the person who, as a matter of law, may control the use of the mark: Case C- 414/99 *Zino Davidoff v A&G Imports* [2001] ECR I-869 at [43], [2002] Ch 109.

- (1) of a mark that is identical to the registered mark for goods or services that are identical. Claimants need only show that the mark and goods or services are identical to those for which the mark is registered;⁷⁰ or
- (2) of a mark identical to the registered mark used for goods or services that are similar or the goods or services are identical to those for which the mark was registered and the marks are similar. In either case, claimants must show that because of the there exists a likelihood of confusion on the part of the public, which includes an association with the trade mark;⁷¹ or
- (3) of a mark identical or similar to the registered mark in relation to goods or services where the trade mark has a reputation in the UK and the use of the sign takes unfair advantage of, or is detrimental to the distinctive character or the reputation of the trade mark.⁷²

In the course of trade

- 1.36 “Trade” means any business or profession including leasing or hiring,⁷³ and other business activities such as placing orders or billing suppliers and customers.⁷⁴ In *Arsenal Football Club v Matthew Reed*, “trade” was given a wide meaning as being use in a commercial activity and not private use.⁷⁵

Identical or similar marks

- 1.37 A mark is identical if it reproduces the registered mark without modification or addition, or if any differences are so insignificant they would go unnoticed by the average consumer.⁷⁶ The similarity of the marks is also assessed through the eyes of the average consumer who is assumed to be reasonably well-informed, observant and circumspect and who may have an imperfect recollection of the registered mark.⁷⁷ The similarity of the goods or services is assessed by comparing the goods and services for which the mark has been registered and those for which the offending sign has been used. A range of factors are taken into account, for example the use to which the goods or services were put; who would use them; through which type of outlet would they retail and if the same type, would they appear in a similar position or not.⁷⁸

⁷⁰ Trade Marks Act 1994, s 10(1); Trade Mark Directive, art 5(1)(a); Community Trade Mark Regulation, art 9(1)(a).

⁷¹ Above, s 10(2); art 5(1)(b); art 9(1)(b).

⁷² Above, s 10(3); art 5(2); art 9(1)(c).

⁷³ See Trade Marks Act 1994, s 103(1) and *Aristoc v Rysta* [1945] AC 68, (1945) 62 RPC 65 at [83].

⁷⁴ *Beautimatic v Mitchell* [1999] ETMR 912, [2000] FSR 267.

⁷⁵ Case C-206/01 [2002] ECR I-10273, [2003] Ch 454, [2003] RPC 9 at [40].

⁷⁶ See for example, *Reed Executive Plc v Reed Business Information Ltd* [2004] EWCA Civ 159, [2004] ETMR 56, [2004] RPC 40.

⁷⁷ Case C-342/97 *Lloyd Schuhfabrick Meyer v Kliysen Handel* [1999] ECR I-3819, [1999] 2 CMLR 1343, [1999] ETMR 690.

⁷⁸ See for example, *British Sugar Plc v James Robinson & Sons Ltd* [1997] ETMR 118, [1996] RPC 281.

Likelihood of confusion

- 1.38 A likelihood of confusion is key to the question of infringement, although actual confusion need not be shown. All relevant factors such as the similarity of the marks and the goods and services and the likely perception of the marks in the mind of the average consumer are taken into account.⁷⁹ The confusion should give rise to a belief that the goods or services come from the same or an economically linked undertaking.⁸⁰

Unfair advantage or detrimental to distinctive character or reputation

- 1.39 The trade mark must have a reputation in the UK (or the EU if a Community trade mark) among that part of the public concerned with the product or services.⁸¹ Unfair advantage has been described as trying to “ride on the coat-tails” of the registered mark.⁸² Detriment to distinctive character (or dilution) occurs when harm is done to the mark’s ability to distinguish the goods or services of the rights holder,⁸³ for example where a prejudicial association between the trade mark and the offending mark develops.⁸⁴

Infringing acts

- 1.40 There is no exhaustive definition of infringing acts in the 1994 Act; instead there are examples of use that may amount to infringement.⁸⁵ These are where a person:
- (1) affixes a sign to goods or the packaging of goods;
 - (2) offers goods for sale, puts them on the market or stocks them for that purpose under the sign or offers or supplies services under the sign;
 - (3) imports or exports goods under the sign;⁸⁶ or
 - (4) uses the sign on business papers or advertising.⁸⁷
- 1.41 It is suggested in *Kerly* that mere possession of the goods will not be an infringement; there must also be an intention to deal in them.⁸⁸

⁷⁹ See *Och –Ziff v Och Capital* [2010] EWHC 2599 (Ch), [2011] ETMR 1 at [117].

⁸⁰ See Case C-206/01 *Arsenal Football Club v Matthew Reed* [2002] ECR I-10273, [2003] Ch 454, [2003] RPC 9.

⁸¹ Case C-375/97 *General Motors v Yplon* [1999] ECR I-5421, [1999] 3 CMLR 427.

⁸² Case C-487/07 *L’Oreal v Bellure* [2009] ECR I-5185, [2010] RPC 1 at [30].

⁸³ Case C-252/07 *Intel v CPM*, [2008] ECR I-8823 at para 29, [2009] ETMR 13, [2009] RPC 15.

⁸⁴ *Lucas Bols v Colgate Palmolive (Claeryn and Klarein)* (1976) 7 IIC 420, [1979] ECC 419 (Benelux Court of Justice).

⁸⁵ Trade Marks Act 1994, s 10(4); see also Trade Mark Directive, art 5(3); and Community Trade Mark Regulation, art 9(2).

⁸⁶ For a UK registered trade mark this means bringing goods into or out of a territorial jurisdiction, for a Community trade mark this means bringing goods into the Community with a view to dispose of them.

⁸⁷ Business papers may include invoices and delivery notes; see *CHEETAH Trade Mark* [1993] FSR 263.

Infringing use must be liable to affect the function of a registered mark

- 1.42 The infringing use of a registered trade mark must be capable of affecting a function of a registered trade mark.⁸⁹ The essential function of a mark is that it is a “badge of origin” in that it indicates the source of the goods or services to which it relates.
- 1.43 It has been recognised that a trade mark may also have additional functions. In *L’Oreal v Bellure*, the court provided a non-exhaustive list of other functions of a trade mark. These are to guarantee the quality of the goods or services to which they relate and of communication, investment or advertising.⁹⁰

Comparative advertising

- 1.44 Section 10(6) of the 1994 Act creates a further category of infringement that has been construed by the courts as a domestic response to comparative advertising. It has been superseded by case law of the Court of Justice of the European Union.⁹¹

Exceptions to infringement

- 1.45 There are defences to a claim for infringement, for example by showing that the registration of the mark is invalid or the rights holder consented to the use. In addition there are limits on the effect of a validly registered trade mark. It is not an infringement to use a mark in accordance with honest practices in industrial or commercial matters, for example, where it is a person’s own name or address, or where the use is descriptive in that it gives an indication of the characteristics of goods or services.⁹²

⁸⁸ See *Kerly’s Law of Trade Marks and Trade Names* (15th ed 2011) at para 14-013, and see *Waterford Wedgwood Plc v David Nagli Ltd* [1998] FSR 92 at 105.

⁸⁹ Case C-17/06 *Celine SARL v Celine* [2007] ECR I-7041, [2007] ETMR 80 at [16].

⁹⁰ Case C-487/07 [2009] ECR I-5185, [2009] ETMR 55, [2010] RPC 1 at [58].

⁹¹ Legitimate comparative advertising is now permitted by the Misleading and Comparative Advertising Directive. See also *Kerly’s Law of Trade Marks and Trade Names* (15th ed 2011), ch 15.

⁹² See for example *D Green & Co (Stoke Newington) Ltd v Regalzone Ltd* [2001] EWCA Civ 639, [2002] ETMR 22 which concerned the use of the word “spork” to indicate a utensil that is a cross between a spoon and a fork.

REGISTERED AND UNREGISTERED DESIGN RIGHTS

- 1.46 Design rights protect the overall impression of a product; they are concerned with how something looks and not with how it works. The modern law grew out of copyright law, which initially protected works of literature but was gradually extended, first to include printed linens and cottons, and then a wider range of manufactured articles. Design registration was introduced in 1839,⁹³ although the protection of registered designs remained in the nature of copyright. Registered design rights create a monopoly to commercially exploit the design for up to 25 years.⁹⁴
- 1.47 Unregistered design right was introduced by section 213 of the Copyright, Designs and Patents Act 1988 to tackle the growth in the use, and as some saw it the misuse, of copyright in the industrial field.⁹⁵ UK unregistered design right is not like UK registered or Community design rights. It springs up automatically and, although it may protect many of the same elements of a design, it is not an unregistered version of a registered right but a discrete right in a design.⁹⁶ Unregistered design right protects against copying for up to 15 years from the end of the year in which the design was first made or recorded in a design document.⁹⁷
- 1.48 The modern law of design rights is highly complex.⁹⁸ Currently, design may be protected against infringement as:
- (1) an unregistered design in the UK;
 - (2) a registered design in the UK;
 - (3) a Community registered design in the EU;
 - (4) a Community unregistered design in the EU; or
 - (5) by copyright.⁹⁹

⁹³ Under the Designs Act 1839.

⁹⁴ The initial registration is for five years from the date of registration. This may be extended for further periods of five years up to a total of 25 years; Registered Designs Act 1949, ss 8(1) and (2).

⁹⁵ Copyright offered far more protection than could be achieved through registration. For a detailed analysis of the events leading up to the enactment of the Copyright, Designs and Patents Act 1988 see Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011), Ch 44.

⁹⁶ There are also significant differences between the UK unregistered design right and the Community unregistered design right, we discuss some of these in Chapter 5.

⁹⁷ This is reduced to 10 years from when first marketed if it is marketed in the first five years since being made. A competitor may obtain a compulsory licence after five years have elapsed since the design was first marketed.

⁹⁸ We discuss Community design rights in Chapter 5.

⁹⁹ Which protects surface decoration.

- 1.49 In the paragraphs below we look at the UK unregistered and registered design rights and touch upon the Community rights. We do not deal with copyright, which at its simplest, comes into being automatically, and protects original literary, dramatic, musical, or artistic works against copying or performance without consent.¹⁰⁰

UK UNREGISTERED DESIGN RIGHT

- 1.50 Section 213 of the 1988 Act is difficult to understand. As Jacob LJ put it in *Dyson v Qualtex*:

It has the merit of being short. It has no other.¹⁰¹

- 1.51 The proprietor, or “first owner”, of design right is usually the person who created the design, although there are special rules where the creator is an employee or the design was commissioned.¹⁰²
- 1.52 UK unregistered design right subsists in an original design.¹⁰³ Design means “any aspect of the shape or configuration (whether internal or external) of the whole or part of the article”.¹⁰⁴ A single article may be made up of a number of separate designs, each individually protected by design right.¹⁰⁵
- 1.53 A design is deemed not to be original if it is “commonplace in the design field in question at the time of its creation”.¹⁰⁶ Although “commonplace” is not defined in the 1988 Act, it has been established that it does not mean “well known” in a particular field, as this would exclude from protection many of the functional items that satisfied the definition of design but were commonplace in that sense.¹⁰⁷

¹⁰⁰ Copyright, Designs and Patents Act 1988, s 16.

¹⁰¹ [2006] EWCA Civ 166, [2006] RPC 31 at [14].

¹⁰² Copyright, Designs and Patents Act 1988, s 214(1). Where the design is the result of a commission, the person commissioning the design is the first owner; where the design is created by an employee, it is the employer: Copyright, Designs and Patents Act 1988, ss 212(2) and (4).

¹⁰³ Copyright, Designs and Patents Act 1988, s 213(1).

¹⁰⁴ Copyright, Designs and Patents Act 1988, s 213(2).

¹⁰⁵ *Farmers Build Ltd v Carrier Bulk Material Handling Ltd* [2000] ECDR 42, [1999] RPC 461.

¹⁰⁶ Copyright, Designs and Patents Act 1988, s 213(4).

¹⁰⁷ *Farmers Build Ltd v Carrier Bulk Materials Handling Ltd* [2000] ECDR 42, [1999] RPC 461 at 481. This has been criticised for giving the exception a “vanishingly small scope”: Laddie, Prescott and Vitoria *The Modern Law of Copyright and Designs* (4th ed 2011) at 45.25.

Excluded designs

- 1.54 Some designs or aspects of a design are excluded from protection. These include surface decoration,¹⁰⁸ features of shape or configuration that enable an article to be connected another in order that they can work, for example spare parts,¹⁰⁹ or are dependant on the appearance of another article of which it is intended to form an integral part, for example the bonnet of sports car.¹¹⁰

Infringement of UK unregistered design right

- 1.55 The 1988 Act draws a distinction between acts of primary infringement and those of secondary infringement, unfortunately these do not correspond to the distinction made between primary and secondary acts of infringement for groundless threats.¹¹¹
- 1.56 A primary infringement is committed where a person, without the licence, of the owner of design right, does or authorises anyone to do something which is the exclusive right of the owner. The owner has the exclusive right to reproduce the design for commercial purposes by making articles to that design, or by making a design document recording the design for the purposes of enabling such articles to be made.¹¹² The reproduction of a design by making articles to the design means copying the design to produce articles exactly or substantially to that design.¹¹³ Whether the offending article has been reproduced substantially to the design is judged through the eyes of the person to whom the design is directed.¹¹⁴
- 1.57 Secondary infringement is where a person, without the licence of the owner and for commercial purposes imports into the UK, or has in their possession, or sells, lets for hire, or offers or exposes for sale or hire an article which is, and which they know or have reason to believe is an infringing article.¹¹⁵
- 1.58 The IPO has recently consulted on a proposal to amend the Copyright, Designs and Patents Act 1988 to bring it into line with European design law and the Registered Designs Act 1949 so that design right is not infringed where acts are done privately and for non-commercial purposes or for experimental purposes.¹¹⁶

¹⁰⁸ Surface decoration may instead be protected by copyright.

¹⁰⁹ The “must-fit” exception, Copyright, Designs and Patents Act 1988, s 213(b)(i).

¹¹⁰ The “must-match” exception, Copyright, Designs and Patents Act 1988, s 213(b)(ii).

¹¹¹ There is no liability for making groundless threats where threats are made in respect of acts of primary infringement as defined by the threats provisions; see Chapter 3.

¹¹² Copyright, Designs and Patents Act 1988, s 226(1).

¹¹³ Copyright, Designs and Patents Act 1988, s 226(2).

¹¹⁴ *C&H Engineering v F Klucznik & Sons Ltd (No 1)* [1992] FSR 421.

¹¹⁵ Copyright, Designs and Patents Act 1988, s 227.

¹¹⁶ Intellectual Property Office *Consultation on the Reform of the UK Designs Legal Framework* (July 2012), para 5.5.

- 1.59 Where primary infringement is “innocent”, in that the infringer did not know and had no reason to believe that design right subsisted in the design, damages may not be awarded. Where there has been a secondary infringement but the infringing article has been innocently acquired damages may not exceed the level of a reasonable royalty.¹¹⁷

Infringement of copyright and UK unregistered design

- 1.60 Section 236 of the 1988 Act prevents an act in relation to a work where both copyright and design right subsist from being an infringement of design right where it would also be an infringement of the copyright in that work.

UK REGISTERED DESIGN RIGHTS

- 1.61 The Registered Designs Act 1949 was substantially amended in 2001 to bring UK law into line with the Council Directive on the Legal Protection of Designs which harmonised the law across the EU.¹¹⁸ Here we consider the law only in relation to registrations applied for after 9 December 2001 when the amendments came into force.¹¹⁹ UK design right is registered under the 1949 Act, on the application of the designer or the person who commissioned the design.¹²⁰
- 1.62 A design is “the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours colours, shape, texture or materials of the product or its ornamentation”.¹²¹ A product is “any industrial or handicraft item”. This includes the packaging, get-up, graphic symbols, typographic type-faces.¹²²

Validity

- 1.63 A valid registration of a design must satisfy the registration requirements in the 1949 Act.

¹¹⁷ Copyright, Designs and Patents Act 1988, s 233.

¹¹⁸ Directive 98/71/EC.

¹¹⁹ Registrations made before that date remain subject to the pre existing law for which see Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011), Chapter 55.

¹²⁰ Registered Designs Act 1949, s 2. The application is made to the Patent Office, which operates under the name of the Intellectual Property Office.

¹²¹ Registered Designs Act 1949, s 1(2).

¹²² A computer program is not a product and cannot be validly registered; Registered Designs Act 1949, s 1(3).

- 1.64 A design is protected by a right in a registered design only “to the extent that the design is new (novel) and has individual character”.¹²³ A design is new “if no identical design or no design whose features differ in immaterial detail has been made available to the public before the relevant date”.¹²⁴ The relevant date is the date on which the application is made, or treated as having been made.¹²⁵ The design is tested objectively against what designs were publicly available before the application. The design must not have been disclosed to the public before the application is made, for example by being advertised or offered for sale.¹²⁶

Individual character and the informed user

- 1.65 Even if a design is new it must also have individual character. The overall impression it produces on the informed user must differ from the overall impression produced on such a user by any design available to the public prior to the application for registration. The informed user is more discriminating than the average consumer and will be taken to have examined the article carefully.¹²⁷ They will also be taken to be aware of the degree of freedom of the designer in the creation of the design.¹²⁸

Excluded designs

- 1.66 Certain designs cannot be registered. These include designs that are contrary to public policy or morality,¹²⁹ or designs incorporating prohibited signs such as the Royal arms and the Olympic symbol. As with unregistered design right, designs that fall within the “must fit must match” exclusions cannot be registered,¹³⁰ nor can designs dictated by the product’s technical function.¹³¹

¹²³ Registered Designs Act 1949, s 1B(1). The same requirements of novelty and character apply to Community registered designs.

¹²⁴ Registered Designs Act 1949, s 1B(2); Directive 98/71/EC arts 4 and 5.

¹²⁵ The date may be altered if the application has been significantly amended after having been made.

¹²⁶ The disclosure will not count however if an application for registration is filed within one year of it being made; Registered Designs Act 1949, s 1(6).

¹²⁷ *Proctor & Gamble Co v Reckitt Benckiser (UK) Ltd* [2007] EWCA Civ 936, [2008] FSR 8 at [24].

¹²⁸ Registered Designs Act 1949, s 1B(4).

¹²⁹ Above, s 1D.

¹³⁰ Above, s 1C(2), implementing Directive 98/71/EC, art 7(2).

¹³¹ Above, s 1C(1), implementing Directive 98/71/EC, art 7(1).

Infringement

- 1.67 Registration of a design gives the rights holder the exclusive right to use the design and “any design which does not produce on the informed user a different overall impression”.¹³² The use of a design includes the making, offering, putting on the market, importing, exporting or using of a product in which the design is incorporated or applied, or the stocking of such a product for any of the these purposes.¹³³
- 1.68 Registered design right is infringed where a person, without the consent of the registered proprietor, makes or deals in a product that cuts across the exclusive right of the rights holder to use the design or one that does not produce a different overall impression.¹³⁴ The exclusive right to use the product is not limited to the type of product for which the right was registered but extends to any type of product.¹³⁵

Exceptions to infringement

- 1.69 Acts, which would otherwise be infringing will not be in certain circumstances, for example where they are carried out privately and for non-commercial purposes.¹³⁶ There is also an exception for acts done for experimental purposes or for teaching and making citation purposes provided that the act of reproduction is compatible with fair trade practice, does not unduly prejudice the normal exploitation of the design and cites the source.¹³⁷
- 1.70 Infringement will be innocent, and no damages awarded or account of profits ordered where the infringer shows that the date of the infringement it was not aware and had no reasonable ground for supposing the design was registered.¹³⁸

REMEDIES FOR INFRINGEMENT

- 1.71 Some remedies for infringement are common to patents, trade marks and design rights. These are:

¹³² Above, s 7(1), implementing Directive 98/71/EC, art 9(1).

¹³³ Above, s 7(2), implementing Directive 98/71/EC, art 12(1).

¹³⁴ Above, s 7(1), implementing Directive 98/71/EC, art 9(1).

¹³⁵ Registered Design Rules 2006, rr 5(1) and (2).

¹³⁶ Registered Designs Act 1949, s 7A(2)(a), implementing Directive 98/71/EC, art 13(1)(a).

¹³⁷ Above, s 7A(2)(c) implementing Directive 98/71/EC, art 13(1)(c). See also Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011), para 60.37.

¹³⁸ Registered Designs Act 1949, s 24B.

- (1) An interim or final injunction to stop or prevent the repetition of the infringing acts.¹³⁹ An interim injunction will be granted where the court is satisfied that there is a serious issue to be tried and, if so, that damages would not be an adequate remedy.¹⁴⁰ Where there is no serious issue, the court will consider whether the defendant would be adequately protected by damages if prevented from exercising its legal right. The court will also consider the balance of convenience and whether the status quo should be preserved pending the final outcome of the matter.¹⁴¹ In Scotland, the equivalent remedies are interim and permanent interdict. The grant of interim interdict depends on the balance of convenience, with the relative strength of the parties' cases being one of the factors in assessing the balance along with the likelihood of ultimate success.¹⁴²
- (2) A declaration that the right is valid and whether it has been infringed.¹⁴³ The Scottish equivalent is declarator.¹⁴⁴
- (3) Subject to a defence of innocent infringement, a claim for damages¹⁴⁵ or an account of profits.¹⁴⁶ Damages may be awarded in respect of the infringement of the right. Alternatively the court may order an account of profits derived from the infringement.
- (4) Where appropriate, an order for the delivery up or destruction of the infringing articles,¹⁴⁷ or in the case of trade mark infringement, for the erasure, removal or obliteration of the mark from offending goods.¹⁴⁸
- (5) The costs (in Scotland, the expenses) of the litigation.

¹³⁹ Patents Act 1977 s 61(1)(a); Trade Marks Act 1994, s 14(2); Registered Designs Act 1949 s 24A(2); Copyright, Designs and Patents Act 1988, s 229(2).

¹⁴⁰ There are limitations, however, on the range of interim remedies available in the Patent County Court small claims track.

¹⁴¹ *American Cyanamid Co v Ethicon Ltd* [1975] AC 396, [1975] RPC 513. The defendant may be protected by the court requiring that the claimant give a cross undertaking to compensate the defendant for loss if it is later decided the interim injunction should not have been granted.

¹⁴² *Laws of Scotland: Stair Memorial Encyclopaedia*, vol 13 (Judicial and Other Remedies), para 19.

¹⁴³ Patents Act 1977, s 61(1)(e); Trade Marks Act 1994, s 14(2); Registered Designs Act 1949, s 24A(2); Copyright, Designs and Patents Act 1988, s 229(2).

¹⁴⁴ *Laws of Scotland: Stair Memorial Encyclopaedia*, vol 13 (Judicial and Other Remedies), paras 3 to 5.

¹⁴⁵ Patents Act 1977 s 61(1)(c); Trade Marks Act 1994, s 14(2); Registered Designs Act 1949, s 24A(2); Copyright, Designs and Patents Act 1988, s 229(2).

¹⁴⁶ Above, s 61(1)(d); s 14(2); s 24A(2); s 229(2).

¹⁴⁷ Above, s 61(b); ss 16 and 18; ss 24C and 24D; ss 230 and 231.

¹⁴⁸ Trade Marks Act 1994, s 15.

Dissemination of the judgement – publication orders

- 1.72 Where infringement has been proved, the court may order on application the dissemination and publication of the judgment at the defendant's expense.¹⁴⁹ The rationale behind the power to make a publication order is deterrence. The Court of Appeal has recently upheld a decision to make a publication order under section 37(1) of the Senior Courts Act 1981 against a party who alleged infringement but whose claim was unsuccessful. The Court of Appeal held that such an order could be made under the section where it would dispel commercial uncertainty and where it was proportionate.¹⁵⁰

¹⁴⁹ The Intellectual Property (Enforcement) Directive 2004/48/EC, art 15. The Civil Procedure Rules were amended to take account of the Directive, see CPR 63 PD 29.2. Chapter 55 of the Rules of the Court of Session has not been so amended, however, although a redraft of the chapter was under way at the time of writing.

¹⁵⁰ The Court of Appeal did reduce the duration of the order however. See *Samsung Electronic (UK) Ltd v Apple Inc* [2012] EWCA Civ 1339, [2013] FSR 9.

CHAPTER 2

GROUNDLESS THREATS: COMMON ELEMENTS

INTRODUCTION

- 2.1 The current groundless threats provisions for trade marks and design rights grew out of patent law and as a result share many common elements. These are that there has been a threat of infringement proceedings in respect of a right that has not been infringed, or that is not valid, and that there is a person aggrieved by the threat. In this Chapter we examine each of these elements in turn.
- 2.2 As we discuss in Chapter 3, significant changes were made in 2004 to groundless threats actions in patent law, but not to threats about trade mark or design rights. As a result, the law of groundless threats as it applies to patents differs from that which applies to the other rights.

THE START OF THE MODERN LAW

- 2.3 A threat may be groundless in one of two senses. First, it may have been made in respect of an infringement of a valid right but with no real intention behind it to bring proceedings. Second, there may be nothing to the threat in that there has been no infringement or the right being asserted is invalid in some respect.¹
- 2.4 As originally enacted for patents, the remedy for groundless threats addressed both situations: the remedy was not available if an action for infringement was commenced and prosecuted “with due diligence”. This ensured that clear cases of infringement were brought to court quickly and decided, but the holder of a weak right would be put off from trying their luck for fear that the weakness would subsequently be exposed in court. The law has since changed and now only threats made where there has been no infringement, or where the right is invalid, are actionable.²
- 2.5 The modern law of groundless threats began with the enactment of section 32 of the Patents, Designs and Trade Marks Act 1883.³ The section, which introduced a statutory tort of making groundless threats of infringement proceedings,⁴ was a response to the decision in *Halsey v Brotherhood*.⁵

¹ An invalid right cannot be infringed, see further Chapter 1.

² Patents Act 1977, s 70. Prior to the 1977 Act, a further requirement was present which was, that in order to avoid liability, it had to be shown that the acts complained of did amount to an infringement of the patent; see the Patents and Design Act 1932 22 & 23 Geo 5. c 32, s 6.

³ 46 & 47 Vict. C. 57.

⁴ A delict in Scots law.

⁵ (1881-82) LR 19 Ch 386.

- 2.6 Mr Halsey manufactured steam engines, as did Mr Brotherhood. Mr Brotherhood had a flourishing business based in part on his habit of “systematically threatening” to sue Mr Halsey’s intended customers for the infringement of his patents.⁶ Mr Brotherhood, however, never followed up his threats with proceedings; he did not need to – the threat was enough for Mr Halsey’s customers to go elsewhere.
- 2.7 Mr Halsey sought an injunction to stop threats being made against his customers. The injunction was refused. Lord Coleridge CJ said that even where an allegation of infringement was untrue and may damage the plaintiff, unless it was made in bad faith and with an intention to cause injury this was, “one of those instances in which the law, in the interest of society, permits an injury to be done without any remedy commensurate with it”.⁷
- 2.8 Parliament reversed this position in 1883 when it introduced a new statutory remedy for those aggrieved by a threat of infringement proceedings. For the statutory remedy, it did not matter if the threat was made in good faith or not.⁸ The new tort was necessary because otherwise “unscrupulous patentees with weak cases might be tempted to issue threats even when they had no intention to litigate”.⁹ Subsequently, threats provisions modelled on patent law have been introduced for trade marks and design rights.

THE CURRENT LAW

- 2.9 The groundless threats provisions are:

intended to allow a proprietor to threaten (for example) a rival manufacturer with an infringement action, but not to allow the proprietor to unjustifiably threaten the rival manufacturer’s customers.¹⁰

- 2.10 The current statutory provisions are:

- (1) the Patents Act 1977, section 70, which also applies to European patents;
- (2) the Trade Marks Act 1994, section 21;
- (3) the Community Trade Mark Regulations 2006, article 6;¹¹
- (4) the Registered Designs Act 1949, section 26;
- (5) the Copyright, Designs and Patents Act 1988, section 253; and

⁶ In fact there had been no infringement.

⁷ (1881-82) LR 19 Ch 386 at 388.

⁸ Patents, Designs and Trade Marks Act 1883, s 32.

⁹ *Reckitt Benckiser UK v Home Pairfum Ltd and ors* [2004] EWHC 302 at [10] by Laddie J.

¹⁰ Department for Trade and Industry and The Patent Office, *Consultation Paper on the Proposed Patents Act (Amendments) Bill* (29 November 2002), para 92. The intended effect is the same for all of the threats provisions.

¹¹ SI 2006 No 1027.

- (6) the Community Design Regulations 2005, regulation 2.¹²
- 2.11 In addition to UK domestic patents, trade marks and design rights, the groundless threats provisions also apply to certain international forms of intellectual property. These include Community intellectual property rights, European patents and international trade marks. We look at these rights in more detail in Chapter 5.

THE COMMON ELEMENTS OF THE THREATS PROVISIONS

- 2.12 The threats provisions share many common elements. They also share an unwieldy structure with the burden of proof first being with the claimant in a threats action, but then switching between the parties as a case proceeds.
- 2.13 The common structure of the provisions is that where a person threatens another with proceedings for infringement:
- (1) any “person aggrieved” may bring an action;
 - (2) for a declaration that the threats are unjustified,¹³ or for an injunction to stop the threats,¹⁴ or to claim damages for any loss sustained by the threats;
 - (3) the defendant to the threats action has a defence if it can show that the acts complained of are, or would be, infringing; and
 - (4) even where a threat is justified on that basis, the claimant will still be entitled to a remedy if it can be shown that the right is invalid in some respect.¹⁵
- 2.14 Threats made in respect of acts of “primary” infringement are excluded from the threats provisions.¹⁶ These differ according to which right is in issue, but acts of primary infringement are generally those most directly related to the trade source of the infringement, for example, the manufacture or importation of the offending article. For trade marks and design rights, merely notifying a party of the existence of a right will not be a threat.¹⁷ Threats made to secondary infringers come within the threats provisions. In general, secondary infringements are further removed from the trade source and may, in some cases, require knowledge that the act is committed without the consent of the rights holder.¹⁸

¹² SI 2005 No 2339.

¹³ A declarator in Scots law.

¹⁴ An interdict in Scots law.

¹⁵ A further stage was introduced for patents in 2004: the good faith defence where the defendant can show that it believed the patent to be valid at the time of making the threats. We examine this in Chapters 3 and 8.

¹⁶ See paras 2.38 and onwards below.

¹⁷ The law was changed for patents in 2004; we consider this further in Chapters 3 and 8.

¹⁸ See for example the Trade Marks Act 1994, s 10(5).

A THREAT

- 2.15 To establish a cause of action, the claimant in the threats action must show both that a “threat” has been made and that they are “a person aggrieved”.¹⁹ The threat made must be of proceedings being brought for the infringement of a patent, trade mark or registered or unregistered design right,²⁰ and the question of whether what has been communicated is or amounts to a threat is key to liability. A threat to sue is something less than a promise to sue.²¹ There need not be any express mention of legal proceedings. It is sufficient that the threat is implicit.²² Communication with an alleged infringer without risk of facing a threats action is, therefore, fraught with difficulty.
- 2.16 What has been communicated is construed in the context of the facts of the particular case.²³ The test of whether something is a threat was stated in *L’Oreal (UK) Ltd v Johnson & Johnson* to be whether:
- the communication would be understood by the ordinary recipient in the position of the claimant as constituting a threat of proceedings for infringement.²⁴
- 2.17 This is a broad test. As noted by Mr Justice Laddie, even informing a person of the existence of a right, which is permitted under the threats provisions, could be construed as a “none too subtle hint” that litigation is being contemplated.²⁵
- 2.18 The threats provisions for patents and registered designs, but not trade marks or unregistered designs, provide a non-exhaustive list of the form a threat may take. These are by “circulars, advertisements or otherwise”. Although the threats provisions differ in this respect nothing is thought to turn on it.²⁶ A threat may be verbal or made in response to an enquiry from the party threatened.²⁷

¹⁹ See paras 2.36 and 2.37 below.

²⁰ For Community rights the threat must be of, or be capable of being understood as being of, proceedings in the UK (*Best Buy Co Inc and ors v Worldwide Sales Corp Espana* [2011] EWCA Civ 618, [2011] FSR 30). We consider the jurisdiction of threats actions in Chapter 5. The threats action for patents includes threats in respect of rights that arise on the publication of the application under s 69 of the Patents Act 1977: *Brain v Ingledew Brown Bennison Garrett* [1996] FSR 341 at 348 by Aldous LJ.

²¹ *Best Buy Co Inc and ors v Worldwide Sales Corp Espana* [2011] EWCA Civ 618, [2011] FSR 30 at [27].

²² See for example *Speedcranes Ltd v Thomson* 1972 SC 324.

²³ *Brain v Ingledew Brown Bennison & Garnett* [1996] FSR 341 per Aldous LJ.

²⁴ [2000] ETMR 691, [2000] FSR 686 at [12] by Lightman J. Although this case concerned a trade mark, the test is the same for patents and design rights.

²⁵ *Reckitt Benckiser UK v Home Pairfum Ltd* [2004] EWHC 302 (Pat), [2005] ETMR 94, [2004] FSR 37 at [13].

²⁶ *Skinner & Co v Perry* (1893) 10 RPC 1.

²⁷ Above.

- 2.19 The list of what form a threat may take is not closed and has adapted to take into account modern methods of communication. In *Quads4Kids Ltd v Thomas Campbell*, a case that concerned the auction of children’s dirt bikes through eBay, an application was made for an interim injunction to prevent what was alleged to be actionable threats of infringement proceedings.²⁸ eBay had de-listed the bikes under their Verified Rights Owner Program (VeRO), after being notified by the submission of an electronic form of an alleged infringement of the defendant’s registered design right. eBay had not checked the validity of the right claimed and notified the applicant of the de-listing. The court granted the injunction on the basis that it was arguable that the rights holder’s submission of an allegation under the VeRO program was a threat, the effect of which could be to snuff out an avenue of the claimant’s business without having had to do any more than complete an online form.
- 2.20 The courts may, however, take a more robust approach when deciding claims of threats where the warring parties in two-party litigation are equally well armed, and where the complainant is in effect a primary infringer who has committed secondary acts of infringement.²⁹
- 2.21 An example arose from one of the many recent clashes between Samsung and Apple. Samsung alleged that Apple had made groundless threats of infringement proceedings in the UK.³⁰ The threats concerned a Community registered design and were said to arise out of a series of events including statements in related cases, pronouncements by spokesmen and correspondence. Much of the consideration by the court centred on whether the alleged threat related to proceedings in the UK. However, Samsung also relied on a letter sent to Apple asking them to confirm that their dealings in tablet computers did not infringe Apple’s rights. Apple did not respond and it was this non-response that was claimed to imply a threat to enforce the right.
- 2.22 Against the historical context and both parties’ willingness to get involved in an “extensive web of worldwide litigation” it might be thought that the threshold of what comprised a threat to sue would be a low one, but the court had little difficulty in rejecting the allegations of threats. The letter was not an attempt to “clear the position in relation to any uncertainty over threats”. It merely asked for a signature on a consent order confirming there was no infringement.³¹

²⁸ [2006] EWHC 2482 (Ch), [2006] Info TLR 338.

²⁹ This would not be a problem where the threat has been made in respect of a patent, see Chapter 3 which looks at the reforms made in 2004.

³⁰ See *Samsung Electronics (UK) Ltd, Samsung Electronics Co Ltd v Apple Inc* [2012] EWHC 889, [2013] FSR 7. Here it was important to establish a good arguable case that threats had been made in order to justify a jurisdictional point concerning the service of proceedings.

³¹ *Samsung Electronics (UK) Ltd, Samsung Electronics Co Ltd v Apple Inc* [2012] EWHC 889 (Pat) [2013] FSR 7 at [44] to [50] by Mann J.

A threat to sue in the UK?

- 2.23 A groundless threat may be made in respect of a Community right. In *Best Buy Co Inc and anors v Worldwide Sales Corp*, threats were alleged to have been made in a letter sent by the defendant's Spanish lawyers to the claimant's in respect of a Community registered trade mark.³² The claimants planned to open a series of electronics shops in the UK and Europe. The letter was found to contain an implied threat to sue for infringement which, the court held, could only found the basis of a claim under the groundless threat provision if on a fair reading a reasonable recipient understood it to threaten proceedings in the UK. On the facts the judge found that it did.³³

A threat in relation to any person

- 2.24 The threat must be directed at a person; a general warning may escape liability as it is permissible "to issue a general warning to pirates not to pirate, and to infringers not to infringe".³⁴ It is not permitted, however, to issue a general warning worded in such a way that a particular alleged infringer can be identified.³⁵ If the court is satisfied that "a warning finger is pointed against the products of some other specific manufacturer" the threat is actionable.³⁶
- 2.25 A threat will be actionable even in cases where it does not directly concern the acts of the person who comes to hear of it. In *John Summers & Sons Ltd v Cold Metal Process Co Ltd*, the words "threatens any person" were held to include "the expression of a threat in relation to any person", and so was not restricted to the person threatened.³⁷
- 2.26 This would include circumstances, for example, where a customer has come to learn that its supplier was at risk of being sued for infringement. The customer might then reasonably conclude that future supplies from that source are in jeopardy. In *Sudarshan Chemical Industries Ltd v Clariant Productte (Deutschland) GMBH*, the court accepted that this construction made sense as the provisions were designed to protect customers.³⁸ In *Sudarshan*, the court also accepted that a threat to a manufacturer, which a customer became aware of, could make the manufacturer itself wary of supplying its customers for fear that they might be harassed by patent infringement claims, which would damage its future business relationships with them.

³² [2011] EWCA Civ 618, [2011] FSR 30.

³³ For further discussion of this point see Chapter 5.

³⁴ *Challender v Royle* (1887) 36 Ch D 425 at 441, (1887) 4 RPC 363 at 375 by Bowen LJ.

³⁵ Above, but see *Johnson v Edge* [1892] 2 Ch 1, (1892) 9 RPC 142 where there were only one or two traders producing products similar to those of the patentee, so the general warning amounted to an implicit threat against them.

³⁶ *Alpi-Pietro E Figlio Co v John Wright & Sons (Veneers) Ltd* [1972] RPC 125 at p133.

³⁷ (1948) 65 RPC 75 at 96 by Romer J. See also *Speedcranes Ltd v Thomson* 1972 SC 324.

³⁸ [2012] EWHC 1569 (Ch) at [69] by Deputy Judge Baldwin QC.

Threats by legal advisers

2.27 A threat of infringement proceedings may be made by a person whether or not they are the proprietor of, or have some other entitlement in the intellectual property right.³⁹ The consequence of this is that a legal adviser, even when acting on their client's instructions, may be sued in their own right for making threats as well as their principal. In *Brain v Ingledew Brown Bennison & Garrett (A Firm) and another*, 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 very clear that they were acting on instructions and on behalf of the second defendant, yet they were still caught up in extensive litigation.⁴⁰

"Without prejudice" correspondence

2.28 "Without prejudice" correspondence allows the parties to a dispute to investigate whether and how an action might be settled safe in the knowledge that whatever is said cannot be referred to in court.

2.29 Historically, it was held that the without prejudice rule was inapplicable to groundless threats claims.⁴¹ This rule was overturned, however, by the Court of Appeal in *Unilever v Proctor & Gamble*.⁴² As a consequence, a threat made during without prejudice discussions to commence infringement proceedings will not be actionable.⁴³ However this ruling has its limits.

2.30 In *Kooltrade Ltd v XTS Ltd*, the court was concerned with a threat that it was claimed had been made in "without prejudice" correspondence.⁴⁴ The court confirmed that subject to certain exceptions, a reference to a threat made in "without prejudice" correspondence would be an abuse of process. On the facts the court decided that although reference to a threat in such circumstances could amount to an abuse of process, the correspondence in question was not privileged as there were no relevant negotiations for settlement taking place. This confines the protection of the "without prejudice" principle to genuine attempts of settlement – an inherently unlikely finding for correspondence containing threats of enforcement proceedings.

2.31 The case of *Schering Corporation v Cipla Ltd* provides an example of when the without prejudice rule will assist potential claimants.⁴⁵

³⁹ Patents Act 1977, s 70(1); Trade Marks Act 1994, s 21(1); Community Trade Mark Regulations 2006, reg 6(1); Copyright, Designs and Patents Act 1988, s 253(1); Registered Designs Act 1949, s 26(1) and Community Design Right Regulations 2005, reg 2(1).

⁴⁰ There are no less than four 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 Chapter 7.

⁴¹ *Kurtz v Spence* (1888) 5 RPC 161.

⁴² [2000] 1 WLR 2436.

⁴³ The court did not however hold that this rule was absolute – there may be occasions where the threat is so improper as to be actionable.

⁴⁴ [2001] ECDR 11, [2001] FSR 13.

⁴⁵ *Schering Corporation v Cipla Ltd* [2004] EWHC 2587 (Ch), [2005] FSR 25.

Cipla Ltd, an Indian company, wrote to Schering stating that it had developed a formulation of the anti-histamine desloratadine which it intended to market in Europe. Schering held a patent in this field but Cipla stated that they believed this to be invalid. They did not, however, want to “embark upon the confrontational approach of revocation if there is an alternative commercial solution acceptable to both parties” and so invited Schering to join them in a confidential without prejudice meeting. However, if Schering were to refuse to engage with them Cipla stated that they would not delay in seeking revocation of the patent prior to the launch of their patent.

Schering did not respond. Instead, it applied to the court to bring infringement proceedings against Cipla, based upon the content of the letter. Cipla claimed that the case against them must fail as the letter was covered by the without prejudice rule and so was inadmissible in evidence. The judge held that it was. The letter was an invitation to Schering to negotiate, the solution of which would “clearly involve Schering getting something out of the negotiations”.⁴⁶

- 2.32 Despite the court holding that “without prejudice” protection can be afforded to an opening shot the scope of this case is limited. A key factor leading to the decision was that Cipla was prepared to accept something less than its strict legal entitlements. As Lloyd LJ said in *Standrin v Yenton Minster Holmes Limited*:

the opening shot in negotiations may well be subject to privilege where, for example, a person puts forward a claim and in the same breath offers to take something less in settlement, or, to take Parker LJ's example in *South Shropshire DC v Amos*, where a person offers to accept a sum in settlement of an as yet unquantified claim. But where the opening shot is an assertion of a person's claim and nothing more than that, then prima facie it is not protected.⁴⁷

- 2.33 *Cipla* was an unusual case: Cipla was prepared to attempt to form a commercial relationship notwithstanding the fact that they thought Schering's rights were wholly invalid. This is unlikely to be the position in most infringement cases.

⁴⁶ *Schering Corporation v Cipla Ltd* [2004] EWHC 2587 (Ch) [2005]; FSR 25 at paras 20 to 21.

⁴⁷ Court of Appeal 28 June 1991 (unreported), referred to with approval by the High Court in *Cipla* [2004] EWHC 2587 (Ch), [2005] FSR 25 at para 7.

Legitimate communication

- 2.34 Except for patents, what may legitimately be communicated to an alleged infringer is very restricted. Mere notification of the existence of a trade mark, registered or unregistered design right, or their Community counterparts, is not a threat of proceedings.⁴⁸ It is, however, very easy to inadvertently stray beyond this and for the court to find that an implied threat has been made. The leading text on trade mark law, *Kerly*, gives this advice:

Probably the most cautious and only truly safe approach is to say “In accordance with s.21(4) of the Trade Marks Act 1994 I hereby notify you that the mark XYZ is a registered trade mark appearing on the Register of Trade Marks as number 123,456”, and absolutely nothing more.⁴⁹

- 2.35 As a consequence of the 2004 reform of the Patents Act 1977 what may be communicated in respect of patents is wider.⁵⁰ The reforms have not been applied to the other threats provisions and so there is now a significant difference between patents and other rights.

A PERSON AGGRIEVED BY THE THREAT

- 2.36 “Any person aggrieved” by the threats may bring an action for groundless threats. Who has been aggrieved is a question of fact and is not limited to the person threatened.⁵¹ The test is whether the commercial interest of the aggrieved party is “likely to be adversely affected in a real, as opposed to a fanciful or minimal way”.⁵² For example, a manufacturer of step ladders was found to be a person aggrieved by threats made directly to its customers in *Jaybeam Ltd v Abru Aluminium Ltd*.⁵³
- 2.37 In *Johnson v Edge*,⁵⁴ the threats were made generally in the form of circulars which stated that action would be taken against anyone dealing in certain products which it was claimed infringed the proprietor’s patent. As in *Jaybeam*, no threats were made directly to the manufacturer of the products but the detrimental effect on the manufacturer’s business meant that it was a person aggrieved.

⁴⁸ Trade Marks Act 1994, s 21(4). This also extends to notification of an application for a trade mark: Community Trade Mark Regulations 2006, para 6; Copyright, Patents and Designs Act 1988, s 253; Registered Designs Act 1949, 26(3) and Community Design Regulations 2005, reg 2(6).

⁴⁹ *Kerly’s Law of Trade Marks and Trade Names* (15th ed 2011) at para 19-122.

⁵⁰ See Patents Act 1977, ss 70(5)(a)(b) and (c). See also Chapter 3.

⁵¹ See *Johnson v Edge* (1892) 9 RPC 142.

⁵² See *Brain v Ingledew Brown Bennison and Garrett (No 3)* [1997-98] Info TLR 329, [1997] FSR 511 at 520 by Laddie J, and see *Prince plc v Prince Sports Group Ltd* [1998] FSR 21 at [33] to [34] by Neuberger J.

⁵³ 1975 FSR 334, [1976] RPC 308.

⁵⁴ [1892] 2 Ch 1, (1892) 9 RPC 142.

PRIMARY AND SECONDARY ACTS OF INFRINGEMENT

- 2.38 Until the recommendations of the Banks Committee in 1970, the threats provisions did not treat different acts of infringement differently. Threats made in respect of any type of infringement were actionable. That has changed and a distinction is now made between acts of primary and secondary infringement. “Primary” acts of infringement are those most immediate to the trade source. For patent and design right cases, for example, primary acts include making or importing the goods. By contrast, “secondary infringement” refers to other acts, such as selling or advertising the goods, which may be done by wholesalers or retailers who may know little about the infringement.
- 2.39 Generally speaking, threats concerning primary infringement cannot be used as the basis of a groundless threat claim, while threats concerning secondary infringement do form the basis of such a claim. The distinction is made because of the purpose of the groundless threats law. It “discourages proprietors from directing their concerns to retailers and customers, but leaves them free to approach manufacturers and importers”.⁵⁵

The Banks Committee

- 2.40 The Banks Committee was set up in 1967 to conduct a “thorough reappraisal” of the patent system and patent law.⁵⁶ It noted that the aim of threats provisions was to provide protection against the activities of a patentee who:
- coerces the customers of a competitor into ceasing to purchase the competitor’s goods without being prepared to put his patent and his claim for infringement to the test of court proceedings.⁵⁷
- 2.41 The Committee concluded, however, that because section 65 of the Patents Act 1949 (the precursor to section 70 of the Patents Act 1977) applied to all acts of infringement, it gave too much protection in cases where there was a clear and direct infringement. The Committee recommended that a distinction should be introduced into the law between classes of alleged infringer: “the primary” infringer whom the patentee may seek to warn off without fear of an action for threats, and the customer of the primary infringer who would remain protected by the threats provision.⁵⁸
- 2.42 The exclusion of threats made to primary infringers was subsequently extended to the threats provisions for trade marks and design rights. It is now open to a rights holder to threaten a person with action for primary infringement without incurring liability for making threats.

⁵⁵ Department of Trade and Industry and the Patent Office, *Consultation Paper on the Proposed Patents Act (Amendments) Bill* (29 November 2002) at [89].

⁵⁶ *Report of the Committee to Examine the Patent System and Patent Law* (1970) Cmnd 4407 at p xvii.

⁵⁷ Above, para 274.

⁵⁸ Above, para 275.

- 2.43 However, although on the face of it this is a simple principle it is very easy to fall foul of it.⁵⁹ As we explain in the next chapter, the original provision applied to acts rather than persons, which meant (for example) that a letter to a manufacturer which threatened action unless the manufacturer stopped making or selling the goods was actionable, because it included an allegation of secondary infringement (namely selling). This has now been changed for patents, but not for trade mark or design litigation.⁶⁰

Primary acts of infringement – patents

- 2.44 In respect of patents, the primary acts of infringement are the manufacture or importation of a product for disposal or the use of a process. Subsequent to the 2004 reform of section 70, the exclusion was extended to include threats made to an alleged primary infringer which included threats to bring proceedings for an infringement alleged to consist of anything else.⁶¹ Where it is shown that no acts of primary infringement have actually been committed the threat is actionable.⁶²

Primary acts of infringement – registered trade marks and Community trade marks

- 2.45 Section 21 of the Trade Marks Act 1994 does not apply to threats made for:

- (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.⁶³

Primary acts of infringement - UK unregistered design right

- 2.46 Section 253 of the Copyright, Designs and Patents Act 1988 does not apply for threats of infringement that consists of the making or importing anything protected by design right.⁶⁴

⁵⁹ See Chapter 3, para 3.7 onwards.

⁶⁰ See Chapter 8.

⁶¹ Patents Act 1977, s 70(4)(b). See Chapter 3 for a more detailed examination of the 2004 reforms.

⁶² *FNM Corp Ltd v Drammock International Ltd* [2009] EWHC 1294, para 223.

⁶³ Trade Marks Act 1994, ss 21(1)(a),(b) and (c).

⁶⁴ Copyright, Designs and Patents Act 1988, s 253(3).

Primary acts of infringement – UK registered design rights, Community registered and unregistered design rights

- 2.47 Section 26 of the Registered Designs Act 1949 does not apply to threats of infringement proceedings for the making or importing of anything protected by UK registered design right.⁶⁵ The exclusion of these two acts is the same for Community registered or unregistered design rights.⁶⁶

THE DEFENCE OF JUSTIFICATION

- 2.48 It is a defence for the defendant in a threats action to show that the threat was justified. A threat will be justified where it can be shown that the acts complained of are, or if carried out, would amount to an infringement of the patent, trade mark or design right.⁶⁷
- 2.49 In effect, by choosing to defend the threats action, the defendant is forced to put the allegation of infringement to the test in exactly the same way as if it had brought a direct action for infringement.⁶⁸ The claimant in the threats action is entitled to rely on any defence available, for example by showing that the rights holder had consented to the use of the right, or that the act was carried out for purposes that are not commercial.⁶⁹ In addition for UK unregistered designs, an act is not an infringement of design right if at the same time it is an infringement of copyright.⁷⁰

VALIDITY

- 2.50 Even where the defendant to a threats action has proved that the threat has been made in respect of acts that are, or if carried out, would be an infringement the claimant is entitled to a remedy where it can be shown that the registration of the right is invalid.⁷¹ An invalid right cannot be infringed. The burden of proving invalidity rests with the claimant and a claim of invalidity is often, but not always, made in conjunction with a counterclaim for the revocation of the registration.⁷²
- 2.51 The 2004 amendment of section 70 of the Patents Act 1977 introduced an additional defence, whereby a defendant in a threats action will not be liable if they can show that at the time of making the threat they did not know, and had no reason to suspect, that the patent was invalid.⁷³

⁶⁵ Registered Designs Act 1949, s 26(2A).

⁶⁶ Community Design Regulations 2005, art 2(5).

⁶⁷ Patents Act 1977, s 70(2A); Trade Marks Act 1994, s 21(2); Community Trade Mark Regulations 2006, art 6; Copyright, Designs and Patents Act 1988, s 253(2); Registered Designs Act 1949 s 26(2); and Community Design Regulations 2005, art 2(3). See further Chapter 1 where we provide an outline of the current law of infringement and validity.

⁶⁸ *John Summers Sons Ltd v The Cold Metal Process Co* (1948) 65 RPC 75.

⁶⁹ See Chapter 1.

⁷⁰ Copyright, Designs and Patents Act 1988, s 236.

⁷¹ Patents Act 1977, s 70(2A); Trade Marks Act 1994, s 21(3); Registered Designs Act 1949 s 26(2). There is no equivalent for unregistered design rights, because they arise automatically with no need for registration.

⁷² See also Chapter 1.

⁷³ Patents Act 1977, s 70(2A)(b).

REMEDIES FOR GROUNDLESS THREATS

- 2.52 The principal remedies for groundless threats of infringement proceedings are a declaration that the threats are unjustified; an injunction (including an interim injunction) against the continuance of the threats,⁷⁴ and damages in respect of any loss the claimant has sustained because of the threats.⁷⁵

Assessing damages

- 2.53 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 not damage done by anything else”. Damages would not be recoverable, for example, for damage caused by rumours spreading which were not set running or authorised by the person issuing the threat.⁷⁶ Damages have been awarded for the loss or termination of a contract as a consequence of the threats.⁷⁷

Interim injunctions

- 2.54 Before making an interim injunction the court must be satisfied that it is arguable that a groundless threat has been made.⁷⁸ Although the defence of justification is one of fact and as such can only be decided at trial, as noted in *Terrell* “the damage caused by unjustified threats of proceedings for patent infringement is such that an interim injunction to restrain such threats represents a valuable remedy”.⁷⁹ The text also points out that threats for the more serious acts of primary infringement are excluded. As far as threats made against secondary infringers are concerned, the balance of convenience is usually in favour of restraining the threats.⁸⁰

⁷⁴ See also Chapter 1, para 1.71.

⁷⁵ Patents Act 1977, s 70(3); Trade Marks Act 1994, s 21(2); Copyright, Designs and Patents Act 1988, s 253(1); Registered Designs Act 1949, s 26(2) and Community Design Regulations 2006, art 2(2).

⁷⁶ *Ungar v Sugg* (1892) 9 RPC 114 at 118 by Lord Esher MR.

⁷⁷ *Skinner Co v Perry* (1894) 11 RPC 406; *Hoffnung & Co v Salsbury* (1899) 16 RPC 375 and *Solanite Signs Ltd v Wood* (1933) 50 RPC 315.

⁷⁸ The principles upon which an interim injunction will be granted are discussed in Chapter 1.

⁷⁹ *Terrell on the Law of Patents*, (17th ed 2011) at para 22-33.

⁸⁰ HH Michael Fysh, QC, SC, former judge of the Patents County Court, has noted that: “It must be said however that [the] valuable facilities [for mediation in the Patents County Court] are little used save for disputes involving such matters as licensing agreements or the ownership of patents. The difficulty seems to be that IP litigants are little interested in anything but injunctions (most often interlocutory injunctions) - and of course their costs and often (but not always) damages.” Fysh, M *The Work of the Patents County Court*, (2003) IP Centre, St Peter’s College Oxford, cited in SABIP Report (Number EC001) *IP Enforcement in the UK and Beyond: A Literature Review* (18th May 2009).

- 2.55 This is in line with what we have been told by stakeholders. Interim injunctions are viewed as an important remedy against the harm a threat can do in “snuffing out” a commercial activity. Great commercial damage can be caused, especially in a seasonal or “faddy” market that may have run its course by the time the main issues have been decided.⁸¹ It was also pointed out that many threats actions are taken no further once an interim injunction has been granted.
- 2.56 In Scotland, a court will grant an interim interdict (injunction) to a party who has shown a prima facie case (an arguable case) and that there is an issue to try, upon consideration of the balance of convenience.⁸²

CONCLUSION

- 2.57 In the next Chapter we examine the changes made to the law for patents as a consequence of the reforms made in 2004.

⁸¹ *Johnson Electric v Mabuchi Motor* [1986] FSR 280; *Quads4Kids v Thomas Campbell* [2006] EWHC 2482 (Ch), [2006] Info TLR 338.

⁸² *Laws of Scotland: Stair Memorial Encyclopaedia*, vol 13 (Judicial and Other Remedies), para 19. There are, however, no reported cases of interim interdict against unjustified threats. Permanent interdict was granted in the only reported Scottish case, along with a declarator and an award of damages: *Speedcranes Ltd v Thomson* 1972 SC 324.

CHAPTER 3

GROUNDLESS THREATS: PATENTS - THE 2004 REFORMS

INTRODUCTION

- 3.1 As we have seen, the threats provisions have their roots in patent law. Over time the law evolved, but the different threats provisions remained broadly similar. That changed in 2004. Reforms were made to section 70 of the Patents Act 1977, but were not made to the other threats provisions. There are now significant differences in the law as it applies to patents, compared with trade marks and design rights. At the time of the reform the Government indicated that the inconsistency would be addressed:

we do not have the opportunity at the present time to amend legislation other than the Patents Act 1977, but we will seek to extend any new provisions to other relevant IP legislation at the earliest opportunity.¹

- 3.2 However, those changes remain to be made. In this chapter we look at the 2004 reforms to patent law in more detail.

THE 2002 CONSULTATION PAPER

- 3.3 In November 2002, the Patent Office and the Department of Trade and Industry consulted on proposed amendments to the Patent Act 1977. The consultation was prompted by the need to give effect to the European Patent Convention 2000, but the paper also proposed other changes. These included amendments to section 70 of the Act, which provides the remedy for groundless threats.

The spirit of the Woolf reforms

- 3.4 In 1999, following the Woolf Report,² the way legal disputes were conducted was radically overhauled. The Civil Procedure Rules (CPR) introduced “a new procedural code with the overriding objective of enabling the court to deal with cases justly”.³ The parties to a dispute were expected to co-operate, negotiate and exchange information with a view to reaching a resolution without the need for litigation.⁴

¹ Consultation on the proposed Patents Act (Amendment) Bill: Summary of responses and the Government's conclusions (2003), para 142.

² Lord Woolf, *Access to Justice, Final Report to the Lord Chancellor on the civil justice system in England and Wales* (26 July 1996).

³ CPR r 1.1. The CPR came into effect on the 26 April 1999.

⁴ On 1 April 2013, the CPR underwent substantial amendment as a consequence of the Jackson Review; Jackson LJ *Review of Civil Litigation Costs: Final Report* (Dec 2009) and the Government consultation *Solving disputes in the county courts* (February 2012). Additional factors have been added to the overriding objective that may strengthen the obligation on the parties to a dispute to comply with rules and practice directions. We discuss this in Chapter 7.

3.5 The 2002 Consultation Paper noted that section 70 “sets a balance between the rights of patent proprietors and their competitors”, but there were two concerns. The first was whether section 70 was in tune with the Woolf reforms. All that could safely be communicated to an alleged infringer was a mere notification that the patent existed; anything more risked becoming embroiled in a threats action. It was not possible to provide any further factual information or make genuine enquiries of a retailer or customer, in order to track down the trade source of the infringement.

3.6 Consultees were asked whether the section discouraged “genuine and meaningful attempts at pre-litigation”. The paper said that the section did not appear to be a problem when the threat was made in respect of primary infringement. However, it might be a barrier where a genuine attempt to settle was made to a customer or retailer.⁵

The “Cavity Trays” problem

3.7 The second concern arose because of the way that section 70(4) of the 1977 Act was drafted. As we explained in Chapter 2, each of the threats provisions distinguishes between acts of primary and secondary infringement.⁶ A groundless threats action could not be brought for threats made in respect of primary infringements. But the exclusion referred to the acts, rather than the actor, which caused a problem.

3.8 Until amended, section 70 of the Patents Act 1977 only excluded threats in respect of the manufacture or importation of a product or the use of a process. It is common, however, for an infringer to commit more than one class of infringing act. For example a manufacturer may also sell the manufactured product, or someone using a process may also advertise the fact. Selling and advertising are examples of secondary infringements, and threats made in respect of either are actionable. A threat of infringement proceedings that strays beyond the boundary of primary infringement, even impliedly, leaves the maker of it open to an action for threats.⁷

3.9 This problem was highlighted in *Cavity Trays Ltd v RMC Panel Products Ltd*.⁸

<p>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.</p>
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⁵ Department of Trade and Industry and the Patent Office, Consultation Paper on the Proposed Patents (Amendments) Bill (29 November 2002), para 92.

⁶ In respect of unregistered design right the Copyright, Designs and Patents Act 1988, ss 266 and 227 define primary and secondary infringers in a different context. Acts of primary infringement are in essence acts of strict liability. The acts of primary infringement for groundless threats purposes are making or importing anything in which design right subsists.

⁷ See Chapter 7 on the difficulty posed by implied threats.

⁸ [1996] RPC 361.

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

- 3.10 The Consultation Paper proposed to reverse this decision by exempting any threats made to those who had committed a primary act of infringement.

THE REFORMS

- 3.11 The proposals were supported on consultation and important amendments were made to section 70 by the Patents Act 2004. There were three main changes:

- (1) The definition of a primary infringement was expanded. Following the reforms, groundless threats proceedings could not be brought for threats made against a person who had manufactured, imported or used a process, even where the threat referred to another act of infringement. This addressed the problem highlighted in *Cavity Trays*.
- (2) More protection was given to rights holders who had a legitimate reason for contacting retailers and customers. Exemptions were introduced for factual information, for enquiries to find the trade source, and for where the trade source could not be found.
- (3) A new defence of good faith was introduced for the defendant in a threats action, which comes into play at the end of the proceedings. A claimant who has shown that the patent is invalid is not entitled to relief if the defendant could show that at the time the threats were made, they did not know, or had no reason to suspect, that the patent was invalid in the way which the court found it to be.⁹

PRIMARY INFRINGERS WHO COMMIT OTHER ACTS OF INFRINGEMENT

- 3.12 The definition of primary infringement has been expanded by section 70(4), which now reads as follows:

- (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

⁹ *FNM Corp Ltd v Drammock International Ltd* [2009] EWHC 1294 (Pat).

- (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.

3.13 During initial discussions with stakeholders, we learned that this change was welcomed. It is now much easier to write to someone alleged to be a primary infringer of a patent. The letter may, for example, ask for undertakings not to sell the product, without the writer being liable for an action for groundless threats. Most people wished to see a similar provision applied to trade marks and design rights, where the “*Cavity Trays*” problem still applies. We discuss this in greater detail in Chapter 8.

3.14 It was pointed out that one loophole remains, however. This is where a threat is made against someone who *intends* to make or import a product, or to use a product. An example would be where a rights holder hears that someone intends to import a product which they consider infringes their patent.

3.15 In these circumstances, the rights holder may demand that the future importer refrains from importing the product. No groundless threats action can be brought, as the letter falls within the exemption in section 70(4)(a). If, however, the letter asks the future importer to refrain from importing *or selling* the product, the recipient may bring an action in groundless threats. Section 70(4)(b) does not apply because the recipient has not *actually* made or imported the product or used a process. Furthermore, section 70(4)(a) does not apply because there is an implied threat to bring proceedings for a secondary infringement, namely selling the product.¹⁰

PROTECTED DEALINGS WITH SECONDARY INFRINGERS

3.16 In its response to the consultation on the reform of section 70 of the Patents Act 1977, the Government accepted the need for a framework to “provide a route for a patentee to make a reasonable attempt at dispute resolution, whilst nevertheless ensuring that protection from threats continues to exist for most secondary infringers”.¹¹ The 2004 reforms therefore protect a threatener from a groundless threats action where there appears to be a good reason to contact an alleged secondary infringer.

3.17 Two new provisions were added: sections 70(5) and 70(6) of the 1977 Act. Section 70(5) provides:

(5) For the purposes of this section a person does not threaten another person with proceedings for infringement if he merely –

- (a) provides factual information about the patent,

¹⁰ See *FNM Corp Ltd v Drammock International Ltd* [2009] EWHC 1294 at para 223 where the product was found to have been manufactured by a third party.

¹¹ Consultation on the Proposed Patents (Amendment) Bill: Summary of responses and the Government’s conclusions, para 134.

- (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.

3.18 This introduces two changes. The previous exception for “mere notification” has been expanded to “factual information” and a new exception has been added for enquiries to find the trade source. As we discuss below, this is linked to section 70(6), which entitles a party to threaten a secondary infringer where they are unable to identify the primary infringer, despite using their best endeavours.

“Factual information” rather than “mere notification”

3.19 Before 2004, section 70(5) declared that “a mere notification of the existence of a patent” did not constitute a threat of proceedings. The legislation relating to trade marks and design rights continues to refer to “mere notification”,¹² but the Patent Act now exempts the provision of “factual information about the patent”.

3.20 The exact scope of what may be communicated as factual information is unclear. As noted in *Terrell*, informing someone that it is intended to issue proceedings for infringement in seven days is entirely factual but cannot have been meant to come within the subsection.¹³ In initial discussions, some practitioners explained that although the change was in the right direction, the uncertainty surrounding it means that they are hesitant to convey much more information than they did before. We consider this issue further in Chapter 7.

Enquiries to find the trade source

3.21 Sub-sections 70(5)(b) and (c) are new. They provide a means by which a patentee (or someone acting on their behalf) can safely approach an alleged secondary infringer for information to help “track down” the primary infringer. For products, the party sought must be the manufacturer or importer for disposal. Where the invention is a process, it is the person who used the process.

3.22 Section 70(5)(b) refers to enquiries for the sole purpose of discovering “whether” the patent has been infringed and “by whom” it has been infringed. The courts have applied a restrictive interpretation to enquiries about “whether” a patent has been infringed. In *Zeno Corporation v BSM-Bionic Solution Management GmbH*, the court did not accept that the “sole purpose” of communicating with the retailer was to discover whether there had been an infringement, as there was no reason why a retailer would know the technical details of the product.¹⁴

¹² Trade Marks Act 1994, s 21(4); Copyright, Designs and Patents Act 1988 s 253(4); Registered Designs Act 1949, s 26(3) and The Community Design Regulations 2005, reg 2(6).

¹³ *Terrell on the Law of Patents* (17th ed 2011) at para 22-18.

¹⁴ [2009] EWHC 1829 (Pat).

- 3.23 The section appears primarily designed to enable a rights holder to contact a retailer or other secondary infringer to discover the identity of the primary infringer. This links to the defence provided by section 70(6) below, that a rights holder who is unable to discover the identity of the primary infringer is permitted to threaten a secondary infringer instead.
- 3.24 The section clarifies that for the purpose of making enquiries, a person may make an assertion about the patent. No further guidance is given as to what may be asserted. It would appear to allow an assertion that the patent is valid, which is not a purely factual matter but also a statement of belief; and that the product or process in question falls within the scope of the patent claims. In Chapter 8, we discuss whether more guidance is needed on what may legitimately be asserted, and whether there should be an overarching requirement of good faith for all permitted communication with a secondary infringer.

Threatening a secondary infringer where enquiries fail

- 3.25 A party (A) is entitled to threaten a secondary infringer (B) if A can show that they made their “best endeavours”, without success, to discover the identity of the primary infringer. Before or at the time of making the threats, A must tell B about the endeavours they have made.
- 3.26 This defence was introduced by section 70(6) of the Patents Act 1977 and applies where A has failed 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; or
 - (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.
- 3.27 There is limited guidance as to what steps need be taken in order to comply with the requirement for best endeavours to be used and we discuss this in Chapter 8.

THE “GOOD FAITH” DEFENCE

- 3.28 Before 2004, the tort of making groundless threats of infringement proceedings was one of strict liability. It did not matter whether the person making the threats believed the patent to be valid. Where a threat was made in respect of an invalid patent, the maker of the threat was liable for having made it.
- 3.29 The 2004 reforms changed this by introducing a new defence. Even where it is shown that a patent is invalid, the claimant is not entitled to a remedy where the defendant can show that “at the time of making the threats he did not know, and had no reason to suspect, the patent was invalid in that respect”.
- 3.30 This is set out in section 70(2A), which states that:

(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.

3.31 This change to the law did not originate in the 2002 consultation.¹⁵ Instead it is the result of an amendment made to the Bill during its passage through the Houses of Parliament.¹⁶ The stated aim of the amendment was to promote “reasonable discussion to achieve settlement”.

3.32 The defence was considered in *FNM Corporation Ltd v Drammock International Ltd and LEC Ltd*, where the court imposed a rather low burden of proof on the defendant.¹⁷ The judge thought that the inquiry would “inevitably” focus on what the claimant in the threats action claimed that defendant knew or ought to have known on the issue of invalidity. In *FNM*, the claimant put forward two reasons. First, some of the prior art that the trial judge relied on to invalidate the patent had been drawn to the patentee’s attention,¹⁸ and second, it had been stated in correspondence with the patentee that it was invalid. Both were rejected by the judge as the patentee had not encountered any difficulty in obtaining corresponding patents in other jurisdictions in the face of the prior art, and the statements in the correspondence were “pure unsubstantiated assertion in general terms”.¹⁹ In other words, the claimant must give some reason why the defendant should have known about the reason for which the patent was eventually invalidated.

3.33 In Chapter 8 we highlight three problems with this defence.

- (1) The defence is raised at a very late stage in the proceedings and only if there is a final hearing, so that it does not necessarily prevent a person aggrieved from bringing a groundless threat action, or from obtaining an interim injunction which often disposes of the matter.

¹⁵ Department of Trade and Industry and the Patent Office, *Consultation Paper on the Proposed Patents (Amendments) Bill* (29 November 2002).

¹⁶ The amendment was proposed by the Earl Attlee during the Report stage of the Bill in the House of Lords, *Hansard* (HL) 23 March 2004, vol 659, col 668. See also the comments of the minister Lord Sainsbury at Third Reading, *Hansard* (HL) 6 April 2004, vol 659, col 1724.

¹⁷ [2009] EWHC 1294 (Pat).

¹⁸ In other words the invention was not new as there had already been an enabling disclosure; see Chapter 1 for the requirements that must be satisfied for a registration to be valid.

- (2) The defence applies to *all* the relief claimed, not just damages. A claimant who succeeds in showing that the patent is invalid is not even entitled to declaration stating that the threat is invalid, nor to an injunction to stop the threats being continued.
- (3) The decision in *FNM Corporation Ltd v Drammock International Ltd and LEC Ltd*²⁰ puts an evidential burden on the claimant. The claimant must show that the defendant should have known that the patent was invalid, for the reasons it was found to be invalid. This may be difficult where the claimant has little knowledge of the defendant's state of mind or of facts solely within the defendant's knowledge.

¹⁹ See also *Sudarshan Chemical industries Ltd v Clariant Productte (Deutschland) GMBH* [2012] EWHC 1569 (Ch).

²⁰ [2009] EWHC 1294 (Pat).

CHAPTER 4

THE COMMON LAW TORTS AND OTHER REMEDIES

- 4.1 As we explain in the Introduction, the threats provisions were introduced in the 19th Century because the existing torts, such as malicious falsehood, did not adequately address the problems caused by the misuse of threats of infringement proceedings. We think that the threats provisions still fulfil a useful role today, but they need to be reformed. Alternative legal protection currently available for those aggrieved by threats simply will not do the same job.
- 4.2 In this Chapter, we summarise the findings of two background papers we commissioned. Background paper 1 examines the alternative claims that can be brought alone or in conjunction with a claim for threats.¹ Background paper 2 considers whether the existence of the threats provisions drives rights holders to use other causes of action, such as passing off, when the real complaint is one of the infringement of a patent, registered trade mark or rights in designs.

DO THE COMMON LAW TORTS PROVIDE ALTERNATIVE PROTECTION AGAINST THREATS?

Malicious falsehood

- 4.3 The tort is made up of three elements. The defendant must have published statements that are false; they must have done this maliciously; and the statements must have caused economic loss to the claimant as a direct and natural result of their publication. There are significant stumbling blocks for the claimant in a malicious falsehood claim to overcome:

The main difficulty with a malicious falsehood claim based on a threat of infringement proceedings is showing malice. In essence, malice cannot be demonstrated if the maker of the threat acted in good faith, even if their belief was not based on reasonable grounds (provided that they were not reckless as to whether the statement was true or not). A “good faith” defence of this nature is not available in a statutory threats action and the defendant’s state of mind is irrelevant, save in the limited circumstances governed by section 70(2A) Patents Act 1977.²

¹ The papers were drafted by Nina O’Sullivan of SJ Berwin LLP. They are available on our website as background paper 1 and background paper 2. The views expressed are those of the author.

² Background paper 1, para 1.12. For patents this is subject to the defence at s 70(2A) of the Patents Act 1977. This provides that even if the claimant can show that the infringed patent is invalid, its claim will fail if the defendant proves that at the time of making the threat it did not know, and had no reason to suspect, that it was; see further Chapter 3.

4.4 In contrast to the threats provisions, the party threatened has to show the falsity of the claim of infringement. In an action for groundless threats the burden of proof is on the party making the threat to prove infringement provided that the claimant is able to prove that a relevant threat has been made. In many cases where a rights holder makes a threat of infringement proceedings, they may have a genuine belief that there has been an infringement, which will be difficult for the claimant to disprove. Knowing or intending that the threat will injure the claimant's business is not enough; what is required to show malice is "knowledge of the falsity of the statement (or recklessness as to whether it is false or not)", or "making the statement with a dominant improper purpose such as spite, ill will or revenge".³

4.5 A further drawback of a malicious falsehood claim is the difficulty in obtaining an interim injunction to prevent threats of infringement proceedings being made or continued. For a person aggrieved by a threat this is often the most desirable remedy, as an interim injunction can reduce or eliminate altogether the commercial damage done by a threat. The usual rules that the courts apply when deciding whether to make an interim injunction do not apply in a malicious falsehood claim where the party who made the statement asserts that the statements are true, and that they intend to justify them at the trial of the matter:

In defamation cases, under the rule in *Bonnard v Perryman*, a claimant cannot be granted an interim injunction where the defendant announces his intention of relying on the defence of justification at trial.⁴ The policy justification is the protection of freedom of speech. The rule was extended to claims of malicious falsehood in *Bestobell v Biggs*.⁵ In contrast, interim injunctions may be granted in groundless threats claims (even where the defendant may have an arguable case that the threat was justifiable), in recognition of the potentially irreparable damage that a groundless threat of infringement proceedings may cause.⁶

4.6 The background paper concludes that claims in malicious falsehood are not a satisfactory alternative to the threats provisions, and in only a limited number of cases of groundless threats has the claim succeeded.⁷ The "main obstacle" is proving malice:

³ Background paper 1, para 1.15.

⁴ [1891] 2 Ch 269.

⁵ [1975] FSR 421.

⁶ The paper notes that there are limited circumstances in which an interim injunction will be granted in a malicious falsehood claim, such as or example where a statement is clearly untrue and libellous. In addition, since the decision in *Boehringer Ingelheim Ltd v Vetspplus* [2007] EWCA Civ 583, [2007], [2007] ETMR 67, it has been suggested in *Kerly* that it is questionable whether the rule in *Bestobell* should continue to apply in cases of malicious falsehood brought by rival traders against competitors; see background paper 1, para 1.18.

⁷ Some of these cases were interim applications where the claim was held to be arguable and without the merits being decided.

The courts tend to approach allegations of dishonesty with caution and it will usually be fairly straightforward to draft a letter before action in such a way as to avoid any allegations of malice.⁸

Defamation

- 4.7 A defamatory statement damages reputation rather than an economic interest. It is a statement that is untrue and “which is likely to lower the subject of the statement in the eyes of ordinary members of society”.⁹ False statements about a trader’s goods or service, for example that they infringe a right when they do not, may be defamatory but only if they affect the trader’s reputation. This may limit the utility of this cause of action. As the background paper explains, where statements of that type have been made it may be “difficult to demonstrate any disparagement of the claimant itself”.¹⁰ Damages are payable on the basis of damage to reputation rather than economic damage which is “likely to be significantly more than in a malicious falsehood claim” or in a claim for damages for groundless threats.¹¹
- 4.8 Although the background paper notes the attractiveness of potentially greater compensation, it concludes that a claim in defamation suffers from “similar drawbacks to a claim in malicious falsehood in terms of the non-availability of interim relief, and the high hurdle that a potential claimant must overcome in order to establish damage”. As a consequence defamation does not “have much potential value as a claim” in relation to threats:

As such, defamation, like malicious falsehood, does not present a satisfactory alternative to the threats regime and it is not surprising that few claims for defamation have been brought in such circumstances.¹²

Inducing breach of contract

- 4.9 A groundless threat made to a party who has entered into a contract with an alleged infringer may cause the party to break that contract. For example, where threats are made to a customer who has contracted to take supplies they may refuse to accept them. This may be because the customer wants to avoid the risk of incurring liability for infringement itself, or because it perceives the ability of the alleged infringer to perform the contract in the future as being jeopardised.

⁸ Background paper 1, para 1.22.

⁹ Above, para 1.24.

¹⁰ Above, para 1.25.

¹¹ Above, para 1.27.

¹² Above, para 1.32.

- 4.10 In such circumstances, the alleged infringer may be able to bring an action for inducing breach of contract. The threatener may claim as a defence that the act was justified because it was done to protect an equal or superior right. The background paper notes, however, that the precise ambit of the defence is uncertain.¹³ The tort is distinct to that of causing loss by unlawful means in that, although it must be shown that the party making the threats intended to procure or induce the breach, it is not necessary to show an intention to harm the alleged infringer.
- 4.11 The elements of the tort are that there is a contract, which has been breached, and of which the threatener was aware.¹⁴ It must be shown that the threats were intended to induce or procure the breach and that damage has been suffered as a consequence of the breach. The damage suffered must be intended or reasonably foreseeable.¹⁵
- 4.12 The background paper explains that where the threat takes the form of a letter before action in relation to infringement proceedings this may not amount to evidence of “active persuasion” to commit a breach:

It is fairly simple for letters to customers to be phrased so that they warn of a potential infringement or notification of a possible dispute over IP rights which would be unlikely to amount to a direct inducement of a breach of contract.¹⁶

- 4.13 In relation to the tort, it concludes:

Subject to arguments in relation to aspects of the claim, such as the defence of justification, the utility of the tort in the context of threats of IP infringement proceedings appears to be limited to situations where the rights holder has made very direct and targeted threats.¹⁷

Intentionally causing loss by unlawful means

- 4.14 Where a party A (the defendant) commits an unlawful act against B, and A intends to cause loss to C (the claimant) by that unlawful act, then C can sue A for the losses actually suffered.¹⁸ As the background paper explains, “the intention requirement is an essential ingredient of the tort but is not straightforward” and the requirement is set high as it justifies the imposition of liability on the defendant, A, for acts that would otherwise not be actionable by C.¹⁹

¹³ Background paper 1, para 1.71.

¹⁴ The threatener must also be aware of its key terms.

¹⁵ The tort was recently considered in *OBG Ltd v Allan* [2007] UKHL 21, [2008] 1 AC 1; see background paper 1, para 1.56.

¹⁶ Background paper 1, para 1.69.

¹⁷ Above, para 1.75.

¹⁸ Above, para 1.76.

¹⁹ *OBG Ltd v Allan* [2007] UKHL 21, [2008] 1 AC 1 and see background paper 1, para 1.76 onwards.

4.15 C must also show that A used unlawful means; exactly what this entails is unclear. Current understanding is that it consists of acts intended to cause loss to C that interfere with B's freedom in a way that is unlawful and is intended to cause the loss, but not unlawful acts against B which do not interfere with B's freedom to deal with C.²⁰

4.16 The paper notes that:

The utility of this tort for an alleged infringer who suffers loss as a result of threats of infringement proceedings depends on identifying an unlawful act by the rights holder as against the customer, and the requisite intention.²¹

Abuse of process

4.17 The tort of abuse of process operates in very narrowly defined circumstances; the examples given in the background paper are malicious criminal prosecutions and a limited number of civil claims, such as the malicious presentation of a winding up order or bankruptcy petition. Otherwise there is no general remedy available where civil proceedings have been maliciously commenced.²²

4.18 The background paper explains that attempts to extend the reach of the tort have failed. However, the court has used its powers to restrain rights holders from abusing its own process under its inherent jurisdiction and the Civil Procedure Rules (CPR).²³ The courts have used this power to prevent claims for infringement being brought by rights holders against a third party's customers, on the basis that there was not a genuine concern to assert the right but rather a desire to harass the customers. However, the courts have stressed that if there is justification for bringing a claim, and it was not done to secure a collateral advantage, the right to sue should not be curtailed.²⁴

4.19 The position is not so straightforward where mere threats of proceedings have been made.²⁵ The background paper notes that even if it is not necessary to have issued proceedings it is unlikely that, in the absence of an ulterior motive or a campaign of harassment, most threats will amount to an abuse of process:

²⁰ Background paper 1, para 1.78.

²¹ Above, para 1.80. The paper also explains at para 1.79 that the decision of the House of Lords in *OBG Ltd v Allan* [2007] UKHL 21, [2008] 1 AC 1 may call into question the continued existence of the related tort of intimidation.

²² Background paper 1, para 1.33.

²³ CPR 3.4(2)(b), see background paper 1, para 1.34. The CPR underwent substantial amendment on 1 April 2013. The overriding objective has been amended so that dealing with a case justly includes enforcing compliance with the rules, practice directions and orders; see further Chapter 7.

²⁴ Background paper 1, para 1.40.

²⁵ Above, paras 1.41 and 1.42.

A court is likely to conclude in many IP infringement cases that a letter before action is entirely commonplace and legitimately written for the purpose of asserting rights, rather than for some collateral purpose.²⁶

Contempt of court

- 4.20 A statement which impedes the proper administration of justice by interfering with pending or imminent court proceedings so as to prejudice the conduct or fair trial of those proceedings may be a contempt of court. The background paper notes that infringement proceedings are heard by judges and without juries and, although it cannot be ruled out, threats of infringement proceedings are unlikely to affect potential witnesses. A finding of contempt of court “has to be based on a solid view of the likelihood of harm being done and not upon fanciful motions of the susceptibility of the recipients of letters”.²⁷ The paper concludes that:

It is difficult to imagine circumstances in which a threat of intellectual property infringement proceedings, even if groundless, would genuinely interfere with subsequent court proceedings by prejudicing the conduct of those proceedings.²⁸

Declarations of non-infringement and other forms of negative declaratory relief

- 4.21 A court may declare the respective rights of contesting parties or the existence of certain facts, for example, that a party does not own a right and is not entitled to sue in respect of it, or that the right is invalid. The court may also make declarations as to principles of law. The paper explains that the courts have, in recent years, adopted a more flexible approach to the use of declarations “focusing on the practical needs of justice and the parties”, thereby expanding the scope of the matters for which the court may make a declaration. As a consequence “declaratory relief is a potentially powerful remedy”.²⁹
- 4.22 A court may make a declaration under its inherent powers or, in the case of patents and Community designs, under statutory provisions relating to declarations of non-infringement.³⁰ The decision of whether or not to make a declaration is entirely within the court’s discretion.

²⁶ Background paper 1, para 1. 43.

²⁷ Above, para 1.53.

²⁸ Above, para 1.52.

²⁹ Above, para 1.83.

³⁰ The court may also make a declaration under the threats provisions; here we are concerned with stand alone claims for a declaration.

4.23 The paper considers that the availability of a statutory declaration of non-infringement is extremely important in the patent arena as third parties “will often desire commercial certainty in the form of a court ruling on the legitimacy of their acts, or more often, proposed acts”.³¹ Despite the obvious utility and flexibility of a declaratory remedy, however, the paper describes some differences between a claim for a declaration and one for groundless threats.

4.24 Unlike the groundless threats provisions, the onus of proving there has not been an infringement rests with the alleged infringer, the party seeking the declaration. Further, unlike the threats provisions, a successful claimant for a declaration is not entitled to financial compensation for loss suffered, but must instead rely on another cause of action to obtain compensation. Finally, although the court may make a declaration in the claimant’s favour it cannot injunct against further threats.

Conclusion

4.25 The background paper examined a broad range of alternative remedies that might be of assistance to a person aggrieved by groundless threats and the courts’ inherent and statutory powers to regulate litigation and prevent abuse. Subject to the caveat that much of the available case law deals with interim applications which did not proceed further, and therefore is limited to an incomplete consideration of the issues, the paper concluded that:

each of the alternative remedies or provisions has severe limitations as an alternative to a statutory threats regime. At best it can probably only be said that they assist in “filling in the gaps” in the protection available and provide only a partial protection against threats in the absence of statutory groundless threats provisions.³²

RIGHTS HOLDERS AND COMMON LAW TORTS

4.26 The preceding paragraphs looked at matters from the perspective of the party threatened with infringement proceedings and considered what protection is available, other than the threats provisions. The paragraphs that follow view things from the opposite angle. As we explain in Chapter 7, we have been told that practitioners may sometimes threaten to bring a claim based on a cause of action other than infringement in order to avoid the threats provisions. The second background paper examines what alternative actions, which are not covered by the threats provisions, are available to the rights holder, for example, passing off and misuse of confidential information.

³¹ Background paper 1, para 1.88.

³² Above, para 1.114.

Passing off

- 4.27 The law of passing off has developed through case law and prevents someone passing off their goods “as those of another”.³³ The tort protects a trader’s business against misrepresentations which cause, or are likely to cause, damage to the goodwill of its business. Although the tort can be understood as being a protection against unfair competition, as the paper notes, there is no general tort of this sort in the UK.³⁴
- 4.28 The elements of the tort, sometimes described as the “classical trinity” are goodwill, misrepresentation and damage.³⁵ An extended version of the tort covers cases where the offending goods are represented as having the same kind of distinct and recognisable qualities as a particular product, such as champagne or vodka.³⁶ There is no requirement in either version of an intention to cause damage; unlike malicious falsehood a defendant’s state of mind is irrelevant.³⁷
- 4.29 The goodwill of a business has been described as “the attractive force which brings in custom”.³⁸ It is different to the reputation a business might enjoy which is not protected by the tort. The background paper notes that:

The dividing line between goodwill (protected) and reputation (not protected) is however sometimes problematic for overseas businesses, which may have a reputation in the UK but have not actually traded here and therefore not generated goodwill.³⁹

The problem however, may be diminishing given the increased role of the internet to access goods and services.

- 4.30 Misrepresentation, which may be explicit or implicit, lies at the heart of the tort and typically is to the effect that the goods or services offered are those of a competitor or are associated with or endorsed by the competitor in some way. A misrepresentation must be calculated so as to cause, or be likely to cause, substantial damage to the claimant’s business or goodwill; actual damage, however, need not be shown but must be reasonably likely to occur.⁴⁰
- 4.31 A claim in passing off may be made where a sign identical to or confusingly similar to a trade mark is used. Where the trade mark is registered the rights holder may have an action in both passing off and infringement.

³³ *Reckitt & Colman Products Ltd v Borden (No 3)* [1990] 1 WLR 491 by Lord Oliver at 498, see background paper 2, para 2.6.

³⁴ Background paper 2, para 2.6.

³⁵ *Reckitt & Colman Products Ltd v Borden (No 3)* [1990] 1 WLR 491 and see background paper 2, para 2.11.

³⁶ Background paper 2, paras 2.9 and 2.10.

³⁷ Above, para 2.12.

³⁸ *Inland Revenue Commissioners v Muller & Co’s Margarine Ltd* [1901] AC 217 by Lord Macnaghten at 224.

³⁹ Background paper 2, para 2.15.

⁴⁰ Above, para 2.24.

4.32 The background paper explains, however, that there are “considerable legal and evidential differences between the two claims”.⁴¹ Passing off covers a wider range of situations and extends to claims based on unregistered trade marks, get up, and other matters. While such matters might qualify for registered trade mark protection, they must overcome the requirements of being capable of graphical representation and being sufficiently distinctive, which may present difficulties in practice. The paper notes that passing off may address some acts which might not be caught as infringements:

passing off can be a useful claim where the defendant is not actually using a sign which is the same as or similar to the right holder’s mark, but is hinting at or suggestive of a relationship with the rights holder.⁴²

4.33 While passing off may address some of the gaps in the protection that registration of a mark provides, “it is generally accepted that it is more difficult to succeed in a passing off claim than one of trade mark infringement”. The need to show goodwill, misrepresentation and damage “imposes a higher evidential burden on a passing off claimant”.⁴³

4.34 The owner of a registered trade mark does not need to prove it owns goodwill – the fact of registration is enough to found the claim. The tests for infringement and passing off are also different. For certain infringement claims, it is necessary to show that use of the offending sign leads to a likelihood of confusion, which is assessed from the viewpoint of the average consumer. Passing off, however, requires the claimant to show that there was a misrepresentation which was calculated to deceive a substantial proportion of the public.⁴⁴

4.35 However, there may be cases where a passing off action is more suitable, for example where the trade mark is vulnerable to a challenge to its validity or a claim it should be revoked for non use.⁴⁵ Alternatively, the acts complained of may not amount to acts of infringement in law, but would be caught by the broader and more flexible tort of passing off.

⁴¹ Background paper 2, para 2.30.

⁴² Above, para 2.32.

⁴³ Above, para 2.33 onwards.

⁴⁴ Above, paras 2.35 and 2.36.

⁴⁵ Above, para 2.38.

- 4.36 The background paper considered that the extent to which rights holders are motivated to circumvent the threats provisions by relying on passing off alone rather than a claim to trade mark infringement (or indeed some other right in respect of which there is a statutory threats provision) is debateable.⁴⁶ It is possible to see that the threats provisions can be a highly relevant factor, particularly where a claim against a secondary infringer is potentially weak, but how much they can influence decision making generally in practice is not known.⁴⁷

Misuse of confidential information

- 4.37 Confidential commercial information, such as trade secrets, may be protected in its own right precisely because of its confidential nature, including in circumstances where it does not attract intellectual property protection such as copyright or patents. For example, the work leading up to an application for a patent may generate much information which, if disclosed to the public, would destroy the novelty of the invention and cause the application to fail. Its confidential nature must, therefore, be preserved.⁴⁸
- 4.38 The requirements for a claim for misuse of confidential information are that the information must have the necessary quality of confidence about it. It must have been imparted in circumstances importing an obligation of confidence, for example where the recipient of the information has entered into a non-disclosure agreement. Finally, there must have been an unauthorised use or disclosure (or threatened use or disclosure) of the information.
- 4.39 The background paper explains that a claim for misuse of confidential information is very different to a claim of patent infringement and is often more difficult to successfully pursue. In a claim for the infringement of a patent, the registration itself founds the claim, whereas in a claim for misuse of confidential information the claimant must prove that the information is truly confidential. In addition, the criteria for assessing patent infringement are “relatively clear and precise”. By contrast, the circumstances where an obligation of confidentiality will be found to have been breached are not precise.⁴⁹
- 4.40 The background paper concludes that “the circumstances in which a patent owner will rely upon its confidential information alone and not its patent rights, in order to avoid falling within the statutory threats provisions, are likely to be rare”. In most cases, the party holding the information will also fall within the primary infringer exclusion for those who manufacture or import the offending product, or use the process. While a secondary infringer, who may, for example, be selling the offending product, is unlikely to have held confidential information in the first place.⁵⁰

⁴⁶ Background paper 2, para 2.44.

⁴⁷ During preliminary discussions with practitioners we have been told that sometimes the threats provisions can be a factor taken into consideration when deciding how to proceed. See further Chapter 7.

⁴⁸ Background paper 2, para 2.50 and following.

⁴⁹ Above, para 2.57.

⁵⁰ Above, para 2.61.

Conclusion

- 4.41 While it is possible that rights holders might be sufficiently concerned at the possibility of falling foul of the threats provisions that they deliberately frame their complaints by reference only to passing off, or to other claims to which the threats provisions do not apply, the extent to which rights holders take this approach in practice is unknown. Even where it is a consideration, as we have been told by some practitioners, it may be one of many, and not necessarily a deciding factor in determining strategy.

CHAPTER 5

EUROPEAN INTELLECTUAL PROPERTY RIGHTS

INTRODUCTION

- 5.1 In this Chapter we consider the European dimension to UK intellectual property law. We begin with a short description of the main pan-European rights, looking first at the European Patent and then at the possibility of an EU-wide unitary patent. Next we describe the Community intellectual property rights: the Community trade mark, the Community registered design right, and the Community unregistered design right.
- 5.2 As we shall see, most aspects of the Community rights are harmonised. However, the law of groundless threats is not harmonised. The UK courts may apply the groundless threat provisions to threats made about European rights, but only when the UK courts have jurisdiction over the matter. The crucial issue is whether the threat was to bring infringement proceedings before the UK courts. This has been interpreted widely, to include implicit threats to bring proceedings in the UK. Nevertheless, there may be a gap in protection where a rights holder causes loss to a rival within the UK by threatening to sue in another jurisdiction.

PATENTS

European Patent Convention

- 5.3 This Convention is a product of the Council of Europe, rather than the European Union. Agreed in 1973, it is a compromise measure. It does not create a harmonised pan-European patent. Instead, it establishes a single point of entry into the signatories' national patent registries, via the European Patent Office (EPO) in Munich.
- 5.4 Applicants must have a legal connection to an EPC state. They may apply directly to the EPO or through their national intellectual property office, and can choose to register their patent in any or all of the 38 member states.¹ In practice, the EPO will handle all aspects of the process – examination, objection and grant. Once approved, the applicant is granted a bundle of national patents in those states for which they are eligible. The appropriate national law governs the extent of the patent holder's rights, the remedies and the procedure for infringement actions.²

Validation

- 5.5 On grant, the patent may take immediate effect, or it may require validation in some or all of the states in which it is to be registered. Validation effectively means complying with additional conditions laid down by those member states.

¹ Applications are automatically designated for all 38 nations but these may be withdrawn on a country by country basis. See Fysh, *The Modern Law of Patents*, para 11.32.

² European Patent Convention, art 64(3).

- 5.6 Typically, the patent must be translated into the official language of that state. However, the London Agreement limits the burden of the language requirements in states which use one of the EPO's three official languages (German, French or English). The practical consequence, from a UK perspective, is that the claims made by a European Patent (UK) must be in English but the description and annotations to drawings may be in French or German.³

Validity, infringement and remedies

- 5.7 On grant, a European patent takes effect as a national patent. Therefore, the tests for validity and infringement are the same as for national patents. To the extent that the tests differ between states, the judgment on whether a patent is valid or an action infringes may vary in each.
- 5.8 The available remedies are also a matter of national law. Within EU member states, however, there is a range of standard remedies.⁴ These include:
- (1) information about the defendant's supply of infringing goods;⁵
 - (2) delivery up and destruction of infringing articles;⁶
 - (3) permanent injunctions against further infringement;⁷
 - (4) damages;⁸ and
 - (5) public dissemination of the court's judgment.⁹
- 5.9 The conditions for obtaining these and the availability of other remedies are a matter for each member state.
- 5.10 The Patents Act 1977 implemented the EPC in the UK. It provides that a European Patent (UK) is to be treated as a patent issued under the 1977 Act.

³ Fysh, *The Modern Law of Patents* (2nd ed 2010) at para 11.100

⁴ As a result of the Enforcement Directive; Directive 2004/48/EC on the enforcement of intellectual property rights.

⁵ Above, art 8.

⁶ Above, art 10.

⁷ Above, art 11.

⁸ Above, art 13.

⁹ Above, art 15. The Civil Procedure Rules were amended to take account of the directive, see CPR 63 PD 29.2 and *Samsung Electronic (UK) Ltd v Apple Inc* [2012] EWCA Civ 1339; [2013] FSR 9.

Jurisdiction

- 5.11 Unlike Community rights, the European patent system does not as yet possess its own court system. The issue of which courts have jurisdiction to member states) and the Lugano Convention (between the EU states and the rest of the European Economic Area).¹⁰
- 5.12 The doctrine of exclusive jurisdiction applies.¹¹ This means that where a party raises the issue of validity, say as a defence to a claim of infringement, the national court dealing with the dispute must hand the proceedings over to the courts having exclusive jurisdiction over that issue. For example, if a French court hears allegations of infringement of a UK European patent by a French defendant, and the defendant then alleges that the patent is invalid, the court must hand over the issue to the court with exclusive jurisdiction in the UK.¹² The UK approach is that the national court would cede the entire claim to the court with exclusive jurisdiction, as invalidity and infringement are “two sides of the same coin”.¹³

A second “European” patent – the unitary patent

- 5.13 At present, there are no Community patents though efforts have been made to introduce these at various times since the 1970s. The present incarnation is the proposed “unitary patent” which was approved by the Council of Ministers and the European Parliament on 11 February 2013. A separate agreement to establish a Unitary Patent Court was agreed on 19 February 2013. At the time of writing the decision to create the “unitary patent” is subject to a challenge before the Court of Justice of the European Union.¹⁴

COMMUNITY TRADE MARKS

- 5.14 The Community trade mark (CTM) was created in 1994 and is a unitary right – that is to say that it offers the same rights and protection, with equal effect, across the 27 member states of the European Union.¹⁵ The Trade Marks Directive has harmonised the substantive law between member states, which means that the underlying law is essentially the same between UK trade marks and CTMs.¹⁶

¹⁰ Regulation EC No 44/2001. The Lugano Convention text may be read here: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:1988:319:0009:0028:EN:PDF>

¹¹ Brussels Regulation, art 22(4).

¹² Case C-4/03 *GAT v Luk* [2006] ECR I-6509, [2006] FSR 45.

¹³ *Chiron Corporation v Evans Medical Ltd* [1996] FSR 863 by Walker J at 972. See also *Coin Controls v Suzo International* [1997] FSR 660.

¹⁴ Joined Cases C-274/11 and C-295/11, *Spain and Italy v Council of the European Union*. On 11 December 2012, Advocate General Bot recommended that the claim be dismissed.

¹⁵ Community Trade Mark Regulation, art 1.

¹⁶ There are some differences. For example, there are different considerations for proof of genuine use.

- 5.15 The CTM does not replace national trade marks but complements them,¹⁷ offering cross-EU protection from a single application.¹⁸ The application may be made directly to the Office of the Harmonisation of the Internal Market (OHIM) in Alicante, Spain or through a national office, such as the IPO.
- 5.16 To be registered as a CTM, a trade mark must meet the conditions of validity in all 27 member states: registration may be prevented by a ground existing in just one state.¹⁹ Particular consequences arise out of this principle:
- (1) *Public policy and descriptiveness.* OHIM must consider the possible meaning of the mark in each of the EU's 23 official languages. If the mark is descriptive, offensive or misleading in any language then the examiner must object to the registration.²⁰
 - (2) *The likelihood of confusion.* Again, if the public are likely to be confused between a CTM and an earlier trade mark in one member state, this may block registration as a CTM across all.²¹ For example, in *Honda Motor Europe Ltd v OHIM*, the Spanish car manufacturer SEAT's mark prevented registration of Honda's mark "Magic Seat" as a CTM, because in Spanish both would be pronounced in the same way.²²
 - (3) *Acquired distinctiveness.* An application where the mark lacks distinctive character will fail unless the applicant can show acquired distinctiveness throughout the EU.²³
- 5.17 If registration is barred for a reason applying in only one member state, it is not possible to limit the CTM to other states.²⁴ Instead the applicant must obtain individual national trade marks in the member states where the objection does not apply.²⁵

¹⁷ Art 32 of the Community Trade Mark Regulation provides that applications for CTMs are to be treated as equivalent to a national filing. This means that if the application fails as a CTM, it can proceed as an application for a national mark with the same date of priority.

¹⁸ CTMs can only be registered, transferred, surrendered or revoked in respect of the whole EU (Community Trade Mark Regulation, art 1(2)). They may, however, be licensed (exclusively or otherwise) for just part of the EU (art 22(1)).

¹⁹ Community Trade Mark Regulation, Art 7(2).

²⁰ *Kerly* highlights the case of *PAKI Logistics GmbH v OHIM* (Case T-526/09) where the reputable German logistics company PAKI owned a mark based on an allusion in German to packaging. Their application was rejected on the grounds that "Paki" would be perceived as racist, derogatory and insulting in the UK and thus contrary to public policy and morality under art 7(1)(f). A summary of the judgment may be found in (2012) 7 JIPLP (6): 392-394.

²¹ *Armacell Enterprise GmbH v OHIM* [2009] ETMR 52.

²² [2009] ETMR 34 at paras 56 to 77.

²³ The CJEU has held that acquired distinctiveness in a substantial part of the Community was insufficient: see Case T91/99 *Ford Motor Co v OHIM (OPTIONS)* [2000] E.C.R. II-1925, [2000] 2 CMLR 276, [2000] ETMR 554, paras 24 to 27.

²⁴ Art 38(2) of the Community Trade Mark Regulation provides that disclaimers may only be used to avoid refusal on the grounds of non-distinctiveness of part of the mark.

²⁵ These may be obtained by applying to OHIM for the "conversion" of the application, Community Trade Mark Regulation, art 108(1)(a).

COMMUNITY DESIGN RIGHTS

- 5.18 In Chapter 1, we noted that the design, or aspects of the design of a product, may be protected in five different ways.²⁶ We have already discussed UK registered designs rights; UK unregistered design rights; and the limited application of copyright. Here we describe two other ways: Community registered design rights and Community unregistered design rights.

Community registered design rights

- 5.19 The law of registered designs is harmonised across Europe.²⁷ This means that for most purposes a Community registered design right is identical to a UK registered design right. The length of protection is the same. So too is the scope of protection. As with UK registered design rights, a person may not without consent produce an article including the design which would not produce a different overall impression on the informed user.²⁸
- 5.20 The main difference is that Community registered design rights are administered by OHIM rather than by the Designs Registry at the IPO.²⁹ Applications to register the EU right may be made to the same intellectual property offices as for CTMs and will be passed to OHIM. In contrast to CTMs, however, OHIM subject these applications to very limited scrutiny – simply checking that the design is theoretically capable of protection as a design and that it is not contrary to public policy or morals. As the examination conducted by OHIM is so limited, the onus is on third parties to challenge designs which have been registered but may be invalid.
- 5.21 Both OHIM and the courts have power to declare a Community registered design right invalid, though the manner in which a declaration may be obtained differs. The courts only have jurisdiction to issue a declaration in the context of a counterclaim to an existing infringement action, or in a groundless threats case.³⁰ OHIM, by contrast, will always have jurisdiction, unless the parties have brought the case before a Community Design Court and the court has given a final decision.³¹
- 5.22 If declared invalid, then the right is deemed never to have existed in any member state.³²

²⁶ Chapter 1, para 1.48.

²⁷ For registered design rights, the law was harmonised by Directive 98/71/EC, 13 October 1998; Community design rights meanwhile are unitary rights existing alongside national design protections – Community Designs Regulation 2002, art 1(3)

²⁸ See further Chapter 1.

²⁹ Save that OHIM does not have any oversight over Community unregistered design rights by virtue of their automatic nature. Issues of invalidity are the preserve of the courts.

³⁰ Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011), para 53.21.

³¹ Community Designs Regulation 2002, art 52(3).

³² Above, art 26(1).

Community unregistered design rights

- 5.23 As noted in Chapter 1, unregistered design right arises automatically. The creator of any design which is eligible to be protected by UK unregistered design right also obtains automatic protection across the other member states.³³ For unregistered designs, the law is not harmonised. Although many aspects are similar to UK unregistered design, there are significant differences.
- 5.24 The main difference is that protection only lasts for three years from the date of when the design was made available to the public.³⁴ This is in contrast to the UK right which may last for up to 15 years.³⁵
- 5.25 There are other distinctions. For example, the Community unregistered design right, unlike the UK unregistered design right extends to the surface decoration of a design.³⁶ The scope of the “must-fit” exception is also narrower. In the UK, a person making a spare or alternative part may copy the design of the fitting, so that the part can be fitted to the main object.³⁷ For the Community unregistered design right, however, the manufacturer must find new way of fitting their product to the original item, unless the features of the original product “must necessarily be reproduced in their exact form and dimensions”.³⁸

ENFORCING COMMUNITY IP RIGHTS

- 5.26 Community IP rights may only be enforced before courts which have been designated for this purpose. Called Community Trade Mark courts, they have exclusive jurisdiction over claims for infringement of a CTM and counterclaims for revocation or declaration of invalidity of a CTM.³⁹ Similarly, Community Design Courts have exclusive jurisdiction over Community design rights.⁴⁰

³³ Community Designs Regulation 2002; art 95 states that domestic and Community rights may exist cumulatively.

³⁴ Above, art 11(1).

³⁵ See Chapter 1, para 1.47.

³⁶ Community Designs Regulation 2002, art 3.

³⁷ *Dyson Limited v Qualtex (UK) Limited* [2006] EWCA Civ 166, [2006] RPC 31.

³⁸ There is also no equivalent to the UK’s “must-match” exception, which protects the manufacture of items whose design cannot be changed without “radically altering the appearance of the second article”.

³⁹ In the UK, these are the High Courts of England and Wales, Northern Ireland and the Court of Session for Scotland, as well as certain county courts including the Patents County Court, and the County Courts at Birmingham, Bristol, Cardiff, Leeds, Liverpool, Manchester and Newcastle upon Tyne.

⁴⁰ In the England and Wales, these are the Patents Court and the Patents County Court; while the Court of Session and the Northern Ireland High Court are so designated for Scotland and Northern Ireland.

Rules on jurisdiction

- 5.27 As a right crossing 27 states, rights holders or licensees of Community IP rights may choose from many court venues in which to enforce their rights. A Community rights holder must first decide whether they want a judgment that is binding across the whole of the EU or a national one that is only binding in the state in which it has been obtained.⁴¹
- 5.28 If the rights holder wants to obtain an EU-wide judgment, with the potential for a Community-wide injunction, the following hierarchy applies:⁴²
- (1) Generally, claims should be brought in the CTM/CD courts of the member state in which the defendant is domiciled or has an establishment (if there is no domicile in an EU state).⁴³
 - (2) If the Defendant has no domicile or establishment in an EU state then proceedings must be brought in the state where the Claimant is domiciled or has an establishment.⁴⁴
 - (3) Failing this, the proceedings should be brought in the CTM/CD courts of Spain (because OHIM is located here).⁴⁵
 - (4) Alternatively, the parties may enter into a binding agreement on the seat of the litigation under the Brussels Regulation.⁴⁶
- 5.29 If however, the rights holder only wants a national judgment and national remedies,⁴⁷ they may sue in the CTM/CD courts of any EU state in which the infringement occurred or was threatened.⁴⁸
- 5.30 As we discuss below, these rules can be used to avoid the UK's groundless threats provisions.

⁴¹ Although the national judgment is not binding on the other Community courts, it is likely to be persuasive due to the harmonised nature of the law. It is, however, possible that different evidence may be adduced or that a competing construction of the test will be preferred, leading to a different result.

⁴² Community Trade Mark Regulation, art 98(1); Community Design Regulation, art 83(1).

⁴³ Community Trade Mark Regulation, art 97(1); Community Design Regulation, art 82(1).

⁴⁴ Community Trade Mark Regulation, art 97(2); Community Design Regulation, art 82(2).

⁴⁵ Community Trade Mark Regulation, art 97(3); Community Design Regulation, art 82(3).

⁴⁶ Community Trade Mark Regulation, art 97(4)(a); Community Design Regulation, art 82(4) and Brussels I Regulation (EC) 44/2001.

⁴⁷ Community Trade Mark Regulation, art 98(2); Community Design Regulation, art 83(2).

⁴⁸ Community Trade Mark Regulation, art 97(5); Community Design Regulation, art 82(5).

THE CONSEQUENCES FOR GROUNDLESS THREATS

- 5.31 Although many aspects of Community intellectual property rights are harmonised, the law of groundless threats is not. It falls outside the scope of the relevant EU Regulations, so each court will apply its own national laws.⁴⁹ Similarly, where the UK courts have jurisdiction, they will apply UK groundless threat provisions to threats about European patents.⁵⁰
- 5.32 In Chapter 6, we look at how groundless threats are dealt with in other jurisdictions. Many EU member states have a law which deals with the same problem as the UK's groundless threats provisions, but these laws are conceptualised differently. In Germany, for example, groundless threats are seen as constituting part of the tort of unfair competition.⁵¹ As we discuss below, the jurisdiction rules for the UK law of groundless threats appear to differ from the jurisdiction rules for unfair competition.

When do the UK courts have jurisdiction over groundless threats?

- 5.33 The UK courts have been willing to allow actions for groundless threats made abroad or made by non-UK rights holders. The crucial issue appears to be whether the threat is to bring infringement proceedings before the UK courts.

Threats made abroad

- 5.34 It appears that a groundless threat action is available where the threat is made abroad. *Laddie, Prescott and Vitoria* give an example in the following terms:

Assume that an English company, A, goes to a trade fair in Germany and there threatens to sue, under his UK registered or unregistered design, the English customer, B, of his English competitor, C.

- 5.35 The threats are made in Germany but, as the authors point out, are just as commercially damaging to C as if they had been made in the UK. They ask, "Can C sue A in the UK in respect of the threats?" Answering that question in the affirmative, they suggest that "he should be able to do so, and that there is a sufficient link between the act complained of and its consequences to overcome an objection of extra-territorial effect".⁵²

⁴⁹ Community Trade Mark Regulation, art 101(2), Community Design Regulation, Recital 31.

⁵⁰ Patents Act 1977, s 77 requires that a European patent (UK) has the same rights and remedies as a national patent.

⁵¹ See Chapter 6, para 6.21.

⁵² *Laddie, Prescott and Vitoria, The Modern Law of Copyright and Designs* (4th ed 2011), at para 62.30.

- 5.36 This proposition seems to have been implicitly accepted in certain recent threats cases. For example, in *Unilever Plc v Proctor & Gamble* the relevant threat was made in Germany and no suggestion was made that this made it non-actionable.⁵³ Similarly, in *Dimplex (UK) Ltd v De'Longhi Ltd* threats were made to both British and French businesses and it was held to be acceptable to consider the impact of the threats made in France.⁵⁴

Threats from a non UK business to a UK business

- 5.37 The threats provisions have also been used against non UK-rights holders. In *Kenburn Waste Management Ltd v Heinz Bergmann*, a German national gave an undertaking not to threaten a UK business.⁵⁵ The High Court held that it had jurisdiction to enforce this undertaking.

Kenburn supplied a waste compactor to companies in the UK, including the supermarket Aldi. Mr Bergmann accused Aldi of using machinery which was a “serious violation” of his exclusive rights under a European patent. Kenburn’s solicitors responding by threatening Mr Bergmann with groundless threats proceedings in the High Court, unless he promised not to make assertions to Kenburn’s customers that the machinery infringed his patent. Mr Bergmann gave the undertaking, but six months later he wrote to the supermarket Lidl accusing them in similar terms of infringing his patent.

- 5.38 On an action to enforce the undertaking, the court considered whether it had jurisdiction over Mr Bergmann. It concluded that it did for the following reasons:
- (1) the object of the contract was only to achieve results in the UK;
 - (2) the contract had as its basis a purely UK right of action (the action for threats under section 70 of the Patents Act 1977);
 - (3) the action for threats is actionable only in the UK;
 - (4) the undertaking which Mr Bergmann entered into was an undertaking which was intended to have consequences in the UK alone; and
 - (5) all the relevant customers who were to be protected by the undertaking were customers of Kenburn in the UK.⁵⁶

A threat to bring infringement proceedings in the UK

- 5.39 In 2011, the Court of Appeal considered the issue of jurisdiction in *Best Buy Co v Worldwide Sales Corpn España*.⁵⁷ The case focused on whether there was an implicit threat to bring infringement proceedings in the UK.

⁵³ [2000] FSR 344 (CA).

⁵⁴ [1996] FSR 622.

⁵⁵ [2002] FSR 44. The decision was subsequently affirmed by the CA; [2002] EWCA Civ 98; [2002] FSR 45.

⁵⁶ Above para 49. This is a summary form of the judge’s reasoning. See paras 25 to 59 for a full examination and application of the rules under the Brussels and Rome Conventions.

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

The defendants (Worldwide Sales Corporation) were a Spanish corporation who owned various national and Community trade marks which including the words “Best Buy”.

In the course of a protracted dispute, Worldwide Sales’ lawyers wrote to Best Buy’s London solicitors to say that they had learnt that Best Buy was planning to expand into “the European market including the Spanish one”. It was alleged that this conflicted with its rights duly registered in Spain and Europe “which would entitle it to take the appropriate legal action to defend its interests”.

- 5.40 The trial judge proceeded on the basis that a threat concerning the use of a Community trade mark could found the basis of a groundless threats action, but only if the threat concerned proceedings in the UK. This proposition was not challenged in the Court of Appeal, and the Master of the Rolls, Lord Neuberger, considered “that it is right”.⁵⁸
- 5.41 The issue was one of fact: was the threat to sue in the UK? The Court of Appeal thought that the many references in the letter to both “Spain and Europe” showed that the threat was Europe-wide. The court found that a reasonable recipient in the position of the Best Buy would have understood the letter to threaten proceedings in the UK.
- 5.42 The defendants argued that it was fanciful to suggest that Worldwide Sales intended bring proceedings in all 27 member states. In reply, Lord Neuberger made two points. First, a threat may exist in all 27 states, even if “when it eventuates, the claim is brought only in one member state”. As he put it, “a threat to do something is not the same as a promise to do it”.⁵⁹ Secondly, even if a threat to sue in, say, Slovenia or Bulgaria might be fanciful, it was “far from fanciful” to think that Worldwide would sue in the UK. This was not so much because Best Buy’s solicitors were based on London, but because both parties knew that Best Buy intended to launch its business in the UK.⁶⁰

⁵⁷ [2011] EWCA Civ 618, [2011] Bus LR 1166.

⁵⁸ Above, para 24.

⁵⁹ Above, para 27. The earlier case of *Prince Plc v Prince Sports Group Inc* [1998] FSR 21 was cited in argument to the court in *Best Buy*. In that case, the threat was held to be of infringement action against a UK trade mark letter because of the following factors: the letter made express reference to the defendant’s UK trade marks; there was no territorial restriction on the claimant’s complaint; and the claimant’s predominant use of the domain name in the UK.

⁶⁰ Above, para 28.

COMMENT

- 5.43 *Kerly* notes that the discussion in *Best Buy* contains no reference to the rules on jurisdiction for infringement of CTMs.⁶¹ As we have seen, if the rights holder seeks a EU-wide injunction, they must normally sue in the place where the other party is domiciled or has an establishment. In the case of a US corporation with no domicile or establishment in the EU, the proceedings must be brought in the rights holder's home state (in this case, Spain). However, even if Worldwide Sales could not obtain a Europe-wide injunction from the English courts, they could bring proceedings in England for an injunction applying to England and Wales.
- 5.44 *Best Buy* suggests that the UK courts will interpret a threat widely, so as to include an implicit threat to sue in the UK if this is a non-fanciful possibility. It is always open to well-advised rights holder to write a threat in clear terms to avoid this outcome. If Worldwide's lawyers had specifically referred to "appropriate legal action in Spain" then the UK threats provisions would not have applied. As we explore below, this could leave a gap in protection.

Problems with focusing on place of proceedings rather than place of loss

- 5.45 In Chapter 6, we see how most European states have laws to protect traders against unjustified allegations of IP right infringement, but in civil law countries this is seen as part of the tort of unfair competition. The jurisdiction rules for the torts of unfair competition are set out in the Rome II Regulation. This states that the country whose law will apply to the dispute will be that where "competitive relations or the collective interests of consumers are, or are likely to be, affected".⁶² Where an act of unfair competition exclusively affects the interests of a specific competitor, the country whose law applies will be that where the damage from the act is felt.⁶³
- 5.46 In other words, in most jurisdictions, the relevant issue is where the loss is likely to occur. In the UK, however, the relevant issue is where the rights holder threatens to bring proceedings. A well-advised rights holder may be able to cause damage in the UK by threatening to sue in another European state, and this will not be an actionable threat.
- 5.47 We can illustrate this point with an example:

A, a toy firm holds a Community trade mark in the phrase "Solar Soldiers", covering a wide range of goods but not e-books. B publishes an e-book titled "Solar Soldiers: mission to Mars" and sells it to the UK market through an online retailer. The retailer has extensive business in the UK but is domiciled in Luxembourg.

⁶¹ *Kerly's Law of Trade Marks and Trade Names* (15th ed 2011), para 19-125, fn 126.

⁶² Regulation 864/2007 11 July 2007, art 6(1).

⁶³ Above, art 6(2).

The toy firm writes to C alleging that B's e-book infringes its Community Trade mark. It threatens Community-wide proceedings before the Luxemburg and German courts. Faced with this threat, the retailer stops stocking the e-book.

- 5.48 In this case, B appears to be without a remedy. It could not use UK threats provisions because there is no threat to sue in the UK. Nor could it use the German law of unfair commercial practices because the damage done to B's sales will occur exclusively in the UK, and not in Germany. Its application is therefore excluded by the Rome II Regulation.
- 5.49 We are not aware of any case in which this lacuna has caused a problem in practice, but as Community trade marks and Community design rights become more common, the issue is likely to come to the fore.

CHAPTER 6

LESSONS FROM OTHER JURISDICTIONS

INTRODUCTION

- 6.1 The use of threats of infringement proceedings to undermine a competitor is not unique to the UK. As part of this project, we have looked at the law on this topic in seven jurisdictions: Australia, New Zealand, Ireland, Germany, the Netherlands, France, and Canada.
- 6.2 It is noticeable that all seven jurisdictions provide legal protection to a party whose commercial interests are damaged by groundless threats of patent, trade mark or design rights litigation made to their customers. As we explain below, such protection is also required by treaty, under the Paris Convention.¹
- 6.3 There are, however, different ways in which protection can be provided. Several common law jurisdictions follow the UK approach by enacting specific statutory provisions: Australia, New Zealand and Ireland all have specific threat provisions in their statutes dealing with patents, trade marks and design rights.²
- 6.4 By contrast, most civil law countries deal with the problem of groundless threats as an aspect of the general law of tort or through unfair competition law. This includes Germany, the Netherlands and France.
- 6.5 Interestingly, the approach in Canada is more like the civil law jurisdictions. Despite its common law heritage, there are no specific provisions on groundless threats. Instead, Canada enacted the principles of the Paris Convention against unfair competition, and the courts have developed these principles to protect traders against unjustified threats made to their competitors' customer base.
- 6.6 In this Chapter, we start by describing the requirements of the Paris Convention. We then provide a very brief outline of the law in the seven jurisdictions we have looked at, highlighting some of the differences in approach.
- 6.7 Finally, we attempt to draw some conclusions for this comparative material. The fact that all seven jurisdictions provide legal protection against unjustified threats demonstrates the need for such law, but it is clear that protection may be provided in a variety of ways. There are also differences in the liability of legal advisers. In Australia, for example, legal advisers are given immunity to being sued for unjustified threats issued on behalf of their clients.

¹ The Paris Convention for the Protection of Industrial Property.

² As do India and Singapore.

THE PARIS CONVENTION

- 6.8 The Paris Convention, first signed in 1883, was the world's first treaty on intellectual property law. It now has 174 signatories.³
- 6.9 In 1900, the Convention was amended to require signatories to provide protection against unfair competition.⁴ Under Articles 10*bis* and 10*ter* 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".
- 6.10 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". This would include an unjustified threat of litigation made to a competitor's distribution network.
- 6.11 The Guide to the Application of the Paris Convention gives further assistance on the scope of this requirement, stating that:
- 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.⁵
- 6.12 Unlike many European countries, the UK has not enacted the Paris Convention's articles specifically. Instead, compliance with the UK's international obligations is achieved on a piecemeal basis, of which the UK threats provisions form a part.⁶

³ It is said to be one of the most widely adopted treaties. The convention obligations are also required by the World Trade Organisation in the Trade Related Aspects of Intellectual Property Agreement (TRIPS), art 2(1).

⁴ For the history of this provision see http://www.wipo.int/export/sites/www/freepublications/en/intproperty/611/wipo_pub_611.pdf at p 143.

⁵ Above at p 144(g).

⁶ 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 No 2008/1277). At present the Regulations only provide for enforcement by public enforcement bodies. However, in *Consumer Redress for Misleading and Abusive Practices*, Law Com No 332/Scot Law Com No 226, together with the Scottish Law Commission, we recommended that consumers be able to enforce these rights before the civil courts.

JURISDICTIONS WITH SPECIFIC THREATS PROVISIONS

Australia

- 6.13 Like the UK, Australia has separate groundless threats provisions, set out in statutes and regulations dealing with patents, trade marks and design rights.⁷ As in the UK, the aggrieved party must establish there has been a threat, which may be express or implied: the test is how a reasonable person in the position of the recipient would understand it.⁸ The threats provisions do not make a distinction between primary and secondary infringers. The patent and design legislation states that “mere notification is not a threat”, but this provision is absent from the trade mark legislation.
- 6.14 In Australia, the Civil Dispute Resolution Act 2011 also places an obligation on the parties to a dispute to take genuine steps to resolve the dispute before civil proceedings are begun.⁹ The parties must file a “genuine steps statement” stating what they have done to try and reach a settlement. We have not uncovered any concern about how this duty interacts with groundless threat provisions. This appears to be because the requirements of the 2011 Act are quite flexible.
- 6.15 A major difference between groundless threats law in Australia and in the UK is that the Australian statutes provide immunity for legal advisers. 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 are also granted for threats about trade marks or designs.

New Zealand

- 6.16 New Zealand also has specific statutory threats provisions for groundless threats litigation about patents¹⁰ and design rights.¹¹ As in Australia, no distinction is made between primary and secondary infringement. Similarly, the statutes provide that “mere notification” is not a threat. Unlike Australia, however, there is no immunity for legal advisers.

⁷ See Patents Act 1990, Part 3; Trade Marks Act 1995, ss 129 and 130; Designs Act 2003, Part 3. Significant changes in Australian IP law are due to be made in 2013 by the Intellectual Property Laws Amendment (Raising the Bar) Act 2012. That Act aims to raise the quality of granted patents, reduce delays in IP rights applications and improve the enforcement of rights.

⁸ *JMVB Enterprises Pty Ltd v Camoflag Pty Ltd* (2005) 67 IPR 68.

⁹ Civil Dispute Resolution Act 2011, s 3.

¹⁰ Patents Act 1953, s 74.

¹¹ Designs Act 1953, s 34.

- 6.17 Perhaps surprisingly, the Trade Marks Act 1953 did not include any groundless threats provisions. The Act was amended in 2002, but the amendment did not provide a specific remedy against groundless threats. Instead, section 105 provides a remedy for unjustified proceedings. Where a person brings proceedings alleging an infringement of a registered trade mark, the defendant may ask the court for a declaration that the proceedings are unjustified and seek damages for loss suffered.¹² Those seeking relief from “unjustified” threats about trade marks must instead rely on section 9 of the Fair Trading Act 1986, which prohibits conduct in the course of trade that is misleading or deceptive.

Ireland

- 6.18 The Irish provisions on groundless threats are similar to those in UK law, and English cases are referred to by the Irish courts.
- 6.19 There are groundless threats provisions for patent, trade mark and design rights, which distinguish between primary and secondary infringement. As in the UK, the original formulation led to the “*Cavity Trays*” problem, which was that a primary infringer could bring an action if the threat also concerned acts of secondary infringement. For patents, this was amended in 2006 along similar lines to the UK legislation.¹³ The “*Cavity Trays*” problem remains, however, for trade mark and design litigation.¹⁴

JURISDICTIONS WHICH RELY ON GENERAL TORTS

- 6.20 For countries that do not have express threats provision, acts such as the making of threats of infringement proceedings against a business rival may give rise to liability under general tort law, or under provisions that address unfair commercial practices. We consider four jurisdictions – Germany, France, the Netherlands, and Canada.

Germany

- 6.21 The German Unfair Competition Act (UWG) creates a specific tort addressing unfair commercial practices.¹⁵ Section 3 provides that:

Unfair commercial practices shall be illegal if they are suited to tangible impairment of the interests of competitors, consumers or other market participants.

- 6.22 Section 4 provides examples of acts that would be unfair. These include where a person:

7. discredits or denigrates the distinguishing marks, goods, services, activities, or personal or business circumstances of a competitor; or

¹² The section is similar to s 130 of the Copyright Act 1994.

¹³ Patents (Amendments) Act 2006, s 15 inserting s 53(3) into the Patents Act 1992.

¹⁴ The Trade marks Act 1996 and the Industrial Designs Act 2003 were not similarly amended.

¹⁵ Gesetz gegen den unlauteren Wettbewerb.

8. asserts or disseminates facts about the goods, services or business of a competitor..., such facts being suited to harming the operation of the business or the credit of the entrepreneur, to the extent that the facts are not demonstrably true; if the communications are confidential and if the person making, or receiving, the communication has a legitimate interest therein, the action shall only be unfair where facts are asserted or disseminated contrary to the truth.

6.23 The UWG only applies to acts done in the course of commerce. Wider protection is provided by the more general tort set out in §823 of the German Civil Code (BGB).¹⁶ This states that:

A person who, intentionally or negligently, unlawfully injures the life, body, health, freedom, property or another right of another person is liable to make compensation to the other party for the damage arising from this.

6.24 The courts have used these very general provisions to craft protection against unjustified threats of intellectual property litigation. A threat will be deemed to be unjustified if the right in question is found to be invalid and/or not to have been infringed, and the proprietor of that right knew or ought to have known that this was the case.

6.25 Before 2005, the German courts imposed a different test depending upon whether the person aggrieved was a “primary” infringer or a “secondary” infringer. However, following a decision by the Bundesgerichtshof (Federal Court of Justice), no formal distinctions are now made on the basis of the status of the recipient.¹⁷ The tests, however, remain context specific. Stricter criteria are applied where the claimant issues a threat against a secondary infringer based on an allegation that their supplier is infringing the claimant’s rights. The Bundesgerichtshof has held that a manufacturer was unfairly obstructed by such an unjustified threat made to one of its retailers.

The Netherlands

6.26 Dutch law also includes a general duty not to commit wrongful acts. Article 162 of Book 6 of the Dutch Civil Code provides that:

1. A person who commits a tortious act against another person that can be attributed to him, must repair the damage that this other person has suffered as a result thereof.

¹⁶ Bürgerliches Gesetzbuch.

¹⁷ GRUR 2005, 882 - Unberechtigte Schutzrechtsverwarnung.

2. As a tortious act is regarded a violation of someone else's right (entitlement) and an act or omission in violation of a duty imposed by law or of what according to unwritten law has to be regarded as proper social conduct, always as far as there was no justification for this behaviour.¹⁸

6.27 The courts have developed these provisions to provide protection against the threat of infringement proceedings. A threat may be unlawful where it is known, or ought to be known, that such a claim is ill-founded.¹⁹ The courts have also gone further, to say that even a "justified" threat may be unlawful if it is unnecessarily offensive or unnecessarily public. Similarly if the person making the threats is not the owner of the IP rights asserted, the threat will generally be unlawful.²⁰

6.28 Although there is no formal distinction between primary and secondary categories of infringers, this may be a relevant factor in deciding the lawfulness of the threat. This is especially so if secondary infringers are threatened when the primary infringer is already known and no action is directed towards the primary infringer.

France

6.29 Article 1382 of the French Civil Code provides that:

Any act whatever of man, which causes damage to another, obliges the one by whose fault it occurred, to compensate it.

6.30 Article 1383 goes on to say that:

Everyone is liable for the damage he causes not only by his intentional act, but also by his negligent conduct or by his imprudence.

6.31 Again these provisions have been developed by the courts to provide protection against unjustified threats. In France, a rights holder may send one of two types of letters before action to an alleged infringer:

- (1) information letters; and
- (2) cease and desist letters.

6.32 Information letters are necessary to make secondary infringers liable for the alleged acts of infringement.²¹ If these letters are drafted in a neutral manner they will not be considered actionable.²²

¹⁸ <http://www.dutchcivillaw.com/civilcodebook066.htm>.

¹⁹ Supreme Court 27 January 1989, NJ 1989, 506 (*Meijn/Stork*); Supreme Court 29 Maart 2002, LJN AD8184 (*Van Bentum/Kool*); HR 29 September 2006, LJN: AU6098 (*CFS Bakel/Stork Titan*).

²⁰ See for example, District Court Amsterdam, Amsterdam, 13 April 2011 (*Steffex*), regarding a claim of copyright infringement.

²¹ Art L615-1 §3 French Intellectual Property Code.

- 6.33 Cease and desist letters, on the other hand, require the recipient to stop the alleged infringing acts, typically threatening legal action if they do not comply. Such threats may be considered acts of unfair competition or disparagement which give rise to civil liability under articles 1382 and 1383 of the French Civil Code, depending upon the recipient(s) and wording of the letter.
- 6.34 Case law establishes that warning or threatening letters to primary infringers are seldom considered misconduct. However, the French courts consider that sending threatening or warning letters to customers or distributors of the primary infringer is likely to amount to unfair competition or disparagement.²³ Specific circumstances can trigger the liability of the sender, in particular where:
- (1) the letter has been sent widely to the customers of the primary infringer demonstrating an intent to undermine the latter's reputation; or
 - (2) the letter does not provide an objective report of the legal and procedural position – for example, suggesting that the product is held to be infringing by a court when no such decision on infringement has in fact been issued, or where the judgment is subject to an appeal but this is not disclosed.
- 6.35 If this causes loss to a person then they may sue for that damage. Malice or bad faith are not necessary: a letter drafted in careful words can be found to be disparaging by the mere fact that it has been sent to a large number of clients of the primary infringer.
- 6.36 Under the French Bar's ethical Code, an *avocat* must refrain from any unfair representation and any threat, when contacting the opposing party. *Avocats* can accordingly be held liable by their professional authorities and by courts when they send a threatening letter on a client's behalf.²⁴

Canada

- 6.37 Like Australia and New Zealand, Canadian law draws heavily on UK law. Unlike those countries, however, Canada did not copy across the threats provisions of the early British Patent Acts. Historically, it relied upon the common law torts of trade libel,²⁵ but it adopted a more general tort of unfair competition for this purpose in the 20th Century.

The statutory provisions

- 6.38 In 1928, Canada signed the Paris Convention. It then enacted its unfair competition provisions in the Unfair Competition Act 1932. The successor to these provisions is now to be found in section 7 of the Trade-marks Act 1985 which states:

²² Tribunal de grande instance of Paris, 17 September 2010, 3rd Ch, 3rd Sect. *Ateliers de la Haute Garonne et al v Brotje Automation*.

²³ *Cour de cassation*, Commercial chamber, 7 April 1998, *Dossiers Brevets* 1998, IV, No 6.

²⁴ Article 8.2.

²⁵ See Chapter 4 and the related background papers available on our website.

7. No person shall

(a) make a false or misleading statement tending to discredit the business, wares or services of a competitor; ... or,

(e) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada.

6.39 Section 7(a) only applies to intellectual property rights. In *MacDonald v Vapor Canada Ltd*,²⁶ Laskin CJ stated that the provision would be constitutionally invalid as a “clear invasion of provincial legislative power” unless it was read as limited in this way. It remains unclear whether it applies to copyright.²⁷

S & S Industries v Rowell

6.40 The leading case, *S & S Industries v Rowell*,²⁸ was decided by the Supreme Court of Canada in 1966.

Rowell manufactured metal wire and held a patent for the construction of frames of flat wire to be used in the manufacture of brassieres. It wrote to the claimant alleging patent infringement but did not sue. Instead it sued two of the claimant’s customers and advertised the fact in a widely circulating trade paper. Both cases against the customers settled with an agreement that they would not sell the claimant’s product or contest the validity of the defendant’s patent. Neither customer, however, was required to pay damages or royalties, and they both were permitted to dispose of their existing stock. These favourable terms cast doubt on the defendant’s belief in the validity of its patent.

The claimant suffered commercial damage through the loss of its customers and began proceedings to invalidate the defendant’s patent and recover its losses. The trial court found for the claimant, and this decision was upheld by the Supreme Court.

6.41 The essential elements of the cause of action were set out by Martland J. There must be (1) a false or misleading statement, (2) tending to discredit the business, wares or services of a competitor, and (3) resulting damage. Spence J observed that:

There would seem no valid reason why rather than choosing that forthright course [issuing court proceedings] he should be permitted to proceed by threats against the purchasers from the alleged infringer without rendering himself liable for damages.²⁹

²⁶ (1977) DLR (3d) 1.

²⁷ Laskin CJ’s comments in *MacDonald* provide support for the view that it does, however the court in *Canadian Copyright Licensing Agency v Business Depot Ltd* [2008] FC 737, 330 FTR 133 at [33] commented that it has never been used in the context of copyright.

²⁸ [1966] 48 SCR 193.

²⁹ [1966] SCR 419 at 429.

- 6.42 The court found malice on the facts of the case, but held that this was not required for a successful claim under section 7(a).

Subsequent cases

- 6.43 The Supreme Court's decision in *S & S Industries* has been followed in other cases,³⁰ but the law appears unsettled. For example, in *M & I Door Systems v Indoco Industrial Door Co Ltd*,³¹ the plaintiff threatened the defendant's customers with infringement. It then brought an action for infringement against the defendant, during which the defendant successfully invalidated the plaintiff's patent. The court nevertheless rejected the defendant's claim for damages on the basis that the patent would have been infringed had it been valid. Contrary to a statement in *S & S Industries*, the court held that a patent is *prima facie* valid once granted and the patent holder has the right to act on that basis.³²
- 6.44 A recent commentator called for a clearer statutory right which would "carefully delineate available defences, such as good faith and due diligence" while protecting competitors from unfair threats.³³

CONCLUSION

- 6.45 Our study of the protection against groundless threats in other jurisdictions has led us to conclude that the UK should retain some form of protection against groundless threats. All the jurisdictions we looked at recognise the problem that a trader may use unjustified threats of intellectual property litigation to damage a competitor – and all provide some form of protection. Furthermore, this protection is needed for the UK to comply with its international obligations under the Paris Convention.
- 6.46 That said, it is clear that the protection may be provided in a variety of ways. The common law approach is to have specific statutory provision, narrowly directed at a limited range of intellectual property rights and acts committed in respect of them. This offers the prospect of certainty. The legislation can set out clear defences and exceptions – where, for example, threats are issued against primary infringement or are made to discover the identity of the trade source of the infringement. The problem is that overly prescriptive rules may occasionally appear arbitrary and may leave gaps in protection.

³⁰ See *Riello Canda Inc v Lambert* (1996) CPR (3d) 324 (FCTD).

³¹ (1989) 25 CPR (3d) 477 (FCTD).

³² See also *Sulco Industries Ltd v Jim Scharf Holdings Ltd* (1996), 69 CPR (3d) 316 (FCTD, prothonotary), a Federal Court decision where similar views were expressed.

³³ K Gill, *Balancing necessary monopolies and free competition: threats of patent infringement and trade libel* (1998), 14(2) CIPR 125.

- 6.47 By contrast, the “unfair” competition remedies apply more generally. They do not distinguish between types of rights, but include threats of other types of litigation. They do not, for example, make the same distinction as UK law between a threat of trade mark litigation and a threat of passing off. They give the courts more discretion to develop the law in accordance with the purpose behind it – namely to prevent unfair commercial dealings. Rather than rely on a statutory distinction between primary and secondary infringement, for example, they appear more context driven in their approach.
- 6.48 The liability of legal advisers has been approached differently in different countries. The Australians have granted immunity to legal practitioners and registered attorneys for “an act done in his or her professional capacity on behalf of a client” for at least 22 years. This appears to work well and we think it may be worth emulating.
- 6.49 In Chapter 8 we make proposals to retain and improve the statutory provisions. This “evolutionary” approach would stay within the structure of threats provisions as used in the UK and several other common law jurisdictions.
- 6.50 In Chapter 9 we consider the advantages and disadvantages of a more general tort, in which basic principles behind the Paris Convention may be developed by the courts in a more purposive way.

PART 2

ANALYSIS AND PROPOSALS

CHAPTER 7

PROBLEMS WITH THE LAW

INTRODUCTION

- 7.1 In this Chapter we explain why the protection provided by the threats provisions should be retained and reformed. They prevent a form of market abuse, whereby a trader attempts to drive a competitor from the market by issuing threats against its customers and others in its distribution network.
- 7.2 On the other hand, we have been told that the groundless threats provisions do not work as well as they should. We summarise the criticisms that have been made of the current law. They fall into three broad categories. First, the provisions may do too little: they may be circumvented, allowing a well-advised rights holder to drive away a rival's customers. Second, the provisions may do too much: they can be used tactically to undermine genuine attempts to settle disputes before engaging in litigation. Third, the provisions are complex and inconsistent, requiring considerable expertise to navigate.
- 7.3 The 2004 reforms to the Patent Act 1977 have provided a partial answer to some of the criticism, but we have been told that problems remain. In particular, there are now unnecessary distinctions between patents, trade marks and design rights.
- 7.4 Finally, we consider whether the provisions should extend to rights in unregistered design.

THE NEED FOR GROUNDLESS THREATS PROVISIONS

The purpose

- 7.5 The purpose of the threats provisions is illustrated by the case of *Halsey v Brotherhood*, decided 130 years ago.¹ As discussed in Chapter 2, Halsey and Brotherhood were rival manufacturers of steam engines. Brotherhood held a patent on an engine, and wrote to Halsey's customers threatening infringement proceedings. The threats were empty: Brotherhood never intended to bring proceedings. Instead, he hoped to frighten off Halsey's customers. At trial, the court accepted that such threats caused injury to Halsey, but unless the allegation of infringement was made in bad faith, the common law could not provide a remedy.
- 7.6 The case provided the impetus for statutory intervention. The purpose behind the patent provisions is "to obviate the possibility of the patentee seeking to coerce the customers of a competitor not to purchase the competitor's goods".² As the problem is not confined to patents, threats provisions were later introduced for trade marks and design rights.

¹ (1881-82) LR 19 Ch 386.

² Patent Law Reform: A Consultative Document, (1975) Cmnd 6000 at [72].

Are groundless threats provisions still needed?

- 7.7 We think that the vice of abusing intellectual property rights remains. Threats of infringement actions can be used by one business as a means to damage a competitor by driving away its customers and other contractors. Where the right is invalid (or not infringed), the rights holder gets an unfair advantage though the use of what has been described to us as “bully-boy tactics”.
- 7.8 The world has changed since *Halsey v Brotherhood*; disputes over steam engines have been replaced by disputes over information technology. But some things have not changed: intellectual property litigation remains expensive, technical and complex, involving the use of specialist courts, judges, lawyers and experts. The threat of proceedings is a potent weapon. Where rights holders threaten those with little investment in the product, they rarely need to issue proceedings or put their right to the test. Many customers may simply drop the product.³
- 7.9 Threats may also damage a competitor even before a product or process is brought to market and a customer base established. A well timed threat to an enterprise seeking investment in order to develop and retail a product would have to be disclosed to potential investors during the negotiation process; this may drive investors away or make the terms on which they will invest more onerous.
- 7.10 In many ways litigation has become more complex as the volume of rights has grown.⁴ A single product is often protected by many different rights. For example, in a case concerning air fresheners, the claim was for the infringement of “nine United Kingdom registered trade marks, three Community trade marks, five registered designs and design right as well as passing off and breach of confidence”.⁵

³ See for example *Quads 4 Kids v Colin Campbell* [2006] EWHC 2482 (Ch) where it was said at [26] by HHJ Pumfrey that: “The representation that was made to eBay is, it might be said, consensual in this sense, that eBay offer a service whose purpose is to avoid eBay being involved in disputes with right owners. eBay take the line of least resistance... once the proper notification is made, they remove the listing. They do not themselves check the bona fides or accuracy of the notification. They rely upon the notifying person for that, but they say if we get a well-constituted notification, then we will remove the listing”.

⁴ Recent research by CambridgeIP has revealed a surge in patent applications in respect of the material graphene, which was first identified in 2004. By January 2013 it showed that there were already 7,351 patents and patent applications worldwide.

⁵ *Reckitt Benckiser UK v Home Pairfum Ltd* [2004] EWHC 302 by Laddie J at [5], [2004] FSR 37.

- 7.11 Mobile phones, in particular, are now covered by a “thicket” of patents,⁶ as well as design rights and trade marks. Samsung and Nokia each hold more than 5,000 mobile phone related patents in Europe, and nearly 20,000 such patents were granted by the European Patents Office in 2011.⁷ When faced with a threat, few retailers would be in a position to tell whether a phone infringed just one of the many patents covering it. Not many phones are as “must have” as the iPhone and safe from being dropped from stock following receipt of a threat of infringement proceedings.
- 7.12 Trade mark and design litigation, although sometimes less technical than patent litigation, can also be complex, expensive and difficult. We note for instance, that registered design and Community registered design disputes are not considered suitable for resolution under the newly introduced small claims track of the Patents County Court.⁸
- 7.13 Any infringement litigation is a frightening prospect. Litigation is inherently risky. A losing defendant is left with a hefty costs bill,⁹ plus the possible loss of profits on any stock sold. In appropriate cases they may face the destruction of their infringing stock (at their own cost).¹⁰ Furthermore, even the possibility of litigation may require listed companies to make public disclosures under local stock exchange rules, affecting their relationships with shareholders and potential investors. Insurers may have to be notified, which may result in higher premiums in future.
- 7.14 Sellers also have liabilities to others in the supply chain. Under section 12 of the Sale of Goods Act 1979, it is an implied term of the contract of sale that the seller has the right to sell the goods, free from any encumbrance. Therefore, a wholesaler, for example, would be liable to a retailer for losses caused to them if the product infringes a registered right.¹¹ This implied term may be bolstered by express terms. For example, suppliers often agree to indemnify large retailers for the costs of any infringement dispute relating to the product supplied.¹² This means that sellers may face claims from their own customers. It is true that many retailers can also look to the manufacturer or importer to indemnify them, but this would not help if the primary infringer were to become insolvent.

⁶ This refers to multiple patents in respect of a single item that overlap and for each of which an individual licence must be obtained.

⁷ Chetan Sharma Consulting, *Mobile Patents Landscape An In-Depth Quantitative Analysis* (2012). The latest 4G technological standard alone is estimated to be protected by over 4,000 patents: see <http://www.pcmag.com/article2/0,2817,2399098,00.asp> Figures provided by Verizon.

⁸ Claims relating to patents and plant varieties are also excluded.

⁹ We provide figures for the typical cost of a patent case in Chapter 9.

¹⁰ See for example, *Waterford Wedgwood Plc v David Nagli Ltd* [1998] FSR 92 (trade marks) and Community Designs Regulation 2002, art 89(1)(b) - (c) that requires a Community Design Court which has made a finding of infringement to order seizure of the infringing products and the materials used to manufacture infringing goods.

¹¹ The classic case being *Niblett v Confectioners' Materials Co Ltd* [1921] 3 KB 387.

¹² See for example *FNM Corp Ltd V Drammock Int Ltd Lec (L'pool) Ltd* [2009] EWHC 1294 (Pat) para 217.

- 7.15 For customers and others not directly involved in bringing a product to market, even a mild threat may affect behaviour. The easiest course may be to stop stocking the product. As the court in *Dimplex (UK) Ltd v De'Longhi* observed, "most customers prefer to let their suppliers fight out patent disputes themselves without becoming involved".¹³ We have been told that certain companies develop reputations for instantly dropping products, which further encourages threats being directed at them.
- 7.16 Threats may not only be made to wholesalers and retailers: damage can also be caused by threats concerning a host of online content and domain names. It may now be more accurate to think in terms of a distribution network (encompassing a variety of businesses) rather than just a distribution chain. The problem is illustrated by recent cases.

A patent case: a retailer stops ordering

In *Zeno Corporation v BSM-Bionic Solutions*, the retailers, Boots, stocked Zeno, which was a device to treat acne by applying heat.¹⁴ The defendants held the patent on a device to treat insect stings by applying heat.

The defendants wrote to a large number of Boots stores asking "why you are of the opinion that you need not take into consideration the patent of our client when marketing the product?" Boots stopped ordering Zeno, though they were later persuaded to reorder. The court found that Zeno did not infringe the defendants' patent.

A trade mark case: the domain name is put in jeopardy

In *Prince Plc v Prince Sports Group Inc*, the claimants supplied computer services under the domain name "prince.com".¹⁵ 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 then copied the letter to NSI, the domain name register. 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.

¹³ [1996] FSR 622 at [626].

¹⁴ [2009] EWHC 1829 (Pat).

¹⁵ [1998] FSR 21.

A design case: eBay delist the product

In *Quads 4 Kids v Thomas Campbell*, the claimants sold childrens dirt bikes through eBay.¹⁶ 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 listing. In fact the registrations 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.

The court granted an injunction to minimise damage during the crucial Christmas sales period.

Should groundless threats provisions be retained?

- 7.17 In 2006, the Law Society Working Party on Intellectual Property published a report calling for the threats provisions to be abolished in the fields of trade marks and design rights.¹⁷ We do not agree that there is a case for abolition; we think that the defects identified in the 2006 report can be addressed without having to go so far. The groundless threats provisions still perform a useful function in protecting a business's supply network.
- 7.18 Abolition would leave traders like Quads 4 Kids and Prince Sports without an adequate remedy.¹⁸ It would also encourage more threats to retailers, online platforms and others. More products would be wrongly withdrawn from sale, undermining competition and growth.
- 7.19 As discussed in Chapter 6, it appears that every major jurisdiction has some form of law to deal with the problem of groundless threats made to a business's supply network. Furthermore, we think that some form of protection against groundless threats is necessary if the UK is to comply with its obligations under the Paris Convention.

Previous reports

- 7.20 Retention of the threats provisions has been endorsed by a series of reviews. In 1944, the Swan Committee noted that people were:

deterred by the risk of legal proceedings for infringement from attempting to manufacture articles forming the subject of a patent, however obvious it may be that the patent is invalid.¹⁹

The existing groundless threats provisions were re-enacted in a clearer format but otherwise unchanged.

¹⁶ [2006] EWHC 2482 (Ch).

¹⁷ The paper did not consider the position of patents. *Threats Actions: Recommendations of the Law Society's Intellectual Property Working Party* (April 2006).

¹⁸ See Chapter 4 and, for greater detail, the background papers published on our website.

¹⁹ Board of Trade, *Patents and Designs Acts: Second Interim Report of the Departmental Committee* (1946) Cmnd 6789 para 74.

- 7.21 In 1967, the Banks Committee began to examine the whole of patent law. During consultation, it was suggested to the Committee that the existing remedy for threats should be abolished. The Committee “had no hesitation in rejecting this proposal since it would immediately lead to the abuse” which the provision was designed to prevent.²⁰
- 7.22 In November 2002, the Department of Trade and Industry and the Patent Office published a consultation paper on proposed wide ranging reforms to the Patent Act 1977.²¹ The consultation led to the reforms to the groundless threats provisions discussed in Chapter 3. Only one individual suggested (with qualifications) that the threats provisions could be removed entirely.²²
- 7.23 More recently, in March 2011 the Institute of Trade Mark Attorneys submitted a preliminary paper to the Intellectual Property Office calling for a review of the current law, in which it concluded that the threats provisions should be retained. They did, however, urge reform, and described the provisions as “ambiguous” and leading to “unnecessary commercial uncertainty for both the rights holder and third parties”.²³
- 7.24 We agree and have reached the provisional conclusion that the provisions should be retained but reformed. At the end of this chapter we ask consultees if they agree.

ARE THE THREATS PROVISIONS TOO NARROW?

- 7.25 There are three themes to the criticisms made of the groundless threats provisions: that they are too narrow; that they are too wide; and that they are too complex.
- 7.26 We look first at the criticism that the provisions fail to offer sufficient protection. It was suggested that there were four loopholes which a well advised rights holder could exploit. In some cases these loopholes could be used to damage a competitor’s distribution network. In others, they may simply add to confusion and games playing.

²⁰ Report of the Committee to Examine the Patent System and Patent Law (1970) Cmnd 4407t para 275.

²¹ Department of Trade and Industry and the Patent Office: *Consultation Paper on the Proposed Patent Act (Amendment) Bill*. The Patent Office now operates under the name of the Intellectual Property Office.

²² *Consultation on the Proposed Patents Act (Amendment) Bill: Summary of responses and Government’s Conclusions*, para 132. The Law Society of England and Wales, who in their 2006 report called for abolition of the threat provisions for trademarks and design rights, did not reply to this consultation though the Law Society of Scotland did.

²³ Institute of Trade Mark Attorneys, *Recommendation of the ITMA Law and Practice Committee: Threats provisions* (March 2011) p 2.

Issuing proceedings

- 7.27 A rights holder may simply issue proceedings against a retailer and then offer to withdraw proceedings if they stop stocking the product. It has been observed that “there is all the difference between threatening to put the knife in and offering to discuss pulling it out”.²⁴
- 7.28 This means that a well-resourced rights holder could still use “bully boy tactics” against retailers and other suppliers, provided that it had enough money to cover the costs and risks of initiating litigation. It is true that this approach carries risks, including the risk that the validity of the right will be challenged in court. But some claimants may be sufficiently well-resourced to bear this risk.

Allegations which fall short of threats

- 7.29 A threat need not be explicit. In practice, a lot of thought may go into drafting a letter which conveys the desired message implicitly.²⁵ In *L'Oréal (UK) Ltd v Johnson & Johnson*, Mr Justice Lightman observed that:

The Letter is the work of a master of Delphic utterances who uses all his skills to say everything and nothing and to convey an enigmatic message which has the same effect on the recipient as a threat or adverse claim whilst disclaiming to be either. He goes beyond merely reserving his clients' rights: he makes clear that no decision has yet been made to sue, but likewise makes clear that others who used the Words on their packaging after pressure from the defendants succumbed to that pressure and desisted; that the defendants thought that the claimants had unfairly sought to benefit from the defendants' goodwill; that the defendants had six years to commence legal proceedings; and that the defendants would afford no comfort in respect of the possibility of such proceedings. ...The threat may be veiled and muffled by protestations of a continuing state of indecision... but the threat remains sufficient (if not designed) to unsettle the claimants.²⁶

- 7.30 The courts have therefore interpreted the concept of a threat widely. For example, in *Quads 4 Kids v Thomas Campbell*, the defendant argued that a mere notification of his purported design right was not a threat.²⁷ The claimant replied that if there were no threat implicit in the notification, eBay would not have withdrawn the listing. The judge granted an interim injunction, but said that the issue was a triable point:

²⁴ *Reckitt Benckiser UK v Home Pairfum Ltd* [2004] EWHC 302, Laddie J at [15] quoting Anthony Walton QC.

²⁵ See further Chapter 2.

²⁶ [2000] ETMR 691 at [16], [2000] FSR 686. Similarly, in *Speedcranes Ltd v Thomson* 1972 SC 324 at 335, Lord Emslie noted the “carefully oblique approach” of the writer of the threatening letter.

²⁷ [2006] EWHC 2482. The publication of his application for a design right had been deferred and so the right could not be legitimately enforced.

It may well be that we have to take a very slightly wider view of what amounts to an actionable threat than has previously been taken in the cases, but the nature of the potential abuse in this case is quite clear.²⁸

- 7.31 The issue never reached a final decision. Despite the wide approach currently taken, there remains a grey area of allegations which may damage the supply network without constituting threats of proceedings.
- 7.32 As explained in *Samsung Electronics (UK) Ltd v Apple Inc*, even an infringement action against a primary infringer may deter customers if it is widely publicised. A consumer may think “I had better not buy a Samsung – maybe it’s illegal and if I buy one it may not be supported”.²⁹ Yet, as we have seen, here the concept of a threat was interpreted narrowly.³⁰ This may be the consequence of the immense commercial strength of both parties to the dispute.

Threats to sue on a different right

- 7.33 The statutory provisions do not cover other related causes of action: it is possible to threaten an action for passing off, instead of trade mark infringement, or an action for breach of confidence rather than patent infringement, or an action of copyright rather than design infringement, without risking liability for making groundless threats.³¹
- 7.34 As we discuss in Chapter 4, passing off and trade mark infringement cover similar but not identical ground.³² A threat of passing off litigation may be perceived by the recipient as being less intimidating, because it is more difficult to prove. However, unadvised individuals and small retailers may be unaware of the distinctions between the two causes of action and be equally disturbed by the prospect of litigation.
- 7.35 We were told that practitioners may sometimes threaten to sue for passing off where the real problem is trade mark infringement. One reason to do this is to avoid the threats provisions.³³ If the letter is received by someone knowledgeable about trade marks, the recipient may realise that the claimant could also possess a trade mark and check the register. In other cases, the recipient will be shocked to find itself being sued for trade mark infringement without prior warning. In either case, the initial letter may deter a customer from dealing with the threatener’s competitor, without being subject to the protection offered by the groundless threats regime.

²⁸ Above, para 28.

²⁹ [2012] EWCA Civ 1339 at [83] by Sir Robin Jacob.

³⁰ Samsung’s claim that Apple had made groundless threats failed.

³¹ For discussion, see M Edenborough, “Unjustified threats to instigate proceedings for infringement of an intellectual property right: problems and potential solutions in UK law”, *Bloomberg European Business Law Review* Vol 2:372 at p 374.

³² See Chapter 4, paras 4.27 to 4.36. See also Background paper 2.

³³ Another reason may be that the registration is weak and the owner does not want the validity of the mark tested in an infringement action.

7.36 The issue is discussed further in the second background paper. The author comments that the extent to which this occurs is unclear. While it is possible that rights holders might be sufficiently concerned by the threats provision that they deliberately chose to frame complaints in terms of passing off for example, the extent to which this is done in practice is unknown.³⁴ There are other factors that might influence the decision and drawbacks for the rights holder in adopting this approach. The rights holder would need to craft the letter carefully which may limit the undertakings it can ask for, and it runs the risk of being penalised in costs if the pre-action correspondence inadequately delineates the scope of the claim.³⁵ In Chapter 9, we seek views on how much this is a problem in practice.

Threats to sue elsewhere: Community trade marks and Community design rights

7.37 A holder of a Community right may threaten to sue in another jurisdiction. In Chapter 5, we noted that a threat of Community trade mark infringement could form the basis of a groundless threats claim, where the threat concerned was of proceedings in the UK.³⁶ Although the courts have been prepared to find that letters contain implicit threats to sue in the UK, it is open to a rights holder to circumvent the groundless threat provisions by making an explicit threat of proceedings in another jurisdiction.

7.38 For example, if the holder of a Community right wished to deter a major retailer incorporated in Luxembourg from selling a product in the UK, it could explicitly threaten proceedings in Luxembourg.³⁷ The threats provisions would not apply, despite the potential loss to the trader's business being felt in the UK. For the purposes of a groundless threats action, it does not matter whether the retailer really could (or would) be sued in Luxembourg. The threat itself may be sufficient to deter sales.

7.39 In Chapter 9, we ask whether these four potential gaps cause problems in practice.³⁸

ARE THE THREATS PROVISIONS TOO WIDE?

7.40 A second group of criticisms made about the groundless threats provisions is that they are too wide. They can be used for tactical advantage in two-party litigation, even if there is no threat to a competitor's customers. Their use may conflict with the policy underlying the civil procedure reforms of the late 1990s and create a conflict between rights holders and their professional advisers.

³⁴ See Chapter 4, paras 4.36 and 4.40. See also Background paper 2.

³⁵ This risk may have increased given the recent amendments to the overriding objective which we discuss below.

³⁶ *Best Buy Co Inc v Worldwide Sales Corporation Espana* [2011] EWCA Civ 618. For further discussion, see Chapter 5, paras 5.39 to 5.44.

³⁷ For the rules on jurisdiction for Community rights see Chapter 5, paras 5.27 onwards.

³⁸ See Chapter 9, para 9.10.

7.41 Here we consider two specific problems. The first is that primary infringers can bring an action for threats concerning trade marks or design rights, if they are also accused of committing an act of secondary infringement. Second, the provisions apply to any person who makes a threat, including an adviser acting on behalf of a rights holder. The next section discusses the ways in which groundless threats provisions tend to drive cases to court.

The definition of a primary infringer

7.42 Groundless threats provisions do not apply if the threat is made about acts of “primary infringement” as these are excluded in the various Acts.³⁹ The main problem raised with us is that the primary infringement exclusions for trade mark and design right litigation are too limited. The law was changed for patents in 2004, but these reforms do not apply to other rights.

7.43 As we discussed in Chapter 2, in trade mark litigation the exclusion applies only where the threat of proceedings is limited to applying the mark to goods or their packaging, importing goods or supplying services under the mark. It does not depend on the status of the infringer. If a letter sent to an importer also threatens action for selling the goods, it is not excluded. Similarly, in design litigation, the exclusion only covers acts of making or importing.⁴⁰

7.44 We have been told that practitioners attempt to craft their letters around these provisions, but often fail. There are various traps. First, a general threat to sue for any infringement will fall outside the exemption.⁴¹ Secondly, a letter may ask for undertakings not to commit certain acts which, if drafted in wide terms, may include acts of secondary infringement and be actionable. For example, a letter to a manufacturer of a protected design which asks it to undertake not to sell the article could be used as the basis of a groundless threats action.

7.45 For patents, the primary infringer exclusion is wider, so rights holders and their advisers can write to an importer who also commits acts of secondary infringement with less fear of a groundless threats action. The exclusion may still need to be navigated carefully, however. As we discuss below, it does not apply where, for example, an importer who is intending to import goods is asked to refrain from offering goods for sale.

Legal advisers

7.46 Where the primary infringement exclusion does not apply, any person aggrieved by the threat may issue proceedings against anyone who makes the threat, including a legal adviser. As we explained in Chapter 2, where the threat takes the form of a solicitor’s letter, the solicitor who writes the letter may be named as a defendant.⁴²

7.47 This has the following effects:

³⁹ See further Chapter 2.

⁴⁰ Registered Designs Act 1949, s 26(2A), Copyright, Designs and Patents Act 1988, s 253(3).

⁴¹ *Johnson v Edge* [1892] 2 Ch 1.

⁴² See for example *Brain v Ingledew Brown Bennison & Garrett* [1995] FSR 552.

- (1) Advisers spend time preparing carefully crafted letters, specifically to prevent groundless threats actions. This adds to costs.
- (2) Advisers may be reluctant to put their name to the letter – and instead suggest that the letter is sent by the client. This may give the misleading impression that the claim is not serious, and has not been drafted on legal advice. Small businesses, in particular, may be disadvantaged if their initial letter is dismissed.
- (3) Advisers may feel the need to seek an indemnity from their client, which can place a strain on the adviser/client relationship.
- (4) Advisers may have to notify their professional indemnity insurer, with a potential impact on future premiums. Again, this adds to costs.
- (5) When sued, the adviser may feel that there is a conflict of interest and therefore unable to continue to act for the rights holder. The rights holder is deprived of its chosen adviser, and must incur the expense and inconvenience of instructing another.

7.48 In practice, the courts have shown some reluctance to join solicitors to an action for groundless threats; at least once it has been begun. In *Reckitt Benckiser UK Ltd v Home Pairfum Ltd*, the court refused to join the solicitor to an existing case on the ground that no reason had been put forward and no benefit for doing so had been identified.⁴³ Practitioners have explained to us that in practice very few companies actually bring threats proceedings against advisers, but that lawyers are “cautious souls”. The mere prospect of an action may be enough to cause difficulties.⁴⁴

DRIVING CASES TO COURT

7.49 The law of groundless threats tends to drive disputes to litigation. First, a rights holder may proceed straight to litigation solely or in part to avoid the possibility of a groundless threats action. Secondly, the person aggrieved by the threat may use groundless threats provisions to proceed straight to litigation. This may have a tactical advantage, for example to see off a smaller and poorer competitor who is seeking to enforce its right. Even if a rights holder writes a relatively low key letter, say, to discuss the grant of a licence and royalty payments, it cannot be sure that the letter will not trigger litigation.

⁴³ [2004] EWHC 302 (Pat), [2005] ETMR 94, but compare *Brain v Ingledew Bennison* [1995] FSR 552 where the solicitor was a co-defendant. This issue is discussed in Chapter 8. See also *Kooltrade v XTS Ltd* [2002] FSR 49, where an application to join the solicitors after judgment had been given was refused.

⁴⁴ They may also be mindful of the effect it may have on their indemnity insurance.

7.50 This emphasis on litigation does not always sit comfortably with the spirit of the Civil Procedure Rules (CPR), which apply to England and Wales.⁴⁵ The rules were introduced in 1999 following the Woolf Report⁴⁶ and underwent substantial amendment on 1 April 2013 which we discuss below. They embody a culture change, whereby disputing parties are expected to set out the issues and make genuine attempts to resolving their differences without recourse to court. As Mr Justice Laddie said in *Reckitt Benckiser UK v Home Pairfum Ltd*:

There is then an obvious tension between the sensible "talk first" policy of the CPR and the "sue first" policy encouraged by the legislation.⁴⁷

7.51 There is no problem where the threat of proceedings is made to someone who clearly falls with the definition of a primary infringer: the groundless threats provisions do not apply. In less clear cut cases, however, it may be difficult to set out the issues without the risk of a groundless threats action.

Pre-action protocols

7.52 A major plank of the Woolf reforms was the development of pre-action protocols to cover various types of litigation, designed to ensure that the parties communicate fully before litigating.⁴⁸ At present there is no specific pre-action protocol for intellectual property rights disputes and so the general pre action protocol applies.⁴⁹ In theory, the parties should comply with the general pre-action protocol and other requirements of the CPR. Those who fail to comply may face cost sanctions.⁵⁰

⁴⁵ There is no equivalent to the CPR in Scotland.

⁴⁶ Lord Woolf, *Access to Justice*, Report (26 July 1996).

⁴⁷ *Reckitt Benckiser UK Ltd v Home Pairfum Ltd* [2004] EWHC 302 (Ch), [2005] ETMR 94, [2004] FSR 37 by Laddie J at [17].

⁴⁸ Lord Woolf commented that pre-action protocols should "build on and increase the benefits of early but well-informed settlements which genuinely satisfy both parties to a dispute", *Access to Justice*, Report (26 July 1996), Ch 10, para 1.

⁴⁹ Although Jackson LJ in his review of civil litigation costs said that the creation of one should be considered; see Jackson LJ, *Review of Civil Litigation Costs: Final Report* (2009), p 256. A Law Society committee chaired by Michael Skrein had previously published a draft pre-action protocol for intellectual property but this did not directly address the issue of groundless threats.

⁵⁰ See Section II of the Practice Direction: Pre-action Conduct.

- 7.53 The issue of a specific protocol was considered briefly by Lord Justice Jackson in his review of civil litigation costs. He saw two possible ways forward: either a new pre-action protocol specific to intellectual property claims; or, alternatively, there could be “simple guidance concerning what pre-action conduct is required”.⁵¹ His report suggested that “if a party complies with approved pre-action guidance as a precursor to *bona fide* [good faith] litigation or ADR [alternative dispute resolution], it should not incur liability for groundless threats”.⁵² He accepted, however, that the issue was outside his terms of reference.
- 7.54 On the face of it, a potential claimant is placed in a difficult position should it wish to approach someone in a way which falls outside the exemption for primary infringement. The CPR require the claimant to write a letter before issuing proceedings setting out details of the allegations and the remedies sought.⁵³ Yet, in doing so the claimant will be exposing themselves to a threats action. Little guidance is available about how to deal with this dilemma, other than to take care.⁵⁴
- 7.55 On 1 April 2013, the CPR underwent substantial amendment. Additional factors were added to the overriding objective. Under the new regime a case must be dealt with justly, as before, but also at proportionate cost. Dealing with a case justly now includes:
- enforcing compliance with rules, practice directions and orders.
- 7.56 Before April 2013, we received differing views as to how far judges hearing infringement actions insist on compliance with the pre-action protocol and penalise parties who do not set out the issues beforehand. We understand from those who practise regularly in this field that judges are aware of the practical consequences of the threats provisions. They will not penalise a party in costs where non-compliance is as a result of trying to avoid liability under statute.
- 7.57 It is clearly too early to assess how the changes to the CPR may alter the approach of the courts where there has been a deliberate non-compliance with the rules and practice directions. Refusing a party to litigation their costs is a major weapon in a judge’s armoury to ensure compliance and now, in order that a case is dealt with justly, compliance has become a headline requirement. It may well be that a step that might have been excused under the old regime as being reasonable in all the circumstances but which is not proportionate, for example giving no indication to the other party about the true nature of the grievance and simply issuing, will not be allowed under the new rules.

⁵¹ Jackson LJ, *Review of the Civil Litigation Cost: Final Report* (2009) at p 256, para 5.2

⁵² Above, para 5.2. See also the suggestion made to the Banks Committee that a standard form of notice for alleged infringement should be prescribed (Cmnd 440, para 275).

⁵³ See Annex A, section 4 of the Practice Direction: Pre-action Conduct.

⁵⁴ See for example, the Skrein Committee’s draft pre-action protocol for intellectual property, para 2.4 and the Patents County Court Guide para 2.1.

“Without prejudice” communications

- 7.58 The issue is linked to the question of how far a party will incur liability for “without prejudice” communications. As we discussed in Chapter 2, in *Unilever v Proctor & Gamble*, the Court of Appeal found that a threat made during “without prejudice” discussions would not be actionable as a threat.⁵⁵ Merely labelling correspondence as being “without prejudice” is not enough. The court will be concerned to see whether the communication is genuinely intended to achieve a settlement, or whether it is merely a prelude to a dispute.⁵⁶
- 7.59 We have been told that many rights holders wish to discuss the grant of a licence and royalty payments, rather than end up in court. It may be difficult, however, to craft an opening letter which does not run the risk of a retaliatory threats action. As has been explained to us, “any meaningful letter conveys a threat to sue unless a compromise is reached beforehand”.

Is the threat being made to the right infringer?

- 7.60 There are compelling policy reasons to encourage litigants to talk to each other before litigating. However, we think that in respect of groundless threats actions a distinction must be drawn between primary infringers who also commit secondary infringements and “true” secondary infringers. Complaints about the interaction of groundless threats and the procedure rules, where the threat is sent to a primary infringer who also commits secondary infringements, can be addressed by a wider exemption for primary infringements, such as exists for patents.
- 7.61 Different considerations apply where a threat is made with the intention of damaging a competitor by driving away its customers. In these circumstances it may not matter much if the letter complies with the pre-action protocol or offers negotiations. If the party threatened has no desire to become embroiled in infringement proceedings, the question of whether there has been compliance is of little concern. The damage done to the competitor’s distribution network may be just as great. We return to this issue in Chapter 8 where we consider the role of good faith in pre-action contact with a secondary infringer.

COMPLEXITY

- 7.62 A final problem is that the current law is complex; we have been told that in places it is also ambiguous. As we explained above at paragraph 7.10, a single product may be protected concurrently by a multitude of different intellectual property rights.
- 7.63 For each type of right there is a different statutory regime. In particular, there are differences between patent litigation and other rights in the exemption for primary infringers and in the approach to reasonable enquiries and good faith. Such differences were said to be clearly undesirable.

⁵⁵ [2000] 1 WLR 2436. The court did not, however, hold that this rule was absolute – there may be occasions where the threat is so improper as to be actionable.

⁵⁶ *Kooltrade v XTS* [2001] FSR 13. See further the discussion in Chapter 2 at para 2.30 onwards. A mere assertion of one’s rights is insufficient to attract the protection of this rule (*Buckinghamshire County Council v Moran* [1990] Ch 623).

- 7.64 Furthermore, we were told that it is difficult to draft pre-action letters in a way that does not attract liability for threats. A letter that refers to infringements of both a trade mark and a patent in respect of a single product might be construed as a threat under trade mark legislation, even if it falls within the wider exclusion for primary infringers in patent legislation. For example, in *Grimme Landmaschinenfabrik GmbH and Co. KG v Scott t/a Scotts Potato Machinery*, the defendant failed to prove unjustified threats of patent infringement, but did establish unjustified threats of design right infringement.⁵⁷
- 7.65 The law is littered with traps for those not familiar with it by virtue of its complexity. The law is so technical that non-specialist advisers can too easily fall foul of its intricacies, and as a result risk liability for themselves and their client. It has been pointed out to us that the groundless threats provisions encourage an inherent inequality of arms. They reinforce the idea that only specialist (and expensive) lawyers and advisers should be involved in intellectual property disputes. The cost may put that type of advice beyond the reach of smaller businesses.

THE 2004 PATENT REFORMS: A PARTIAL ANSWER

- 7.66 The reforms introduced to the Patent Act 1977 in 2004 went a long way towards preventing the over-use of groundless threats actions in two-party patent disputes, and to encouraging genuine attempts efforts at pre-litigation settlement.
- 7.67 Our initial discussions with those interested in the operation of the patent system and the courts suggested that most were happy with the general direction of the 2004 reforms. It was acknowledged that it is now easier to tackle manufacturers and importers who infringe patents, and there was much support for applying the same sort of provisions to trade mark and design litigation.
- 7.68 Some of those we talked to, however, expressed reservations about the detail of the changes. Three criticisms can be made.

Threats to those intending to make or import goods may be actionable

- 7.69 As we saw in Chapter 3, the extended definition of primary infringers leaves a loophole where threats are made to someone intending to make or import a product. The letter is exempt if it only mentions the acts of making or importing. However, if the letter also refers to acts of secondary infringement, the recipient may bring a threats action. For example, if a letter to someone intending to import a product also asks them to undertake not to sell it, it may form the basis of a threats action.

⁵⁷ [2009] EWHC 2691 (Pat), [2010] ECDR 4, [2010] FSR 11.

The meaning of “factual information” is unclear

7.70 The change from “mere notification” to “providing factual information” appears to extend what may be communicated without fear of liability, but its scope is unclear. Practitioners are unsure of what they may or may not say. If interpreted widely the reform may circumvent the threats provisions, but if interpreted narrowly it may leave a legitimate rights holder exposed.⁵⁸

The “good faith” defence protects those with invalid patents

7.71 In Chapter 3 we also raised concerns about the “good faith” defence set out in Section 70(2A). The first problem is that the defence only becomes effective at a very late stage in the proceedings, and then only if a case goes to final hearing. As we saw in Chapter 2, groundless threats proceedings have several stages:

- (1) A person aggrieved may bring an action if they can show that a threat was made.
- (2) The defendant has a defence if they can show that the acts complained of are, or would be, infringements.
- (3) The claimant is still entitled to a remedy if they can be shown that the right is invalid in some respect.
- (4) Section 70(2A)(b) now adds a further defence: even if the claimant shows that the patent is invalid, the defendant may prove that at the time of making the threats he did not know, and had no reason to suspect, that the patent was invalid.

7.72 This defence does not necessarily prevent a person aggrieved from bringing a groundless threats action. Many cases are brought simply to put pressure on the threatener and are resolved by an interim injunction to prevent further threats and preserve the status quo. At the interim stage, the issue of whether the defendant “had no reason to know” the patent was invalid will not be decided as that issue can only be determined at trial.

7.73 A second problem is that the defence applies to *all* the relief claimed. There are three types of relief: a declaration that the threats are unjustified; an injunction against the continuance of the threats and damages for any loss sustained by the claimant. If there has been a full hearing of the issues, and the claimant has succeeded in showing that the patent is invalid, it seems wrong not to grant the claimant a declaration stating that the threat is invalid, or an injunction to stop the threats being continued. The defence appears more appropriate to damages than to a declaration or an injunction.

⁵⁸ See our discussion in Chapter 8.

- 7.74 Finally, although the statute states that the defendant must “prove” that they “did not know and had no reason to suspect that the patent was invalid”, the courts have suggested that the evidential burden is low. The effect of the decision in *FNM Corporation Ltd v Drammock International Ltd and LEC Ltd* is that although the burden is on the defendant, the claimant cannot just make general assertions that the defendant should have known or suspected the patent was invalid.⁵⁹ They must instead put forward a positive case as to why it should have known it was invalid for the specific reasons it was found to be.

RIGHTS IN UNREGISTERED DESIGNS

- 7.75 A final issue is whether groundless threats provisions should apply to unregistered design right.

The case for exempting unregistered designs

- 7.76 The authors of the leading textbook, *The Modern Law of Copyright and Designs*, argue strongly that rights in designs in general, and unregistered design right in particular, ought to be excluded from the threats provisions.⁶⁰ They argue that unlike patent litigation, even litigation over registered design is not particularly difficult:

There normally is nothing difficult or time consuming about a registered design action and certainly it will frequently be much less substantial, than say, a full blooded passing off, breach of confidence or breach of contract action, in respect of which no statutory threats provisions exist.⁶¹

- 7.77 They comment that groundless threats provisions for unregistered rights did not exist until 1988, when design right was introduced; prior to that date protection for unregistered industrial design was provided under the law of copyright which falls outside of the scope of the threats provisions:

We suspect that this extension to unregistered designs was simply to provide a parallel with registered design rights and not because design right proceedings were perceived as being unduly complex or expensive.⁶²

- 7.78 Similarly, the further extension of the provisions to Community registered and unregistered designs “was also to ensure compatibility of treatment”, rather than in response to evidence of mischief.⁶³

⁵⁹ [2009] EWHC 1294 (Pat).

⁶⁰ Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011), 61.3, 61.4 and 61.21.

⁶¹ Above at 61.3.

⁶² Laddie, Prescott and Vitoria, *The Modern Law of Copyright and Designs* (4th ed 2011), 61.3.

⁶³ Above.

- 7.79 Even if there is a case for treating registered designs in the same way as other registered rights, the authors suggest that this does not apply to unregistered rights, which are akin to copyright which is exempted.
- 7.80 Rights in unregistered designs arise automatically, so there is potential for significant levels of innocent infringement. The legislation therefore sets out three situations where a claimant is obliged to tell a party that they are infringing before initiating a claim:
- (1) to perfect a claim for secondary infringement under section 227 of the Copyright, Designs and Patents Act 1988;
 - (2) to justify an order for delivery up under section 230(1)(b) of that Act; and
 - (3) to minimise the infringer's ability to claim the infringement was innocent as they had no knowledge that the design was protected, and thereby avoid the risk of being ordered to pay damages under section 233 of the Act.
- 7.81 Yet a letter notifying a party of the right may expose the writer to a groundless threats action (unless the acts alleged fall within the definition of primary infringement). "Mere notification" alone would not constitute a threat, but the boundary between this and an assertion of infringement may be unclear.⁶⁴
- 7.82 This situation is peculiar to design right because a person cannot be deemed to have knowledge of the right through a central register. There is no innocent infringement defence for Community registered or unregistered design rights, so the problem described above does not arise.⁶⁵ It also differs from the concept of innocent infringement in patents, which can be excluded by applying reference to its patenting and the patent number on the object.⁶⁶

The case for retaining groundless threats provisions for rights in unregistered designs

- 7.83 The argument for retaining groundless threats provisions is that even if much design litigation is straightforward, some cases can be extremely complex and expensive. The recent series of cases between Apple and Samsung illustrate the complexity of litigation over registered designs. While not criticising the parties, the judge in one of the cases said:

Community design infringement cases are supposed to be simple. The material presented in this case is complex and detailed. Aside from the evidence of the experts, there were lengthy skeleton arguments and schedules addressing whether various features were present in the design corpus.⁶⁷

⁶⁴ Copyright, Designs and Patents Act 1988, s 253(4). We examine the problems presented by these provisions further in Chapter 8.

⁶⁵ *J Choo (Jersey) Ltd v Towerstone Ltd* [2008] EWHC 346 (Ch), [2008] FSR 19.

⁶⁶ We explain the concept of constructive knowledge and virtual patenting in Chapter 8.

⁶⁷ [2012] EWHC 1882 (Pat) at [65] by HHJ Birss. *Dyson v Qualtex* [2005] RPC 19 affirmed on appeal [2006] RPC 31, and *Rolawn Ltd v Turfmech Machinery Ltd* [2008] ECDR 13 are further examples of the complexity of some design right cases.

7.84 If groundless threats provisions are to be retained for registered designs, excluding threats for unregistered designs would open a new loop-hole that could be abused. We have seen how a trade mark case can be expressed as a passing off case simply to escape groundless threats provisions. A similar type of problem could arise where registered designs or other registered rights are shadowed by unregistered design rights. An example where this was the case is *Virgin Atlantic Airways Ltd v Premium Aircraft Interiors* where patents were relied upon in conjunction with design rights.⁶⁸ This would add a new complexity which would allow a party to threaten an action for an unregistered design right, and then sue for a registered right.

The way forward

7.85 In the course of our preliminary discussions with lawyers, practitioners and other interested parties, several have told us that exempting rights in unregistered designs would be a retrograde step. By contrast, some others have supported the idea.

7.86 That, however, is not the end of the story. It was pointed out that the problem was not so much with the threats provisions but with what can safely be communicated to exclude the innocent infringement defences. In Chapter 8, we make proposals to address this so that communications made in good faith do not constitute threats if they merely provide factual information to a person who, if they were infringing, would benefit from one of the innocent infringement provisions.

7.87 We think that the same approach would address the problem of perfecting a claim for secondary infringement under section 227 of the 1988 Act (other than for importation). It should not be a threat to bring to the attention of the alleged infringer the fact that an unregistered design right subsists in the design and that no licence for its use has been given by the design right owner.⁶⁹

7.88 On this basis we have provisionally concluded that the groundless threats provisions relating to unregistered designs should be retained, but reformed. Below we ask consultees if they agree.

CONCLUSION

7.89 We welcome views on whether the problems with the current law have been correctly identified and whether other problems exist.

7.90 Overall, we think that groundless threats provisions perform a useful function, but that the law does not work as well as it could. We propose to preserve the threats provisions but update them to reflect the problems which we have identified with their current form.

⁶⁸ [2009] EWHC 26 (Pat): Lewinson J found the patent valid but not infringed; he also found the design right not to have been infringed. Appealed on patent issues only [2009] EWCA (Civ) 1062 where a finding of patent infringement was made.

⁶⁹ In addition, in Chapter 8 we make proposals that similar exclusions for legitimate notifications for patents should be extended to trade marks and design rights; we think that an extension of this kind will also address the problem.

- 7.91 It has been pointed out to us that the threats provisions have evolved over more than a hundred years, and while not perfect they are reasonably well understood. In Chapter 8 we propose further evolutionary changes within the basic framework of the current law. The proposals we make in this chapter are aimed at the criticism that the current provisions “do too much”. Therefore, we propose to extend the narrow definition given to primary infringement in trade mark and registered and unregistered design rights litigation. We also propose protection from liability for legal advisers and more clarity over when it is acceptable to approach a secondary infringer to provide “factual information”.
- 7.92 These proposals, however, do not necessarily meet the criticisms that the provisions do too little. If consultees think that protections need to be expanded, it may be necessary to take a more radical approach. In Chapter 9, we consider the merits of a new tort, founded on the provisions of the Paris Convention.

Question 1

Have the problems with the current law been correctly identified?

Question 2

Do other problems exist?

Question 3

Do consultees agree that protection against groundless threats of infringement proceedings should be retained?

Question 4

If so, should this protection continue to apply to unregistered design right?

Question 5

Do consultees agree that the law of groundless threats actions should be reformed?

CHAPTER 8

PROPOSALS FOR REFORM: AN EVOLUTIONARY APPROACH

INTRODUCTION

- 8.1 In this Chapter we make proposals to reform the statutory threats provisions that build on the current law. Our main aim is to prevent the prospect of a groundless threats action from impeding genuine pre-litigation negotiations over legitimate disputes. We also aim to simplify the legislation by removing unnecessary inconsistencies between the various rights.
- 8.2 We start by considering the exemption for threats made to primary infringers. We then look at whether actions should be brought against legal advisers. Last, we consider the circumstances in which it may be legitimate for a rights holder to approach or even threaten a secondary infringer. We seek views on whether new exemptions to groundless threats actions are needed to cover these types of cases.
- 8.3 These proposals do not deal with the criticism that the groundless threats provisions are too narrow because they do not cover all IP rights or all the possible abuses in this area. To give greater protection against the misuse of threats to undermine trade rivals, we need to broaden the parameters of the action. In Chapter 9 we ask whether a more radical solution is needed, to create a tort similar to that recognised in Canada and many civil law jurisdictions.

EXTENDING THE EXEMPTION FOR PRIMARY INFRINGERS

- 8.4 One of the main problems with the current law is that the exemption of threats of proceedings for acts of primary infringement is too restrictive and technical. Even when rights holders bring legitimate claims against the trade source of the product, their advisers have to take care to craft letters around the statutory provisions.
- 8.5 As we saw in Chapter 3, the case of *Cavity Trays Ltd v RMC Panel Products Ltd* highlighted a problem with section 70(4) of the Patents Act 1977 as originally enacted.¹ The sub-section stated that groundless threats proceedings could not be brought:

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

This was interpreted narrowly to mean that threats made to a manufacturer, importer or user are actionable if they also alleged other acts of infringement. So, a request to the manufacturer not to manufacture, promote, advertise or sell the product could form the basis of a groundless threats action.

¹ [1996] RPC 361.

- 8.6 The problem has been addressed by the 2004 reforms of the Patents Act, but it continues for trade marks and design rights. The parties to trade mark and design rights disputes cannot be as open in exchanging information as would be desirable under the Civil Procedure Rules.² We were told that advisers have to be particularly careful in drafting undertakings, so as not to refer to secondary infringements.³
- 8.7 We propose that the patents approach is extended to trade marks and design rights, so that groundless threats actions could not be brought in respect of threats to a person who stands in a primary relationship to the infringing product, process, article or mark in question. We also think that this should cover intended acts of infringement. This reform would, we believe, meet much of the current concern that groundless threats drive legitimate disputes to court, contrary to the ethos of the civil procedure reforms.
- 8.8 Below we consider in turn how this would apply to threats relating to patent, design rights and trade mark infringements.

Patents

- 8.9 Following the 2004 reforms, section 70(4) now states:
- (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.
- 8.10 The introduction of subsection 70(4)(b) has been welcomed, and we think that this approach should be replicated for the other rights. We have seen, however, that problems arise where the threat is made to a person who intends to make or import a product but has not yet done so. Due to the wording of the subsection, a threat in those circumstances would be actionable.⁴
- 8.11 We think it would be helpful to extend the exemption to cover those who *intend* to make or import a product for disposal or to use a process so that infringement can be tackled at an earlier stage. We think this would be a useful reform. Where the intention is disputed, the threatener would need to bring evidence of such intention, but we do not think that this would be unduly onerous.

² This may become even more of an issue. The CPRs were substantially amended on 1 April 2013 and the obligation under the overriding objective for the parties to comply with rules, practice directions and orders is now a headline requirement; we discuss this in Chapter 7.

³ When determining whether a threat has been made, all relevant circumstances are considered, including the terms of any undertakings. See for example *FNM Corporation Ltd v Drammock International Ltd* [2009] EWHC 1294 (Pat) at [221].

⁴ See Fysh, *The Modern Law of Patents*, (2nd ed 2010), 21-25.

Question 6

Do consultees agree that section 70(4)(b) of the Patents Act 1977 should be extended to apply to threats made to those who *intend* to make or import a product for disposal or to use a process?

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

Registered and unregistered design rights

- 8.12 The design rights statutes use a definition of primary infringement which relates to “the making or importing of anything”.
- 8.13 In relation to registered designs, section 26(2A) of the Registered Designs Act 1949 states:
- 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.
- 8.14 Identical provisions are to be found in relation to unregistered designs and Community design rights.⁵
- 8.15 We propose that this should be extended in a similar way as the patents legislation. In addition to the current exemption, proceedings could not be brought for:

A threat, made to a person who has made or imported a product (or who intends to make or import a product), to bring proceedings for an infringement alleged to consist of doing anything else in relation to that product.⁶

- 8.16 We ask whether the definition of primary infringement should be extended to include any other parties who are effectively the “trade source” of the design. In a different context (applying only to unregistered designs), sections 226 of the Copyright, Designs and Patents Act 1988 refers to “making a design document recording the design for the purpose of enabling such articles to be made”. We would welcome views on whether threats made to designers should also be excluded from the groundless threat provisions.

Question 7

Do consultees agree that the exemption for threats of proceedings for primary infringement in the groundless threats provisions for registered and unregistered design rights should be extended?

⁵ Copyright, Designs and Patents Act 1988, s 153(3); Community Design Regulations 2005, reg 2(5).

⁶ Based on the Patents Act, s 70(4)(b).

Question 8

If so, should the provisions exempt a threat, made to a person who has made or imported a product or article (or who intends to make or import a product or article), to bring proceedings for an infringement alleged to consist of doing anything else in relation to the product or article?

Question 9

Should the legislation exclude threats made to any other parties, such as the designer who produced the design document?

Trade marks

8.17 Threats of proceedings in respect of primary acts of infringement are excluded from section 21(1) of the Trade Marks Act 1994. The excluded infringements are:

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

8.18 We look at each element in more detail below.

Applies the mark to goods or their packaging

8.19 Section 21(1)(a) of the Trade Marks Act 1994 excludes threats in respect of “the application” of the mark to goods or their packaging. This differs from the wording in section 10 of the Act which defines acts of infringement. Section 10 refers to “affixing” the mark to goods or their packaging. The wording of section 10 derives from article 5(3) of the Trade Marks Directive, while section 21 is “home grown”.

8.20 Often the trade source will sub-contract the task of physically applying the mark to the goods.⁷ For example, a supermarket selling biscuits under its “own label” may instruct the manufacturer or packager to apply the supermarket’s mark to the biscuits. It is not entirely clear whether the exemption for threats is limited to the person who physically applies the mark, or whether it extends to the person who caused the mark to be applied.

8.21 If the meaning is restricted to the physical act, the party who causes the mark to be applied would not be a primary infringer. In our example, therefore, the supermarket could bring an action for groundless threats if a rights holder threatened them with infringement proceedings because the “own label” was too similar to their trade mark and would give rise to a likelihood of confusion on the part of the public.

⁷ Kerly suggests that both trade source and sub-contractor are liable under s 10. See *Kerly’s Law of Trade Marks and Trade Names* (15th ed 2011), para 14-015.

- 8.22 In *Nottinghamshire County Council v Woolworths*, the judge considered the meaning of “applies” to be wider than “affixes”.⁸ He thought that it included both the person who places the sign on the goods and the person who causes it to be placed there.⁹ By contrast, in *Bestbuy Co Inc v Worldwide Sales Corporation Espana*, it was considered that section 21(1)(a) was limited to the physical act of applying the mark.¹⁰
- 8.23 A similar issue was raised in joined cases brought before the Court of Justice of the European Union (CJEU). *Orifarm A/S v Merck Sharp & Dohme Corp* concerned the parallel importation of repackaged medicinal products.¹¹ In these circumstances the new packaging must state “by whom the product has been repackaged”.¹² The goods did not show the name of actual repackager. Instead, they showed the name of the company that held the marketing authorisation for the product and who had instructed the actual repackager.
- 8.24 The Supreme Court of Denmark held that the mark had been infringed by the affixing of the mark to the packaging where it was not stated who the actual repackager was. They thought that this could lead the consumer to believe the mark owner had repackaged the products. The Advocate General advised otherwise. He argued that the condition was satisfied *either* by stating who the actual repackager was *or* by stating the name of the undertaking in charge of the repackaging who took responsibility for it. The CJEU upheld the Advocate General’s interpretation.¹³
- 8.25 Usually, the most appropriate person to defend an infringement allegation is the trade source who takes responsibility for the packaging, even if it delegated the task of applying the mark to a sub-contractor. We think that, following *Orifarm*, the courts would interpret section 21 of the Trade Marks Act 1994 in this way, but that it may be useful to clarify this issue.
- 8.26 We propose, therefore, that the exemption is extended to all threats made to a person who has applied a mark to goods or their packaging, or who has caused the mark to be applied. In these circumstances, a groundless threats action could not be brought for threats for other acts of infringement made to that person in respect of that mark.

⁸ [2007] FSR 19. The case concerned the criminal offence of trade mark infringement under the Trade Marks Act 1994, s 92(1).

⁹ The judge thought that to affix the mark would not include stamping, engraving or weaving the mark.

¹⁰ [2011] EWCA Civ 618 at [34] by Lord Neuberger MR.

¹¹ Joined Cases C-400/09 and C-207/10, [2012] 1 CMLR 10, [2011] ETMR 59.

¹² This requirement is based on Article 7(2) of Directive 89/104/EC and the associated case law. See Case C-102/77 *Hoffmann-La Roche* [1978] ECR 1139 at [14]; see also Case C-1/81 *Pfizer* [1981] ECR 2913; Case C-232/94 *MPA Pharma* [1996] ECR I-3671, and Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and ors* [1996] ECR I – 3457.

¹³ Case 400/09, [2012] 1 CMLR 10 at [36].

Importing goods

- 8.27 All groundless threats provisions define importation as a primary infringement. That appears unproblematic.
- 8.28 Again we propose to extend the exemption to all threats made to a person who has imported goods, or intends to, to which the mark has been applied or to their packaging. A groundless threats action could not be brought for threats about other acts of infringement made to that person in respect of that mark.

Supply of services

- 8.29 It has been suggested that, by their nature, services cannot be passed down a chain of supply. *Kerly* comments that threats in relation to services “do not present the same danger of damage as threats in relation to goods”, because such threats are not used to deter a rival’s customers. Therefore, such threats are excluded from section 21 of the 1994 Act.¹⁴
- 8.30 We are concerned that in some cases, however, branded services can be passed down a supply chain. For example: an insurance broker may supply insurance branded by an insurer; a mobile phone shop may supply phone services branded by the telecommunications provider; a franchisee may supply fast-food branded by the franchisor; or a small café may serve coffee branded by the coffee importer. All cases offer the possibility of market abuse if a trader seeks to damage a rival by threatening the small brokers, shops or cafés who do business with the rival.
- 8.31 Furthermore, branded goods may sometimes be accompanied by ancillary branded services. For example, a shop selling “Hotmark” washing machines may also supply “Hotmark” finance deals or “Hotmark” warranties. We do not think that a rights holder should be able to threaten any form of infringement proceedings against the retailer, with no risk of liability for making threats, simply because the retailer has supplied some services using the mark in question.
- 8.32 For these reasons we do not propose that the legislation should exempt all threats made to those who have supplied services under a mark, no matter how small or how far down the distribution chain. If there is to be a primary infringer exemption for services we think it should only apply to those who have taken the commercial decision to brand the services using the mark. We welcome views on this point.

Question 10

Do consultees agree that the exemption for threats of proceedings for primary infringement in the threat provisions relating to trade marks should be extended?

¹⁴ *Kerly’s Law of Trade marks and trade names* (15th ed 2011), para 19-111.

Question 11

If so, should the provisions exempt a threat, made to a person who:

(1) has applied a mark to goods or their packaging, or who has caused the mark to be applied (or who intends to do this); or

(2) has imported goods to which the mark has been applied or to their packaging (or intends to do this),

where the threat is to bring proceedings for an infringement alleged to consist of doing anything else in relation to the mark?

Question 12

Do consultees agree that the exemption should not apply to all threats made to those who have supplied services under a mark?

We welcome views on whether the exemption should only apply to those who have taken the commercial decision to brand the services using the mark.

PROTECTION FOR LEGAL ADVISERS

8.33 As noted by Mr Justice Laddie in *Reckitt Benkiser UK v Home Pairfum Ltd*:

it is now well established that where a professional, for example, a solicitor, patent agent or trade mark agent, writes a threatening letter on behalf of a client to a competitor, not only is the client liable for the actions of his agent, but the professional will be liable also.¹⁵

8.34 The fact that a legal adviser is jointly and severally liable with a client for making threats can be manipulated by disputing parties. It can be used to drive a wedge between adviser and client, or to ensure that there is a “deep pocket” to dip into where the client may be impecunious. We have been told that an effective way of putting pressure on an opponent is to treat their adviser as a tactical target by suggesting they may be joined as a defendant in a threats action.

¹⁵ [2004] EWHC 302 (Pat) at [15].

- 8.35 During the 2002 consultation that led to the 2004 reforms, the Government was urged to address the problem and exempt patent agents and legal representatives “from having threats actions against them when they act on behalf of others”. The suggestion was rejected. It was argued that it would be wrong to create an exception for a specific class of persons, “particularly when it is considered that there is no such exemption for legal advisers in analogous situations such as, for example, libel”.¹⁶
- 8.36 Intellectual property litigation is complex and difficult to navigate; it is especially important therefore that appropriate legal advice is available to those contemplating it. The threats provisions can stand as a barrier to obtaining that advice. We also think that they add to the cost of advice, as lawyers may act defensively to minimise any risk to themselves. In *L’Oreal (UK) Limited v Johnson & Johnson*, for example, the letter sent was described as the work of “a master of Delphic utterances”.¹⁷ The provisions also disadvantage rights holders lacking in power and resources who may find that their legal adviser is unwilling to sign a letter to an alleged infringer, so reducing the impact of the communication.
- 8.37 We therefore believe that the time is right to re-think this conclusion. First, the analogy with libel is not a satisfactory one. As stated in *Terrell*:
- The cause of action given by section 70 is not similar to libel, and there is no question of publication; the manner in which the threat was made is, therefore, not material.¹⁸
- 8.38 The exemption for advisers introduced in Australia in 1990 does not appear to have caused any major problems and seems to be working well.¹⁹
- 8.39 Qualified legal representatives are highly regulated by their professional bodies, and we think that it is more appropriate to deal with improper or unprofessional behaviour by way of complaint to their regulators than by taking advantage of their joint liability. This general principle is unusual and open to misuse.
- 8.40 We consider that a lawyer, registered patent attorney or registered trade mark attorney should not be liable under the threats provisions for patents, trade marks and design rights in respect of an act done in their professional capacity on behalf of a client.

Question 13

Do consultees agree that a lawyer, registered patent attorney or registered trade mark attorney should not be liable under the threats provisions for an act done in their professional capacity on behalf of a client?

¹⁶ The Patent Office, *Consultation on the proposed Patents Act (Amendment) Bill: Summary of responses and the Government’s conclusions*, para 138.

¹⁷ [2000] E.T.M.R. 691, [2000] F.S.R. 686 at [16].

¹⁸ *Terrell on the Law of Patents* (17th ed 2011), para 22-11.

¹⁹ The Australian Patents Act 1990, s 132; see Chapter 6, para 6.15.

LEGITIMATE APPROACHES TO SECONDARY INFRINGERS

8.41 It has been suggested that there are circumstances where a rights holder may legitimately communicate, or even threaten, a secondary infringer. In such circumstances the parties should be able to discuss their differences openly, without the fear or actuality of a groundless threats action driving the case to court prematurely.

8.42 The 2002 Consultation Paper put the issue in the following terms:

Would a genuine attempt to resolve a dispute, initially at least, only be addressed to a manufacturer or importer, rather than a retailer or customer? If so, section 70 provides no barrier to a genuine attempt at a settlement. However, if a genuine attempt might require approaching a customer or retailer rather than a manufacturer or importer, does the existing scope of 'without prejudice' privilege give, in practice, the necessary protection? If not, can we ensure that the provisions are sufficiently flexible such that communications which initiate, amount to or form part of a genuine attempt to settle a *bona fide* dispute between parties are possible – while not being open to abuse?²⁰

8.43 The 2004 reforms to patents introduced four separate defences to prevent groundless threats actions from obstructing genuine attempts to settle good faith disputes with alleged secondary infringers. In summary, the four defences are:

- (1) providing factual information about the patent;²¹
- (2) making enquiries and assertions to track down a primary infringer;²²
- (3) making threats where the primary infringer cannot be found despite best endeavours being used to find them;²³ and
- (4) where a patent is invalid, 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;²⁴

8.44 In initial discussions, we were told that exceptions (2) and (3) generally worked well. There was support for not allowing a groundless threats action where enquiries were for the sole purpose of identifying the primary infringer, or where the primary infringer could not be found. We have more concerns about the other two defences, when taken in isolation.

²⁰ Department of Trade and Industry and Patent Office *Consultation Paper on the proposed Patents Act (Amendment) Bill (2002)*, para 92.

²¹ Above, s 70(5)(a).

²² Above, ss 70(5)(b) and (c).

²³ Above, s 70(6).

²⁴ Patents Act 1977, s 70(2A).

- 8.45 Below we start by looking at the problems in having general exceptions where a party gives “factual information”. There are circumstances when even low-key factual information may be effective in driving away customers, and can therefore be used to cause damage to a trade rival. A similar argument applies to communications which comply with a pre-action protocol. A trader could do considerable damage to a competitor by sending its customers “notifications”, “factual information” or “protocol-compliant” letters. We think that any exceptions to groundless threats actions need to be targeted at the circumstances when it is legitimate to approach secondary infringers, rather than attempt to define the difference between notifications and threats.
- 8.46 We then turn our attention to the circumstances in which a rights holder has a legitimate reason to approach a secondary infringer. We identify three specific circumstances: enquiries to track down a primary infringer; threats where the primary infringer cannot be found; and where notification is necessary to remove an innocent infringement defence. We propose to extend the exemptions for groundless threats which apply in these circumstances.
- 8.47 We argue in these circumstances, issues of notification and good faith are often highly relevant. We therefore propose to apply concepts of factual information and good faith to these specific defences, rather than leave “factual information” and “good faith” as free-floating defences.
- 8.48 We then ask consultees whether there are other circumstances in which it is legitimate to contact a secondary infringer, so that the groundless threats provisions should not apply. In particular, we ask whether rights holders should be able to approach secondary infringers to enter into licence negotiations, without fear of a groundless threats action. We also ask a more general question about other possible exemptions that may be needed.
- 8.49 Finally, we express doubts about a general “good faith” defence. A party who makes threats to secondary infringers about a patent which is later found to be invalid may cause loss to innocent third parties. The question is who should bear the risk of this loss. As a matter of principle, we think that the risk should be borne by patentees, as they are best placed to prevent the loss. Furthermore, as a matter of practice, we doubt that the defence does much to protect genuine negotiations, given that it is raised only at a late stage of the proceedings. We think that any requirement for “good faith” should be targeted at the specific situations where it is legitimate to approach secondary infringers, rather than apply across the board.

“MERE NOTIFICATION” AND “FACTUAL INFORMATION”

- 8.50 Before 2004, section 70(5) of the Patents Act 1977 declared that “a mere notification of the existence of a patent” did not constitute a threat of proceedings. The legislation relating to trade marks and design rights continues to refer to “mere notification”,²⁵ but the Patents Act now exempts providing “factual information about the patent”.

²⁵ Trade Marks Act 1994, s 21(4); Copyright, Designs and Patents Act 1988, s 253(4) and Registered Designs Act 1949, s 26(3).

8.51 There is considerable uncertainty over what constitutes a “mere notification” or “factual information” as opposed to a threat. As noted in *Terrell*, informing someone that it is intended to issue proceedings for infringement in seven days is entirely factual, but cannot have been meant to come within the subsection.²⁶

8.52 The problem is that even a low-key “notification” may be sufficient to drive away a customer who has little involvement with the product, As Mr Justice Laddie noted in *Reckitt Benkiser UK v Home Pairfum Ltd*:

In commerce, the receipt of a letter bringing the addressee’s attention to the existence of an intellectual property right would be construed reasonably as a none too subtle indication that a right’s owner is contemplating enforcing it against the recipient.²⁷

8.53 For example, in *Quads 4 Kids v Thomas Campbell*, the defendant notified eBay that he had registered the designs of the bikes.²⁸ eBay did not check the allegation. Instead, they removed the bikes from listing. The defendant argued that a mere notification was not a threat. The claimant replied that if there was no threat implicit in the notification, eBay would not have withdrawn the listing. The judge granted an interim injunction on the basis that “the nature of the potential abuse in this case is quite clear”.²⁹

8.54 We do not think it is possible to distinguish “mere notification” or “factual information” from a threat. Whether factual information is viewed as a threat will depend on its context and the likely effect it has. When sent to someone who has little investment in the product, even an apparently low-key letter may be effective in encouraging a retailer or internet platform to drop the product – and so cause damage to a competitor.

8.55 Clearly there are circumstances when a rights holder should be permitted to notify a secondary infringer about the existence of a right, and provide accompanying factual information. For example, below we suggest the notifications which may legitimately be made to a person who innocently infringes unregistered design right. However we think that the legislation needs to be clearer about the circumstances in which notifications are permissible and when they have the potential to be abusive.

Question 14

Do consultees agree that there should not be a general exemption for the mere notification of a right or the provision of factual information?

²⁶ *Terrell on the Law of Patents* (17th ed 2011), para 22-18.

²⁷ [2004] EWHC 302 (Ch), [2005] ETMR 94, [2004] FSR 37.

²⁸ [2006] EWHC 2482 (Ch).

²⁹ Above, para 28.

ENQUIRIES TO TRACK DOWN A PRIMARY INFRINGER

8.56 Sections 70(5)(b) and (c) of the Patents Act 1977 state that:

For the purposes of this section a person does not threaten another person with proceedings for infringement if he merely –

- (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 [relating to primary infringement]; or
- (c) makes an assertion about the patent for the purpose of any enquiries so made.

8.57 In Chapter 3 we noted that the courts had applied a restrictive interpretation to enquiries about “whether” a patent has been infringed.³⁰ The main purpose of the subsection is to allow rights holders to contact secondary infringers to ask them to identify the primary infringer.

8.58 In early discussions, stakeholders told us that these sub-sections are useful and do not present any major problems in practice. Often, a rights holder only discovers a potential infringement at the point of retail. They allow the rights holder to trace back along the supply chain to locate the primary infringer. This is the trader the rights holder most wants to deal with, either to cut off or regularise the infringement.

8.59 We think that the exception should apply to the threat provisions for trade marks and design rights, as well as patents.

8.60 We also welcome comments on the detail of this defence. We were told that there was some uncertainty about what assertions could legitimately be made in respect of patents. We think that it would include assertions that the patent exists, that it is valid and that the offending product or process comes within its scope. We would welcome views on whether more should be done to clarify what can legitimately be said.

8.61 The section also appears to permit enquiries to discover “whether” a patent has been infringed. We think this may be too wide. We ask if the defence should only apply to enquiries for the sole purpose of discovering the identity of the primary infringer.

8.62 Finally, we think the exemption should be subject to a general requirement of good faith. We do not propose to be specific about what amounts to good faith, but would allow the courts to make a judgment based on the facts of each case. Examples where an enquiry might not be made in good faith would be where a rights holder knew that their right was invalid, or knew that there was no infringement.

³⁰ *Zeno Corporation v BSM-Bionic Solution Management GmbH*: see Chapter 3, para 3.22.

Question 15

Do consultees agree that the provisions exempting enquiries to find the trade source and permitting assertions to be made should not be confined to patents, but should also apply to trade marks and registered and unregistered design rights?

Question 16

If so, should the exemption be revised? In particular, should it clarify what assertions can legitimately be made about the right?

Question 17

If so, should assertions about the right 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 holders' patent, trade mark or registered or unregistered design rights and the product, process, mark or article in question?**

Question 18

Should the exemption be limited to enquiries for the sole purpose of discovering the identity of the primary infringer, rather than also permitting enquiries to discover "whether" a right has been infringed?

SHOULD OTHER COMMUNICATIONS BE PERMITTED?

- 8.63 We are interested to know whether there are other circumstances where a genuine attempt to resolve an intellectual property dispute might involve approaching a customer or retailer rather than the trade source. If so, should these disputes be given greater protection from groundless threats actions to promote genuine attempts at settlement.

- 8.64 In initial discussions, we received two answers to this question. The first was where it is necessary to contact an infringer to prevent it from relying on a subsequent defence of innocent infringement. The second was for negotiations over the grant of a licence. We discuss each in turn. We then ask about other possible examples.

Innocent infringement

- 8.65 Where the person who commits the infringement is unaware of the existence of the right, the infringement is said to be “innocent”. In some cases, intellectual property law provides respite to certain innocent infringers so that they are not liable for some of the financial remedies. This is particularly the case in unregistered design right. In these cases, to remove the defence, the rights holder is obliged to tell the infringer that the right exists and that their actions constitute an infringement.³¹
- 8.66 This leads to a difficult balancing act. The rights holder has a good reason to notify the secondary infringer, but the notification may cause damage to a third party if the allegations of infringement are untrue. Below we list the innocent infringement defences and then attempt to provide a balanced solution to the problem.

Patents

- 8.67 Section 62(1) of the 1977 Act provides that damages cannot be awarded, or an account of profits be ordered, against an infringer who proves that at the date of the infringement they were not aware or had no reasonable grounds to suppose that the patent existed. Alerting an infringer to the existence of the patent may therefore deny the person notified of the defence of innocent infringement if infringing acts continue after the notification.
- 8.68 The patentee may defeat this defence by marking the product with the fact that it is patented and the patent number (merely including the word “patent” or “patented” is insufficient – the number must also be present); this is sometimes known as “constructive knowledge”.³² As a result of the fact that patent details may change over the lifetime of a product, the IPO recently proposed to remove the numbering requirement with the provision of a link to a website containing the relevant patent information (so-called “virtual patent marking”).³³

Registered designs

- 8.69 Where an infringer was not aware, or had no reasonable grounds to suppose, that the design was registered at the time of the infringement, no award for damages or an account of profits may be made.³⁴

³¹ See Chapter 7, para 7.80.

³² By their nature, processes cannot be marked in this way, but the general principle of lack of knowledge remains valid as a defence if the infringer can discharge the burden of proof.

³³ IPO *Consultation on proposed changes to the Patents Act 1977* (2012).

³⁴ Registered Designs Act 1949, s 24B.

Unregistered designs

- 8.70 For designs protected by design right, a distinction is made between primary and secondary infringers as defined by sections 226 and 227 of the Copyright, Designs and Patents Act 1988. Primary infringement is the reproduction of the design for commercial purpose by making articles to a design or making a design document recording the design for the purpose of enabling such articles to be made, or the authorisation without the consent of another to commit either act. Where this is done without knowing, or having a reason to believe, that design right subsisted in the design at the time of the infringement damages may not be awarded.³⁵
- 8.71 Secondary acts of infringement are the importation, possession, sale, hire or offer for sale or hire in the course of business of something that a person knows or has reason to believe is an infringing article. The infringement is innocent if the person or a predecessor in title innocently acquired the article, in which case the only remedy is damages not exceeding a reasonable royalty in respect of the act complained of.³⁶

Trade marks

- 8.72 There are no innocent infringement provisions for trade marks.

An appropriate balance?

- 8.73 We think that some protection should be given to a rights holder who alerts an innocent infringer to the fact of an infringement. We accept that this is open to abuse. We think, however, that a requirement of good faith when such an approach is made will provide an important protection. The threatener must not have reason to believe that the right is invalid or that it has not been infringed. Furthermore, the notification must not go beyond the making assertions which are necessary. We think it would be helpful to define what information may be communicated, as set out below.

Question 19

Do consultees agree that it should not be a threat to provide factual information to a person who, if they were infringing, would benefit from one of the innocent infringement provisions for patents, and for registered and unregistered design rights?

³⁵ Copyright, Designs and Patents Act 1988, s 232(1).

³⁶ Above, s 233(2).

Question 20

If so, should factual information about the right 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 design or any other information that describes the right? and,
- (5) Details about the alleged similarities between the rights holders' patent or registered or unregistered design rights and the product, process, or article in question?

Negotiations over licence terms

- 8.74 Finally, several stakeholders pointed out that often communications alleging infringement are not intended as a precursor to litigation. Instead, they are designed to bring an infringer to the negotiating table to discuss the grant of a licence and royalty payments. Genuine "without prejudice" negotiations are exempt from the groundless threats provisions but it is difficult to argue that this applies to the "opening shot".³⁷ For a letter to grab the attention of its recipient sufficiently, it must usually include some form of implicit or explicit threat. As we noted in Chapter 7, "any meaningful letter conveys a threat to sue unless a compromise is reached beforehand".
- 8.75 We therefore welcome views on whether it should not be a threat to communicate with a secondary infringer in order to enter into negotiations over licence terms, and if so in what circumstances. We would also like to hear whether a specific defence is required in these circumstances.
- 8.76 We are also interested in whether there are other types of legitimate threats made to secondary infringers. If so, should they be exempted from the groundless threats provisions?

Question 21

Should communication with a secondary infringer about an alleged infringement, made with a view to entering into negotiations over the grant of a licence and its terms be exempted from the threats provisions?

³⁷ For a discussion of when it will, see Chapter 2, para 2.28 onwards.

Question 22

If so,

(1) when should it be legitimate to make such a threat?

(2) Is a specific defence required?

Question 23

Are there other types of threat made to secondary infringers which should be exempted from the groundless threats provisions?

A requirement of good faith

- 8.77 As explained above, permitting certain approaches to be made to an alleged secondary infringer could provide an opportunity for abuse. An implicit threat could be “dressed up” as a legitimate communication. The risk that this will occur cannot be completely eradicated, but we think that it can be minimised by imposing a requirement of good faith whenever a legitimate communication is made.

Question 24

Should a good faith requirement apply to the three specific defences, which are set out above?

Threats to secondary infringers where primary infringers cannot be found

- 8.78 Under section 70(6) of the Patents Act 1977, a party may threaten a secondary infringer if they can show that they have used their best endeavours, without success, to discover the identity of the primary infringer.
- 8.79 Stakeholders told us that they relied on this defence and found it useful. We think that it should be extended to threats made to secondary infringers in respect of trade marks and design rights.
- 8.80 We have been told by some stakeholders that, although the meaning of “best endeavours” may be reasonably clear where it appears in commercial contracts, there is some uncertainty about what its meaning is in the threats context.³⁸ Others said they encountered little difficulty using the section.

³⁸ For a discussion of the meaning of “reasonable endeavours” and “best endeavours” see *Rhodia International Holdings Ltd v Huntsman International LLC* [2007] EWHC 292 (Comm); *Yewbelle Ltd v London Green Developments Ltd & Anor* [2007] EWCA Civ 475. See also the comments of the minister Lord Sainsbury at Report stage of the Patents Bill 2004, *Hansard* (HL) 23 March 2004, vol 659, col 670.

- 8.81 From anecdotal evidence, it appears that the acts undertaken in order to comply with the best endeavours requirement range from writing to a secondary infringer and receiving no reply, to trying every possible source to discover their whereabouts.
- 8.82 It would be overly prescriptive to formulate a list of steps that must be taken to satisfy the best endeavours requirement, as the circumstances of individual cases may vary greatly. We think it may be clearer, however, to replace the phrase “best endeavours” with a requirement to take “all practical steps”. This does not carry the same legal baggage, may be easier to understand and would be flexible enough to deal with different situations as they arise. We welcome views on this point.

Question 25

Do consultees agree that the provisions in section 70(6) of the Patents Act 1977 exempting threats where the primary infringer cannot be found should also apply to trade marks and registered and unregistered design rights?

Question 26

If so, should the provisions state that:

- (1) A person who issues a threat should have a defence where they have taken all practical steps in the circumstances to identify the primary infringer but have not been successful?**
- (2) That before or at the time of making the threat, the recipient of the threat should be notified of all practical steps that have been taken in order to identify the primary infringer?**

INVALID PATENTS - THE “GOOD FAITH” DEFENCE

- 8.83 As we explained in Chapter 3, until the 2004 reforms to the Patents Act 1977 the tort of making groundless threats of infringement proceedings was one of strict liability. It was irrelevant whether the patentee thought that an invalid patent was valid: a groundless threat made in respect of an invalid patent was actionable.
- 8.84 A new defence of good faith was introduced by section 70(2A)(b). It states that even where a patent is shown to be invalid, the claimant will not be entitled to relief where the defendant can show that at the time of making the threat they did not know, and had no reason to suspect, that the patent was invalid in the relevant respect.
- 8.85 We think that the good faith defence is unsatisfactory for six reasons:

- (1) It places the risk that a right is invalid on the claimant in the threats action who has suffered the consequences of the threat being made, rather than on the party making the threat. We think that it is more appropriate to place the risk on the threatener, who is in a better position to evaluate the validity of the right.
- (2) At the very least, a claimant who has succeeded in showing that a patent is invalid should be entitled to a declaration that a threat is invalid, and an injunction to stop the threats being continued.
- (3) The good faith defence arises at a late stage, after the claimant has shown that they are a person aggrieved, that there was a threat and despite infringement being proved by the defendant, the patent is invalid. This means that it does not necessarily protect a genuine rights holder from having a groundless threats action brought against it or an interim injunction being made.
- (4) The decision in *FNM Corporation Ltd v Drammock International Ltd and LEC Ltd*, has tipped the balance too far toward the threatener.³⁹ It appears that a claimant cannot rely on a general assertion that the defendant knew, or ought to have known that the patent was invalid. They must put forward a positive case as to why the patent is invalid and this must be for the same reason as that found by the court.
- (5) The case of *FNM* raised an interesting, but unanswered, issue.⁴⁰ In that case the judge decided that it was the patentee's belief that was material. Any person may make a threat,⁴¹ which led the Judge to note that a problem "might arise if threats are made by or on behalf of a person who is not the patentee". It is unclear what would happen in such a case. If someone other than the patentee issued the threat could they simply rely on the patentee's assertion the right was valid or should they undertake independent enquiries?
- (6) Finally, it is unclear how the new defence promotes its stated aim, which is to permit reasonable discussion and settlement.⁴² Ultimately, any settlement would have been in respect of an invalid patent.

8.86 We have concluded that the defence gives too much protection to the maker of the threat and too little to the person aggrieved. We think it should be repealed in its current form. Instead, the issue of good faith should apply only to one of the specific exemptions we have identified and discuss below.

Question 27

Do consultees agree that the current "good faith" defence in section 70(2A)(b) of the Patents Act 1977 should be repealed?

³⁹ [2009] EWHC 1294 (Pat).

⁴⁰ On the facts there was no need for the judge to address the point.

⁴¹ Patents Act 1977, s 70(1).

⁴² See Chapter 3.

CONCLUSION

- 8.87 The threats provisions have been in place for a long time and, although not perfect, are well known and understood. In this Chapter we have taken an evolutionary approach which we think reflects the desire for cautious reform of the law. Extending the 2004 reforms made for patents to trade marks and design rights would promote greater consistency between the three rights and would address the most obvious defects in the law.
- 8.88 We are also aware of criticisms of the current law that the threats provisions provide insufficient protection against allegations which fall short of threats. Nor do they apply where proceedings are issued against a person's customers. In the next Chapter we set out a more radical approach to reform which may answer these criticisms by dealing with groundless threats of infringement proceedings as a type of anti-competitive practice.

CHAPTER 9

A WIDER APPROACH?

INTRODUCTION

- 9.1 In Chapter 6, we saw that most civil law countries do not have specific statutory provisions to deal with groundless threats of patent, trade mark and design litigation. Instead, the potential abuse is dealt with under general tort law, or a specific tort of unfair competition. These general torts offer broader protection than the UK's threats provisions.¹
- 9.2 Here we start by summarising the potential gaps left by the groundless threats provisions. We seek views on whether these cause problems in practice. We then consider the requirements of the Paris Convention, and refer briefly to the way that the Convention has been incorporated into Canadian law.²
- 9.3 Finally we ask whether we should consider a limited tort of unfair competition in the UK, addressing the particular problems caused by false allegations and misleading statements in respect of patent, trade mark or design rights infringement.

POTENTIAL GAPS IN THE UK PROVISIONS

- 9.4 In Chapter 7, we identified four potential gaps in the groundless threats provisions, which might allow a trader to undermine the position of a competitor by making false allegations that the competitor has infringed its intellectual property rights.

Threats made under the cover of court proceedings

- 9.5 The groundless threats provisions do not apply where proceedings are issued before the threat is made. A rights owner may bring proceedings against a rival's customers in the expectation that the customer will agree to an undertaking not to stock the product without contesting the claim.³ Where the allegation of infringement is spurious, the rival has no remedy for the damage done to them.
- 9.6 The rights owner would face the costs and risks of litigation, including the risk that the issue would be challenged in court - but some claimants may be sufficiently well-resourced to bear this risk.⁴

¹ A tort is called a delict in Scots law.

² See Chapter 6 where we discuss this more fully.

³ See, for example, *S & S Industries v Rowell* [1966] 48 SCR 193 discussed below at para 9.28 onwards.

⁴ For further discussion, see Chapter 7, paras 7.27 and 7.28.

Allegations which fall short of threats

- 9.7 As was explained in *Samsung Electronics (UK) Ltd v Apple Inc*, a widely publicised allegation that a product infringes a patent may lead a consumer or retailer to avoid the product. As it was put in that case, 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”.⁵

Threats to sue for a different right

- 9.8 The statutory threats provisions do not cover other related causes of action: it is possible to threaten an action for passing off, instead of trade mark infringement, or an action for breach of confidence rather than patent infringement, without risking liability for making groundless threats.⁶

Threats to sue elsewhere in the EU

- 9.9 As we discuss in Chapter 5, for European rights it is possible to evade the groundless threats provisions by expressly threatening to sue in another jurisdiction. For example, if the holder of a Community right wished to deter a major retailer incorporated in Luxembourg from selling a product in the UK, it could explicitly threaten proceedings in Luxembourg.⁷

Questions

- 9.10 We welcome views on whether these potential gaps cause any problems in practice. We would also be interested in hearing about any other gaps in protection.

Question 28

Are problems caused in practice by the failure of the groundless threats provisions to cover:

- (1) Cases where court proceedings are issued prior to a threat being made?**
- (2) Allegations which fall short of threats?**
- (3) Threats to sue for a related cause of action, such as passing off or breach of confidence?**
- (4) Threats to sue elsewhere in the EU?**

⁵ [2012] EWCA Civ 1339 at [83] by Sir Robin Jacob. See also Chapter 7, paras 7.29 to 7.32.

⁶ See Chapter 7, paras 7.33 to 7.36.

⁷ For further discussion, see Chapter 5, paras 5.39 to 5.44.

Question 29

Are there other gaps in the protection provided by the groundless threats provisions which need to be addressed?

UNFAIR COMPETITION PROTECTION UNDER THE PARIS CONVENTION

- 9.11 As discussed in Chapter 6, the Paris Convention requires signatory states to provide protection against unfair competition, at least in relation to intellectual property matters.⁸ Under Articles 10*bis* and 10*ter* of the Convention, signatories 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”.
- 9.12 Specific acts are prohibited under Article 10(3)*bis*. For present purposes the most important is paragraph 2 which prohibits:
- 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.
- 9.13 In examining the law in this area, Tom Alkin comments that although English law contains no general tort of unfair competition, “protection is provided by a mosaic of complementary actions”.⁹ For the most part, English law provides broadly equivalent protection, but there are some lacunae. In particular, the common law only protects commercial parties against false allegations where such allegations are made “maliciously”.
- 9.14 As explained in Chapter 4,¹⁰ the requirement of malice puts a high evidential burden on the claimant. The claimant must show that when the defendant made the statement it knew that it was false, or was reckless as to whether it was so.¹¹ For example, in *Emaco Ltd v Dyson Appliances Ltd*, the defendant published a misleading comparison between its vacuum cleaner and the claimant’s vacuum cleaner.¹² The court found that the defendant had acted with “gross carelessness” and a “regrettable lack of concern”, but not maliciously. Therefore, the claimant had no redress for the loss it had suffered.¹³
- 9.15 The Guide to the Application of the Paris Convention makes clear that that under the Convention, malice is not required:

⁸ For the history of this provision see http://www.wipo.int/export/sites/www/freepublications/en/intproperty/611/wipo_pub_611.pdf at p 143.

⁹ T Alkin, “Should there be a tort of ‘unfair competition’ in English law?” 2008 JIPLP Vol 3, No 1, 48.

¹⁰ See also the background papers available on our website.

¹¹ See for example *Wren v Wield* (1868-69) LR 4 QB 730.

¹² [1999] ETMR 903.

¹³ See further background paper 1 at para 1.4 onwards.

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.

- 9.16 As we have seen, the difficulties of proving malice caused problems in *Halsey v Brotherhood* led to the introduction of a statutory groundless threats provision for patents in 1883.¹⁴ Similar provisions were subsequently introduced for trade marks and design rights. The provisions provide protection against most of the problems caused by false allegations of infringement, but not completely.
- 9.17 Scots law likewise knows no delict of unfair competition, although the action of passing off has been widely extended in some Scottish cases.¹⁵ To cast doubt on a person's right to sell goods because they infringe a patent is an instance of the delict of verbal injury, but the statement must be proved false, made with intent to injure, and cause actual loss.¹⁶
- 9.18 It could be argued that the UK has not implemented the provisions of the Paris Convention in full.¹⁷

The UK and a tort of unfair competition

- 9.19 Unlike many civil law systems, England and Wales does not have a general law of tort but rather a law of many torts. A number of these (including the threats provisions) may cover "unfair" competitive practices,¹⁸ but attempts have been made in the past to develop a more general tort of unfair competition. Below we illustrate some judicial statements in favour of such a cause of action, noting that ultimately these statements have been rejected by the English courts in recent years.

¹⁴ (1881-82) LR 19 Ch 386.

¹⁵ See for example *Lang Bros v Goldwell* 1980 SC 237, noted by H MacQueen, "The 'Wee McGlen' case: representations of Scottishness – passing off and unfair trading" [1983] 1 EIPR 18 and Q Stewart, "The law of passing off – a Scottish perspective" [1983] 3 EIPR 64. See also E Reid, *Personality, Confidentiality and Privacy in Scots Law* (SULI, 2010), para 18.26.

¹⁶ *Montgomerie v Paterson* (1894) 1 SLT 530; *Harpers v Greenwood & Batley* (1896) 4 SLT 116. See further E Reid, *Personality, Confidentiality and Privacy*, paras 7.03 to 7.04. Verbal injury should be distinguished from defamation, where pursuers benefit from certain presumptions, for example that defamatory statements are untrue, and the defender's intention in making the statement is generally irrelevant.

¹⁷ In *L'Oreal SA v Bellure* [2008] ETMR (1) 1 at [147] Jacob LJ commented, "Moreover, even if the United Kingdom is in derogation, it has been for over 80 years without complaint. It is not a matter for the judges".

¹⁸ See further, G Dworkin *Unfair Competition: Is the common law developing a new tort?* (1979) EIPR 295, 241. These include the torts of conspiracy, intimidation and injurious falsehood.

9.20 Unsurprisingly, Lord Denning was one such advocate. In *Acrow (Automation) Ltd v Chainbelt*, he commented that “a man who is carrying on a lawful trade or calling has the right to be protected from any unlawful interference with it”.¹⁹ Similarly, Lord Diplock in the *Advocaat* case supported the extension of the tort of passing off, commenting that the case disclosed “a case of unfair, not to say dishonest, trading of a kind for which a rational system of law ought to provide a remedy”.²⁰ Meanwhile, at first instance in that case, Mr Justice Goulding attempted to formulate a principle of general application, saying that:

If a person in the course of trade makes a deliberate statement, false in fact, and of a character apt to cause foreseeable damage to the goodwill or business of a competitor, justice would seem to demand some kind of relief for the latter, at any rate if he can prove actual damage, unless the law excuses the misrepresentation, or limits the liability of its maker, on some special ground in the circumstances of the case.²¹

9.21 Such judicial pronouncements stopped following the decision of the Privy Council in *Cadbury Schweppes Pty Ltd v Pub Squash Co Pty Ltd*. In that case, the trial judge concluded that a case of unfair trading, if such a tort existed, had not been made out despite the fact that the defendants had:

set out in a deliberate and calculated fashion to take advantage of the plaintiffs' past efforts in developing [its product] and that, in particular the defendant... chose a product name and package for [its] proposed product derived from, and intended to gain, the benefit of the plaintiffs' past and anticipated advertising campaign, and the plaintiffs' package for their product.²²

9.22 On appeal, the Privy Council simply observed that there was no need to consider whether such a tort existed, as the appeal had been restricted to a case based on extended passing off following the *Advocaat* case.

9.23 Similarly, in 2008 the Court of Appeal rejected calls to restrain as a form of unfair competition the sale of smell-a-like perfumes marketed in a manner suggestive of the Claimant's expensive perfumes. Lord Justice Jacob rejected this call, labelling it unnecessary, undesirable and inappropriate.²³ He stated that such a tort would be of “wholly uncertain scope” and would “let the genie out of the bottle”.²⁴

¹⁹ [1978] Ch. 122 at 135.

²⁰ *Erven Warnink BV v J Townend & Sons (Hull) Ltd (No.1)* [1979] AC 731 at 740.

²¹ [1978] FSR 1 at 18.

²² On appeal from The Supreme Court of New South Wales, Equity Division [1981] 1 WLR 193 at 202, [1981] RPC 429 at 484.

²³ *L'Oreal SA v Bellure* [2007] EWCA Civ 968, [2008] ETMR 1, [2008] RPC 9, [2008] ETMR (1) 1.

²⁴ Above, at [140].

- 9.24 Scots law is more general in its approach: delictual liability is not dependent upon bringing the facts of a claim within the boundaries of a nominate delict.²⁵ But there are nominate delicts as well as a general principle of liability for loss caused without legal justification, unlawfully or wrongfully. As noted above, this has not extended so far as a delict of unfair competition. The limited recognition of a principle of *aemulatio vicini* (abuse of rights) has also not led to a delict of, or doctrine against, abuse of rights in general.²⁶

The Canadian example

- 9.25 Canada has taken a different approach – much closer to the civil law tradition, even though it has a common law background. As we saw, Canada enacted the unfair competition provisions of the Paris Convention, which are now in section 7 of the Trade-marks Act 1985. This states:

7. No person shall

(a) make a false or misleading statement tending to discredit the business, wares or services of a competitor; ... or,

(e) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada.

- 9.26 This provision is restricted to matters concerning intellectual property rights. It applies to patents, trade marks and design rights, but it remains unclear whether it applies to copyright.²⁷

- 9.27 In *S & S Industries v Rowell*, the Supreme Court of Canada used this provision to provide protection against groundless allegations of patent infringement.²⁸ The court identified three elements to the tort:

- (1) a false or misleading statement;
- (2) tending to discredit the business, wares or services of a competitor; and
- (3) resulting in damage.

Unlike the common law tort, malice was not required.

²⁵ See for example *Micosta v Shetland Islands Council* 1986 SLT 193 at 198 by Lord Ross.

²⁶ See E Reid, "Abuse of rights" (1998) 2 *Edinburgh LR* 129. In a subsequent work, Reid defines the doctrine as encompassing "the general principle that no one should exercise what is otherwise a legitimate right in a way which is solely motivated by the desire to cause annoyance to his or her neighbour". *EJCL* vol. 8.3 (October 2004) <http://www.ejcl.org/83/art83-2.doc>.

²⁷ Laskin CJ's comments in *MacDonald v Vapor Canada Ltd* (1977) DLR (3d) 1 provide support for the view that it does; however the court in *Canadian Copyright Licensing Agency v Business Depot Ltd* [2008] FC 737, 330 FTR 133 at [33] commented that it has never been used in the context of copyright.

²⁸ [1966] 48 SCR 193.

- 9.28 On the facts of *S & S Industries v Rowell*, the defendant had not simply issued threats to the claimant's customers but had in fact sued two of them.²⁹ Both customers agreed that they would not sell the claimant's product or contest the validity of the defendant's patent, but settled on otherwise favourable terms. Section 7 provides protection in circumstances that fall outside the scope of the UK's statutory provisions, which apply to threats and not to actual litigation.
- 9.29 The advantages of this type of broad tort are that the courts can craft it to deal with the problems that emerge. The reference to "honest industrial or commercial usage" means that as acceptable commercial practice evolves, so does the tort.
- 9.30 The disadvantage, however, is that this flexibility also introduces uncertainty. A recent commentator noted some inconsistencies in the Canadian case law on this issue and called for a clearer statutory right. This should "carefully delineate available defences, such as good faith and due diligence" while protecting competitors from unfair threats.³⁰

A NEW TORT OF FALSE ALLEGATIONS?

- 9.31 This raises the question of whether the UK should also enact a new tort of making false or misleading allegations in respect of patent, trade mark or design right infringement. We envisage that the new tort would follow the Paris Convention by applying to allegations made in the course of trade which tend to discredit the establishment, goods or activities of a competitor.

A brief outline of a possible new tort

- 9.32 Like libel, we envisage that a cause of action would require three actors. A would need to make an allegation to B, which caused or was likely to cause loss to C's business. C would then have a cause of action against A.
- 9.33 The allegation must:
- (1) relate to the infringement of a patent, trade mark or design right;
 - (2) be made in the course of trade; and
 - (3) tend to discredit the establishment, goods or activities of a competitor.
- 9.34 In bringing the action, C would not need to show that the allegation of infringement was untrue. However, A would have a defence if it could show that the allegation was true and not misleading. As with libel and the current threats provisions, the burden of proof would lie with A.
- 9.35 The allegation must either have caused loss or be likely to cause loss. Such loss would need to be a foreseeable result of the defendant's actions, and be realistic rather than fanciful. However, the person aggrieved would not need to wait until loss had actually occurred. The action could be used to obtain both interim and final injunctions to restrain the allegations from being made.

²⁹ [1966] 48 SCR 193.

³⁰ K Gill, *Balancing necessary monopolies and free competition: threats of patent infringement and trade libel* (1998) 14(2) CIPR 125.

- 9.36 Importantly, there would be no need to show that the person making the allegation knew that it was untrue or misleading. This would reverse the rule in cases such as *Halsey v Brotherhood* that false allegations are only actionable if they are malicious,³¹ as well as the rule in the Scots law of verbal injury that a statement must be proved false.³²

A comparison with the groundless threats provisions

Narrower protection

- 9.37 In some respects, the new tort would be narrower than the current groundless threats provisions. The requirement for three parties, coupled with the need to show the likelihood of loss to the claimant's business, means that the recipient of a threat could not use the new tort to drive the case to court. The claimant would have to show that someone else – a customer or contractor – was aware of the allegation and acted, or was likely to act, in a way that would cause loss to the claimant's business.
- 9.38 At present, if an alleged secondary infringer (such as a retailer) receives a groundless threat, it may retaliate by bringing an action for groundless threats in its own name. We have been told that some secondary infringers find this useful, especially if they are required to disclose the threat to potential investors or to insurers who may be concerned about it.
- 9.39 Under the tort we have outlined, this would no longer be open to the recipient of a threat. Only a third party could bring an action, and only if it was likely to suffer loss. Thus where a retailer receives a threat, a manufacturer likely to suffer loss could bring an action, but the retailer could not. This would remove the tendency of groundless threat provisions to drive cases to court.

Wider protection

- 9.40 In other respects, the new tort would be wider. It would address the four gaps identified earlier. It would cover mere allegations, threats and actual litigation. It would also include cases in which an allegation of trade mark infringement was couched in terms of a threat of passing off, or where an allegation of patent infringement was couched in the language of breach of confidence. Allegations about these, which if true, would amount to trade mark or patent infringement would be caught.
- 9.41 As far as jurisdiction is concerned, we envisage that if the loss occurred or was likely to occur in the UK, the tort would be actionable in the UK. It would not matter whether litigation was threatened, or where that litigation would take place.

³¹ (1881-82) LR 19 Ch 386.

³² See above, para 9.19.

- 9.42 We have considered how the tort would work where a rights holder makes aggressive allegations of infringement to a manufacturer's customers which turn out to be true. Where a manufacturer hears that its customers are being threatened, this action would enable it to bring the matter to court. It could request an interim injunction to restrain the threats until a court had decided on the issue. Clearly, if the court found the allegations to be well founded, the manufacturer would not be entitled to damages. If, however, the court thought that the rights holder had acted in an inappropriately aggressive way, this could be reflected in costs.
- 9.43 In some cases, threats made to secondary infringers may be misleading, even if infringement has taken place. A statement to an innocent infringer, for example, that it risked having its stock destroyed would be misleading. This would be sufficient to found an action for damages in appropriate cases.

Only allegations relating to patents, trade marks and design rights

- 9.44 In this paper we are only concerned with patents, trade marks and design rights. We do not suggest that the new tort would apply to all false allegations which denigrate a competitor. Tom Alkin points out that the Comparative Advertising Directive already provides protection against denigratory statements made in advertisements. When denigratory statements are made in other contexts, he provides the following warning:

It is strongly arguable that denigratory statements [made otherwise than in the context of advertising] are wholly unavoidable in a competitive economy and, moreover, that the right to make them is protected by Article 10 of the European Convention on Human Rights.³³

- 9.45 Nor have we considered whether the tort should apply to allegations of copyright infringement, which is outside our terms of reference. It would, however, be possible to include allegations in respect of copyright or other rights, if this was thought desirable in the future.

Seeking initial views

- 9.46 A potentially open-ended tort of this type would need to be considered carefully. Given that it changes the way the protection is conceptualised, it introduces greater risk of unintended consequences. The advantage that it would permit courts to craft the tort to deal with emerging problems must be weighed against the risk that uncertainty could be introduced into the law, and we welcome views on this. If there is strong support for a reform of this type, we would need to publish a further consultation paper with more specific proposals.

³³ T Alkin, "Should there be a tort of 'unfair competition' in English law?" 2008 JIPLP Vol 3, No 1, 48 at 50.

Question 30

We welcome views on the advantages and disadvantages of creating a new statutory tort of making false or misleading allegations in relation to patent, trade mark or registered and unregistered design right infringement in the course of trade, which cause or are likely to cause loss to a competitor.

PART 3

CONCLUSION

CHAPTER 10

ASSESSING THE IMPACT OF REFORM

THE SCALE OF THE ISSUE

- 10.1 In Chapter 7 we identified problems with the law of groundless threats; however it is difficult to know their precise scale. In this Chapter, we summarise issues covered by the Impact Assessment in which we have considered, so far as it is possible, the likely costs and benefits of our proposals for reform. Where the likely effect has been difficult to assess we call for more evidence from consultees.¹
- 10.2 We have identified 39 reported judgments over the last 15 years – an average of 2.6 cases a year. These figures do not include cases settled before final judgment or cases heard before the Patents County Court. Nor does a study of the scale of litigation cast any light on instances where there has been an infringement and a threat of proceedings made, only to be withdrawn when met with a forceful but baseless allegation that the threat is groundless.
- 10.3 Most IP litigation is settled before final judgment. According to research 80% of patent litigation settles before a first instance judgment is obtained.² If this were applied to the figure above, there would have been 156 threats cases actually before the courts over the past 15 years – an average of just over 10 a year. We think this continues to under-estimate the number of threat cases, as threats claims are particularly likely to be concluded once an interim injunction and further threats prevented.
- 10.4 The main importance of groundless threats legislation, however, lies in the influence it has on the way that infringement disputes are conducted. We wish to hear from legal advisers about how far negotiations over patent, trade mark and design rights infringement is conducted in the shadow of the legislative provisions on groundless threats.
- 10.5 Major traders including, Amazon, Argos, Boots, eBay and Marks & Spencer are all known to have been targeted by groundless threats, but we do not have figures on the scale of problem. Again, we welcome evidence on this point.

Question 31

We welcome evidence from legal advisers on the impact the groundless threats provisions have on their handling of infringement disputes.

¹ The Impact Assessment is available on our website at http://lawcommission.justice.gov.uk/areas/unjustified_threats.htm.

² *IP Enforcement in the UK and Beyond: A literature Review*, Intellectual property Research Institute of Australia, Occasional paper no 1/09 (June 2009) citing research carried out by CJ Consultants Ltd for the EU. The figure is taken from a 2006 UK survey in the UK and is based on practitioner estimates.

Question 32

We welcome evidence from retailers and others about:

a) the frequency of threats concerning patent, trade mark and design rights infringement; and

b) how they react to such correspondence.

THE EVOLUTIONARY APPROACH: COSTS AND BENEFITS

10.6 In Chapter 8 we made proposals for reform that build on the current law and on the reforms introduced to patent litigation in 2004. There are two main planks to our proposals:

- (1) Drawing on the 2004 reforms for patents, to redefine the distinction made between primary and secondary infringers for threats relating to trade mark and registered and unregistered design rights.
- (2) To provide protection for legal advisers acting in their professional capacity.

10.7 Here we consider the costs and benefits of each in turn.

Redefining secondary infringement in trade mark and design rights

10.8 We propose to apply the reforms introduced into patents legislation in 2004 to trade marks and registered and unregistered design rights. This would allow a rights owner to threaten a primary infringer, such as a manufacturer or importer, without running the risk of being sued for making a groundless threat - even if the letter alleged an act of secondary infringement, such as selling the infringing product.

Costs

- 10.9 We anticipate that the costs behind this approach will be minimal. The reforms proposed under this option build upon the 45 years of case law since the modern threats regime was introduced by the Patents Act 1977. Similarly they build upon the 2004 reforms to patents – reforms which have been generally well received by the industry.
- 10.10 The main costs would be the transitional costs, as IP practitioners familiarised themselves with the new law. We anticipate, however, that these costs would be low as many IP practitioners maintain a practice across more than one of the three protected rights and so they are likely to already be familiar with the concepts being applied by this reform.

Benefits

- 10.11 The reform will make it easier for rights holders to approach a manufacturer or importer who may be infringing a trade mark or design right without running the risk of triggering immediate litigation. This will have two main benefits:

- (1) The significance of the distinction between primary and secondary infringers is complicated and must be explained to a client; this may increase the cost of seeking advice. It will also be easier to draft the initial letter before action. At present, legal advisers craft initial letters with skill and care to avoid the potential of a threats action – and rights holders must pay for the extra time and skills involved.
- (2) Fewer cases will come to court, as disputing parties will be more confident in complying with the Civil Procedure Rules by discussing their differences. The reduced risk of triggering the threats provisions may encourage commercial negotiations in circumstances where the rights holder is happy for the alleged infringer to use the right provided there is a licence in place. Finally, there will be fewer opportunities for primary infringers to bring threats proceedings where threats inadvertently refer to acts of secondary infringement, for example by asking for an undertaking not to sell.

10.12 We think that the main benefit will be in making it easier for an adviser to act and advise and to draft pre-action correspondence. By contrast, there will be only a small reduction in cases coming to court. However, we welcome evidence on this point.

Question 33

We welcome evidence on the impact of reforming the law of groundless threats in trade mark and registered and unregistered design rights so as to extend the exemption for threats made to primary infringers.

Question 34

Do consultees agree that:

- (1) The costs of such a reform would be minimal?**
- (2) It would reduce the cost of engaging an adviser to act and to draft pre-action correspondence? If so, by how much?**
- (3) It would reduce the number of cases litigated? If so, how many cases might be affected?**

Protection for legal advisers

10.13 This reform would protect lawyers and registered patent and trade mark attorneys from tactical threats of claims for damages. In Australia such protection from liability for making threats was introduced by section 132 of the Patents Act 1990.

Costs

10.14 Again, we think that the costs of this reform would be minimal.

10.15 In some exceptional cases, where a rights holder is impecunious, the person aggrieved by a threat may be left without a financial remedy – whereas, at present, they would be able to recover against the legal adviser responsible for the threat. We think such cases would be rare.

Benefits

10.16 The main benefit would be to reduce legal costs. The current law appears to increase costs in the following ways.

- (1) The cost of engaging a legal advisor will be reduced. The need for the complicated advice explaining about the advisor's potential liability and the need for, and consequences of, giving an indemnity will be removed. Advisers spend time preparing carefully crafted letters, specifically to prevent groundless threats actions.
- (2) The need to seek an indemnity from their client can place a strain on the adviser/client relationship.
- (3) Advisers may have to notify their professional indemnity insurer, with a potential impact on future premiums.
- (4) If sued, the adviser may feel that there is a conflict of interest and therefore unable to continue to act for the rights holder. The rights holder is deprived of its chosen adviser, and must incur the expense and inconvenience of instructing another.

10.17 We welcome views on these effects, and on the extent to which costs may be saved.

10.18 A further problem is that advisers may be reluctant to put their name to the letter – and instead suggest that the letter is sent by the client. This may give the misleading impression that the claim is not serious, and has not been drafted on legal advice. Small businesses, in particular, may be disadvantaged if their initial letter is dismissed.

Question 35

We welcome evidence on the impact of providing protection against liability for legal advisers for making threats of infringement proceedings when acting on behalf of clients.

Question 36

Do consultees agree that:

- (1) The costs of such a reform would be minimal?**
- (2) It would reduce the cost of legal advice? If so, by how much?**
- (3) It would make it easier for small businesses to contact alleged infringers?**

A WIDER APPROACH: COSTS AND BENEFITS

10.19 In Chapter 9, we raised the possibility of a new tort of making false or misleading allegations in respect of patent, trade mark or registered or unregistered design rights infringement. We envisaged that the new tort would follow the Paris Convention by applying to allegations made in the course of trade which tend to discredit the establishment, goods or activities of a competitor.

10.20 The tort would have three elements. An allegation must:

- (1) relate to the infringement of a patent, registered trade mark or right in design;
- (2) be made in the course of trade; and
- (3) tend to discredit the establishment, goods or activities of a competitor.

Costs

10.21 As this represents a sea change in the law we do not make detailed proposals regarding the new tort at this stage as we do not know whether stakeholders consider this change is needed. It is not possible to quantify the costs of this option. As with all new rights, however, they will be more substantial. Practitioners would need to adapt to a new cause of action and devote additional time to understanding how it will affect them. There would also be a period of “bedding in” requiring court cases to build up and so provide guidance on the new right.

Benefits

10.22 It is also not possible to quantify the benefits of this option. Some of the key benefits that we anticipate are that: it would no longer be possible to avoid the groundless threats regime by relying on a related right covering one of the three protected rights, for example passing involving a registered trade mark.

Question 37

We welcome initial views on the impact of creating a new statutory tort of making false or misleading allegations in relation to patent, trade mark or registered or unregistered design rights infringement in the course of trade, which cause or are likely to cause loss to a competitor.

CHAPTER 11

LIST OF PROPOSALS AND QUESTIONS

INTRODUCTION

We think that the groundless threats provisions should be retained but reformed. The provisions prevent a form of abuse whereby a trader attempts to drive a competitor from the market by making threats of infringement proceedings. There are, however, problems with the current law and we put forward alternative approaches to its reform. The first approach builds on the 2004 reforms to the threats provisions for patents, which would be extended to trade marks and to registered and unregistered designs. The second we set out in outline only. We propose a new right, a tort of making false allegations that is based on the Paris Convention.

We would like comments and responses on the following.

CHAPTER 7: PROBLEMS WITH THE LAW

We have identified three problems with the current law. First, the threats provisions are too narrow and are easy to avoid by using loopholes, such as threatening to sue for related causes of action like passing off. Second, the provisions are too wide and, for trade marks and design rights, give protection to primary infringers where threats extend to acts of secondary infringement. Also, the provisions apply to legal advisers acting in their professional capacity. Finally, they are too complex and vary between rights. This sets traps for the unwary and lends itself to games playing.

Question 1 Have the problems with the current law been correctly identified? (7.92)

Question 2 Do other problems exist? (7.92)

Question 3 Do consultees agree that protection against groundless threats of infringement proceedings should be retained? (7.92)

Question 4 If so, should this protection continue to apply to unregistered design right? (7.92)

Question 5 Do consultees agree that the law of groundless threats actions should be reformed? (7.92)

CHAPTER 8: AN EVOLUTIONARY APPROACH

Excluding threats to those who intend an act of primary infringement

Patents

Question 6 Do consultees agree that section 70(4)(b) of the Patents Act 1977 should be extended to apply to threats made to those who *intend* to make or import a product for disposal or to use a process? (8.11)

Extending the 2004 reforms for patents to registered and unregistered design rights and trademarks

Registered and unregistered design rights

Question 7 Do consultees agree that the exemption for threats of proceedings for primary infringement in the groundless threats provisions for registered and unregistered design rights should be extended? (8.16)

Question 8 If so, should the provisions exempt a threat, made to a person who has made or imported a product or article (or who intends to make or import a product or article), to bring proceedings for an infringement alleged to consist of doing anything else in relation to the product or article? (8.16)

Question 9 Should the legislation exclude threats made to any other parties, such as the designer who produced the design document? (8.16)

Trade marks

Question 10 Do consultees agree that the exemption for threats of proceedings for primary infringement in the threat provisions relating to trade marks should be extended? (8.32)

Question 11 If so, should the provisions exempt a threat, made to a person who:

- (1) has applied a mark to goods or their packaging, or who has caused the mark to be applied (or who intends to do this); or
- (2) has imported goods to which the mark has been applied or to their packaging (or intends to do this),

where the threat is to bring proceedings for an infringement alleged to consist of doing anything else in relation to the mark? (8.32)

Question 12 Do consultees agree that the exemption should not apply to all threats made to those who have supplied services under a mark? We welcome views on whether the exemption should only apply to those who have taken the commercial decision to brand the services using the mark. (8.32)

Protection for legal advisers

Question 13 Do consultees agree that a lawyer, registered patent attorney or registered trade mark attorney should not be liable under the threats provisions for an act done in their professional capacity on behalf of a client? (8.40)

Legitimate approaches to secondary infringers

There can be real benefits in allowing a rights holder and an alleged secondary infringer to discuss their differences openly and without fear of incurring liability under the threats provisions. Litigation and disruption to business could be avoided or a valuable stream of revenue acquired through the grant of a licence. The current exemptions for mere notification of a right or the provision of factual information are not satisfactory. The difference in the effect on the recipient of a notice or the factual information and that of an implicit threat may be vanishingly small.

We recognise, however, that by permitting certain types of approaches to a secondary infringer to be made this may introduce a risk of abuse. A threat could be “dressed up” in the guise of legitimate communication. We consider therefore, that an important check on the potential for abuse would be to require that the communication must be made in good faith.

Mere notification and factual information

Question 14 Do consultees agree that there should not be a general exemption for the mere notification of a right or the provision of factual information? (8.55)

Enquires to track down the trade source

Question 15 Do consultees agree that the provisions exempting enquiries to find the trade source and permitting assertions to be made should not be confined to patents, but should also apply to trade marks and registered and unregistered design rights? (8.62)

Question 16 If so, should the exemption be revised? In particular should it clarify what assertions can legitimately be made about the right? (8.62)

Question 17 If so, should assertions about the right 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 holders’ patent, trade mark or registered or unregistered design rights and the product, process, mark or design in question? (8.62)

Question 18 Should the exemption be limited to enquiries for the sole purpose of discovering the identity of the primary infringer, rather than also permitting enquiries to discover “whether” a right has been infringed? (8.62)

Notifications to those with an innocent infringement defence

Question 19 Do consultees agree that it should not be a threat to provide factual information to a person who, if they were infringing, would benefit from one of the innocent infringement provisions for patents, and registered and unregistered design rights? (8.73)

Question 20 If so, should factual information about the right 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 design or any other information that describes the right? and
- (5) Details about the alleged similarities between the rights holders' patent, or registered or unregistered design rights and the product, process, or article in question? (8.73)

Negotiations over licence terms

Question 21 Should communication with a secondary infringer about an alleged infringement, made with a view to entering into negotiations over the grant of a licence and its terms be exempted from the threats provisions? (8.76)

Question 22 If so,

- (1) when should it be legitimate to make such a threat?
- (2) Is a specific defence required? (8.76)

Question 23 Are there other types of threat made to secondary infringers which should be exempted from the groundless threats provisions? (8.76)

A requirement of good faith

Question 24 Should a good faith requirement apply to the three specific defences, which are set out above? (8.77)

Threats to the secondary infringer where the primary infringer cannot be found

Question 25 Do consultees agree that the provisions in section 70(6) of the Patents Act 1977 exempting threats where the primary infringer cannot be found should also apply to trade marks and registered and unregistered design rights? (8.82)

Question 26 If so, should the provisions state that:

- (1) A person who issues a threat should have a defence where they have taken all practical steps in the circumstances to identify the primary infringer but have not been successful?
- (2) That before or at the time of making the threat, the recipient of the threat should be notified of all practical steps that have been taken in order to identify the primary infringer? (8.82)

Invalid patents - the “good faith” defence

For patents, a claimant in a threats action will not succeed where the threatener shows that at the time of making the threat it did not know and had no reason to suspect that the patent was invalid. We think that the defence is unsatisfactory. In particular this is because a threat in respect of an invalid patent can still cause loss; the risk that the right is invalid should fall on the threatener and not the party who incurred the loss. Also, the defence denies the claimant all remedies including a declaration that the patent has not been infringed and an injunction to stop the threats. As the defence arises at such a late stage in a dispute it will not protect a genuine rights holder from having a threats action brought against them.

Question 27 Do consultees agree that the current “good faith” defence in section 70(2A)(b) of the Patents Act 1977 should be repealed? (8.86)

CHAPTER 9: A WIDER APPROACH?

There are several gaps in the protection offered by the threats provisions. The provisions do not apply where proceedings are issued before a threat is made. They do not apply to notifications that fall short of a threat, but which may still have a detrimental effect. They do not apply to threats to sue for a related right, such as passing off. Finally, they do not cover threats to sue in respect of a Community right where proceedings will be brought elsewhere in the EU.

Question 28 Are problems caused in practice by the failure of the groundless threats provisions to cover:

- (1) Cases where court proceedings are issued prior to a threat being made?
- (2) Allegations which fall short of threats?
- (3) Threats to sue for a related cause of action, such as passing off or breach of confidence?
- (4) Threats to sue elsewhere in the EU? (9.10)

Question 29 Are there other gaps in the protection provided by the groundless threats provisions which need to be addressed? (9.10)

The gaps in the protection offered by the threats provisions could be addressed by creating a new tort of false allegations. The elements of the tort would be an allegation that relates to the infringement of a patent, trade mark or design right; that is made in the course of trade; and tends to discredit the establishment, goods or activities of a competitor.

Question 30 We welcome views on the advantages and disadvantages of creating a new statutory tort of making false or misleading allegations in relation to patent, trade mark or registered and unregistered design right infringement in the course of trade, which cause or are likely to cause loss to a competitor. (9.46)

THE FINANCIAL IMPACT OF REFORM

Question 31 We welcome evidence from legal advisers on the impact the groundless threats provisions have on their handling of infringement disputes. (10.5)

Question 32 We welcome evidence from retailers and others about:

- (1) the frequency of threats concerning patent, trade mark and design rights infringement; and
- (2) how they react to such correspondence. (10.5)

The evolutionary approach: costs and benefits

Question 33 We welcome evidence on the impact of reforming the law of groundless threats in trade mark and registered and unregistered design rights so as to extend the exemption for threats made to primary infringers. (10.12)

Question 34 Do consultees agree that:

- (1) The costs of such a reform would be minimal?
- (2) It would reduce the cost of engaging an adviser to act and to draft pre-action correspondence? If so, by how much?
- (3) It would reduce the number of cases litigated? If so, how many cases might be affected? (10.12)

Question 35 We welcome evidence on the impact of providing protection against liability for legal advisers for making threats of infringement proceedings when acting on behalf of clients. (10.18)

Question 36 Do consultees agree that:

- (1) The costs of such a reform would be minimal?
- (2) It would reduce the cost of legal advice? If so, by how much?
- (3) It would make it easier for small businesses to contact alleged infringers? (10.18)

A wider approach: costs and benefits

Question 37 We welcome initial views on the impact of creating a new statutory tort of making false or misleading allegations in relation to patent, trade mark or registered or unregistered design rights infringement in the course of trade, which cause or are likely to cause loss to a competitor. (10.22)

APPENDIX A

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.