



Patents, Trade Marks and Design Rights: Groundless Threats

Summary



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The Law Commission

PATENT, TRADE MARKS AND DESIGN RIGHTS: GROUNDLESS THREATS

SUMMARY

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INTRODUCTION

- S.1 The Department for Business, Innovation and Skills and the Intellectual Property Office have asked the Law Commission to review the law of groundless threats of infringement proceedings for patent, trade mark or design infringement.
- S.2 Here we summarise the full Consultation Paper. This is available from our website, together with a pre-prepared response form, an impact assessment and background papers: see <http://lawcommission.justice.gov.uk/consultations/groundless-threats.htm>
- S.3 We seek responses by **17 July 2013**. We welcome responses in any form but it would be helpful if, whenever possible, responses are submitted using the electronic form on our website.

Please send responses –

By e-mail to: intel.prop@lawcommission.gsi.gov.uk

By post to Julia Jarzabkowski, Law Commission, Steel House, 11 Tothill Street, London, SW1H 9LJ. Tel 0203 334 0292.

THE CURRENT LAW

- S.4 The statutory provisions on groundless threats can be traced back to the case of *Halsey v Brotherhood* in 1881.¹ Both Mr Halsey and Mr Brotherhood manufactured steam engines. Mr Brotherhood, however had a flourishing business based in part on his habit of “systematically threatening” to sue Mr Halsey’s customers for infringing his patents. He never did sue: threats were enough. When the customers received threats, they stopped buying Mr Halsey’s engines.
- S.5 Mr Halsey sought an injunction against Mr Brotherhood to stop him making threats, but the courts held that the common law provided no protection unless it was shown that Mr Brotherhood acted with malice. In 1883, Parliament intervened and provided a statutory remedy for those aggrieved by groundless threats of patent litigation.

¹ (1881-82) LR 19 Ch 386.

- S.6 These statutory remedies have since been extended to cover groundless threats about trade marks and registered and unregistered design rights. The groundless threats provisions also apply to European patents, Community trade marks and Community design rights.² The law is to be found in six statutory provisions, set out in full in Appendix A of the Consultation Paper.³
- S.7 The following cases illustrate the contemporary use of groundless threats actions.

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.⁴ 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 and that the letter was a veiled threat.

A design case: eBay delist the product

In *Quads 4 Kids v Thomas Campbell*, the claimants sold children’s dirt bikes through eBay.⁵ 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.

The common elements of the threats provisions

- S.8 All the provisions have their roots in patent law and share four common elements:
- (1) Any “person aggrieved” may bring an action.

² See Consultation Paper, Chapter 5.

³ The provisions are: Patents Act 1977, s 70; Trade Marks Act 1994, s 21; Community Trade Mark Regulations 2006, art 6; Registered Designs Act 1949, s 26; Copyright, Designs and Patents Act 1988, s 253; and Community Design Regulations 2005, reg 2.

⁴ [2009] EWHC 1829 (Pat).

⁵ [2006] EWHC 2482 (Ch).

- (2) For a declaration that the threats are unjustified,⁶ or for an injunction to stop the threats,⁷ 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.
- (4) Even where a threat is justified on that basis, the person aggrieved will still be entitled to a remedy if it can be shown that the right is invalid in some respect.⁸

Threats by legal advisers

- S.9 A threat may be made by any person, whether or not they are the rights holder.⁹ This means that a legal adviser may be sued in their own right for making threats, even when acting on their client's instructions. For example, 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. Even though the correspondence made it clear that solicitors were acting on instructions, they were still caught up in extensive litigation over two-year period.¹⁰

Primary and secondary infringement

- S.10 The legislation distinguishes between "primary" and "secondary" infringement. No action can be brought against threats concerning acts of "primary" infringement.¹¹
- S.11 The basic idea is simple: primary infringers are the trade source of the infringement, for example by manufacturing or importing the offending product. They are more likely to know whether the product infringes another's rights. They may have more invested in the product, so are less likely to fold in the face of groundless threats. There is therefore no need for special legal protection against threats. By contrast, secondary infringers are those such as retailers or business customers, who have little invested in the product, and who are therefore vulnerable to threats, however groundless.

⁶ A declarator in Scots law.

⁷ An interdict in Scots law.

⁸ See Consultation Paper, Chapter 2, paras 2.12 to 2.57. 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.

⁹ 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).

¹⁰ [1995] FSR 552; [1996] FSR 341; [1997] FSR 271 and [1997] FSR 511. For further discussion see paras 2.27 to 2.35.

¹¹ For further discussion see Consultation Paper, Chapter 2, paras 2.38 to 2.47 and Chapter 3, paras 3.7 to 3.15.

- S.12 Unfortunately, the distinction between primary and secondary infringement has caused problems. As originally drafted, the legislation referred to acts of infringement rather than type of infringer. The difference was highlighted in the case of *Cavity Trays Ltd v RMC Panel Products Ltd*.¹²

The “Cavity Trays” problem

Cavity Trays 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.

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. The trial judge held that the threats related to primary infringement, so 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. The threats relating to advertisement and sale, for example, were actionable, even when sent to a primary infringer.

- S.13 As we discuss below, in relation to patents, the law has now been reformed. However, for threats about trade marks and design rights, the “Cavity Trays” problem continues. It is easy for a rights holder to trigger the groundless threats provisions when writing to a manufacturer or importer, if the letter also alleges that the recipient has promoted, advertised or sold the product because these are acts of secondary infringement.
- S.14 We have been told that practitioners attempt to craft their letters around these provisions, but often fail. For example, if a letter asks for undertakings including one not to sell a product, it is actionable.

The 2004 reforms for patents

- S.15 In 2004, the groundless threats provisions for patents were reformed. Although the Government indicated that similar changes would be made to the threats provisions for trade marks and design rights, this has not yet happened.
- S.16 There were three main changes:
- (1) The definition of primary infringement was expanded, to address the “Cavity Trays” problem. Groundless threats proceedings may not be brought for threats made to a person who has manufactured, imported or used a process, even where the threat refers to another act of infringement.

¹² [1996] RPC 361.

- (2) More protection was given to rights holders who had a legitimate reason for contacting retailers and customers. Exemptions were introduced for providing factual information about the patent; for making enquiries to find the trade source of the infringement; and for threats made where the trade source could not be found, despite the threatener's best endeavours.
- (3) A new defence of good faith was introduced for the defendant in a threats action. 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.

S.17 Our initial discussions suggested that most practitioners were happy with the general direction of these reforms.¹³ In particular, they thought that it was now much easier to communicate with a primary infringer who may have committed other acts of infringement without running the risk of a groundless threat action. The exemptions for enquiries to find the trade source and for threats where the trade source could not be found were also welcomed. However, we have concerns about the good faith defence, which we outline below.

¹³ For further discussion see Consultation Paper, Chapter 7, paras 7.66 to 7.74.

SHOULD GROUNDLESS THREATS PROVISIONS BE RETAINED?

THE NEED FOR PROTECTION

- S.18 In the Consultation Paper we conclude that groundless threat provisions are still needed. 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”.¹
- S.19 The world has changed since *Halsey v Brotherhood*,² as disputes over steam engines have been replaced by disputes over information technology. But intellectual property litigation remains expensive, technical and complex. In many ways litigation has become more complex as the volume of rights has grown. A single product is often protected by many different rights.³ 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.

THE NEED FOR BALANCE

- S.20 The importance of intellectual property rights to the UK economy is widely acknowledged. They have been described as a “vital foundation of economic growth”.⁴ The economic value of these rights, however, is undercut by unauthorised use. Effective enforcement against infringement is essential but can stifle innovation, development and competition if misused. The mere act of making a threat to sue for infringement of an intellectual property right can cause significant economic damage to a business given the widely held perception that intellectual property litigation should be avoided at all costs.
- S.21 Therefore, a balance must be struck between protecting existing rights and stimulating new ideas and inventions to promote economic growth. The groundless threats provisions are an integral part of the enforcement regime and play an important role in regulating that balance.

¹ See Consultation Paper, Chapter 7, paras 7.7 to 7.24.

² (1881-82) LR Ch 386.

³ 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”: *Reckitt Benckiser UK v Home Pairfum Ltd* [2004] EWHC 302.

⁴ *The role of Government in Promoting and Protecting Intellectual Property* (29 October 2012) at p 3. See also Consultation Paper, Chapter 1, para 1.2 and following.

THE LACK OF ALTERNATIVE PROTECTION

- S.22 As part of this project we commissioned a background paper to see whether other common law rights might provide commensurate alternative protection to the statutory provisions. The paper is summarised in Chapter 4 of the Consultation Paper. It considers a broad range of possible torts including: malicious falsehood; defamation; inducing breach of contract; intentionally causing loss by unlawful means and abuse of process.
- S.23 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 concludes 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.⁵

LESSONS FROM OTHER JURISDICTIONS

- S.24 We have looked at other major jurisdictions and found that all of those we considered provide some form of legal protection to businesses against the damage done to their supply network by groundless threats of intellectual property litigation.
- S.25 In Chapter 6 we consider the law in seven jurisdictions: Australia, New Zealand, Ireland, Germany, the Netherlands, France, and Canada. All of them 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.
- S.26 Protection is provided in different ways. Several common law jurisdictions follow the UK approach by enacting specific statutory provisions: Australia, New Zealand and Ireland all have specific statutory threat provisions dealing with patents, trade marks and design rights.
- S.27 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.
- S.28 Interestingly, the approach in Canada is more like that of 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.

⁵ Background paper 1, see paras 1.114 and 1.115.

PREVIOUS REPORTS

- S.29 In Chapter 7 we note that most previous reports on this subject have concluded that groundless threats provisions should be retained.⁶
- S.30 An exception is a 2006 report from the Law Society Working Party on Intellectual Property which calls for the threats provisions to be abolished in the fields of trade marks and design rights.⁷ However, we think that the Law Society's concerns can be met by reforming the provisions to expand the exemption for threats made to primary infringers and by providing protection for legal advisers.

UNREGISTERED DESIGN RIGHT

The case for abolition

- S.31 A leading textbook argues that even if groundless threat provisions are to be retained for patent and trade mark litigation, they should be abolished for design rights in general and unregistered design rights in particular. The authors comment that the extension of the threats provisions 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".⁸
- S.32 Rights in unregistered designs arise automatically, so a person cannot be deemed to have knowledge of the right through a central register. The Copyright, Designs and Patents Act 1988 therefore provides various protections for innocent infringement. For example, a rights holder is obliged to tell a party that they are infringing in order to perfect a claim for secondary infringement, or to justify an order for delivery up of the offending articles. In writing such a letter, the claimant is exposed to the risk of a groundless threats action.

The case for retention

- S.33 Even if much design litigation is straightforward, some cases can be extremely complex and expensive.⁹ The publicity given to these cases means that threats of design right infringement litigation may deter a retailer or other secondary infringer. Furthermore, if groundless threats provisions are to be retained for registered design rights, excluding threats for unregistered designs rights would open a new loop-hole that could be abused. A party could threaten an action for unregistered design right, and then sue for a registered right if the case came to court.

⁶ Consultation Paper, Chapter 7, para 7.20 and following.

⁷ *Threats Actions: Recommendations of the Law Society's Intellectual Property Working Party* (April 2006).

⁸ Laddie, Prescott and Vittoria, *The Modern Law of Copyright and Designs* (4th ed 2011), 61.3.

⁹ This is illustrated by a recent series of cases between Apple and Samsung. *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

Conclusion

- S.34 Again, we think that much of the concern can be met by reform rather than abolition. It was pointed out in discussions that the problem was not so much with the threats provisions but with what can safely be communicated to exclude the innocent infringement defences. As we discuss below, we propose that communications made in good faith should 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.
- S.35 We have provisionally concluded that the groundless threats provisions relating to unregistered designs should be retained, but reformed. We ask consultees if they agree.

Questions

Do consultees agree that protection against groundless threats of infringement proceedings should be retained? (Q3)

If so, should this protection continue to apply to unregistered design right? (Q4)

THE NEED FOR REFORM

PROBLEMS WITH THE CURRENT LAW

S.36 In Chapter 7 we identify three sets of problems:

- (1) In some ways, the threats provisions do too little: they are too easy to avoid. A rights holder with deep pockets may simply issue proceedings, for example against a retailer, and then offer to withdraw them if they stop stocking the product. Threats do not need to be explicit: allegations may be made which fall short of threats. Threats may be made to sue for related causes of action like passing off. Finally, for the Community rights, threats may be made to sue outside the UK where the threats provisions do not apply.
- (2) In other ways, the provisions are too wide. For trade marks and design rights they protect primary infringers where the threat also relates to acts of secondary infringement. A rights holder, for example, who asks for an undertaking not to apply a trade mark to goods and to not offer them for sale is exposed to an action for threats. Furthermore, where the threat is written by a legal adviser, the author may be named as a defendant. This can drive a wedge between an adviser and a client.
- (3) Finally, the provisions are too complex and vary between rights. This sets traps for the unwary and lends itself to games playing.

DRIVING CASES TO COURT

S.37 Much of the concern expressed about groundless threats provisions relates to their tendency to drive cases to court. They do this in two ways. A rights holder may proceed straight to litigation solely or in part to avoid the possibility of a groundless threats action. Alternatively, the person aggrieved by the threat may use the 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.

S.38 There is also an uneasy relationship between groundless threat provisions and the Civil Procedure Rules (CPR) in England and Wales, which require disputing parties to communicate fully before considering litigation.¹ As one judge put it:

¹ There is no equivalent to the CPR in Scotland.

There is then an obvious tension between the sensible "talk first" policy of the CPR and the "sue first" policy encouraged by the legislation.²

- S.39 The problem may become more acute following the recent changes to the Rules. Cases must be dealt with justly and at proportionate cost. Dealing with a case "justly" now includes "enforcing compliance with rules, practice directions and orders".³
- S.40 There is little 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. This highlights the importance of getting the right distinction between "primary" and "secondary" infringement.

TWO APPROACHES TO REFORM

- S.41 We consider two different approaches to reform.
- (1) Our main proposals are evolutionary. They address the criticism that groundless threats provisions "do too much" and drive cases to court. We build on the 2004 reforms to the patent provisions: we focus on redefining the distinction between primary/secondary infringement and on providing greater protection to legal advisers. We also propose more clarity over when it is acceptable to approach a secondary infringer.
 - (2) 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. We ask for initial views on the advantages and disadvantages of such an approach. If there is strong support for a reform of this type, we would need to publish a further consultation paper with more specific proposals.

² *Reckitt Benckiser UK Ltd v Home Pairfum Ltd* [2004] EWHC 302 (Ch), [2005] ETMR 94, [2004] FSR 37 by Laddie J at [17].

³ The CPR underwent substantial change on the 1 April 2013 arising out of the review by Lord Justice Jackson; *Review of the Costs of Civil Litigation: Final Report* (2009), and the Government consultation *Solving disputes in the county courts* (February 2012).

Questions

*Have the problems with the current law been correctly identified?
(Q1)*

Do other problems exist? (Q2)

*Do consultees agree that the law of groundless threats actions should
be reformed? (Q5)*

PROPOSALS FOR REFORM 1: AN EVOLUTIONARY APPROACH

- S.42 In Chapter 8 we make three main proposals, which build on and adapt the 2004 patent reforms. These are: to extend the exemption for threats made to primary infringers; to protect legal advisers; and to clarify when a rights holder may communicate with, or even threaten a secondary infringer.

EXTENDING THE EXEMPTION FOR PRIMARY INFRINGERS

Patents

- S.43 The 2004 reforms to patent legislation were generally welcomed, and we propose to extend this approach to threats about registered and unregistered design right and trade mark infringement.
- S.44 That said, one small criticism has been made of the patent reforms. As currently drafted, section 70(4)(b) of the Patents Act 1977 does not exclude threats made to those who *intend* to commit acts of primary infringement, if the threat also includes a threat in relation to other forms of infringement.
- S.45 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. 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.

Question

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? (Q6)

Registered and unregistered design rights

- S.46 The design right statutes define primary infringement as “the making or importing of anything”. We propose to extend this in a similar way to the patents legislation, so that all threats made to a maker or importer would be exempt, even if the threat also refers to other forms of infringement. Threats to those who intend to make or import would also be excluded.
- S.47 We also ask whether the definition of primary infringement should be extended to other forms of infringement, such as a designer who produces a design document.

Questions

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? (Q7)

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? (Q8)

Should the legislation exclude threats made to any other parties, such as the designer who produced the design document? (Q9)

Trade marks

S.48 For trade marks, acts of primary infringement are defined differently. Section 21(1) of the Trade Mark Acts 1994 refers to:

- (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.

S.49 We propose to exempt any threat made to a person who has applied a mark to goods or has imported goods to which the mark has been applied. We also propose to clarify the law so that threats to those who have caused the mark to be applied, for example by sub contracting the work, will also be exempt.

S.50 However, we are concerned about exempting from the threats provisions all services supplied under the mark. The justification for this exemption is said to be that threats in relation to services “do not present the same danger of damage as threats in relation to goods”, because services cannot be passed down a chain of supply.¹ But in some cases, branded services can be passed down a supply chain. For example a broker may supply insurance branded by the insurer; 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 small brokers, shops or cafés who do business with the rival.

S.51 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.

¹ *Kerly's Law of Trade marks and trade names* (15th ed 2011), para 19-111.

Questions

Do consultees agree that the exemption for threats of proceedings for primary infringement in the threat provisions relating to trade marks should be extended? (Q10)

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? (Q11)

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. (Q12)

PROTECTION FOR LEGAL ADVISERS

- S.52 Currently, a party's legal adviser can also be sued for making groundless threats. In Chapter 7 we explain that this can be divisive and cause extra expense and complexity. An adviser may have to ask the client for an indemnity and explain the consequences of giving one. If the adviser is included in threats proceedings they may no longer be able to act for their client. Where they have professional indemnity insurance the insurer will have to be informed, which may result in higher premiums.
- S.53 In Australia, advisers acting in a professional capacity are not liable for acts done on behalf of the rights holder.² This appears to be working satisfactorily. We propose similar protection should be available for lawyers, registered patent attorneys and registered trade mark attorneys acting in a professional capacity on behalf of a client.

² Patents Act 1990, s 132. For discussion, see Consultation Paper, Chapter 6, para 6.15.

Question

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? (Q13)

LEGITIMATE APPROACHES TO SECONDARY INFRINGERS

S.54 The 2004 reforms to patents introduced four separate defences to prevent groundless threats actions from obstructing genuine attempts to settle disputes with alleged secondary infringers. The defences are:

- (1) making enquiries and assertions to track down a primary infringer;³
- (2) making threats where the primary infringer cannot be found despite best endeavours being used to find them;⁴
- (3) providing factual information about the patent;⁵ and
- (4) where a patent is invalid, the defendant to a threats action has a “good faith” defence, if at the time of making the threats it did not know, and had no reason to suspect, the patent was invalid in that respect;⁶

S.55 In initial discussions, there was wide 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 think that these defences should be extended to trade marks and registered and unregistered design rights. We also ask whether there are circumstances in which it is legitimate to communicate with an alleged secondary infringer, without running the risk of a groundless threat action. An example might be letters to initiate negotiations of licence terms. We recognise that this may open up an avenue for abuse under the guise of a legitimate approach: to address this we propose that any permitted approach must be made in good faith.

S.56 On the other hand, we have concerns about general defences of providing “factual information” or acting in “good faith”.

Enquiries to track down a primary infringer

S.57 Often, a rights holder only discovers a potential infringement at the point of retail. In patents cases, a rights holder is now permitted to trace back along the supply chain to locate the primary infringer. Enquires made for the sole purpose of identifying the primary infringer cannot found an action for groundless threats.

³ Patents Act 1970, ss 70(5)(b) and (c).

⁴ Above, s 70(6).

⁵ Above, s 70(5)(a).

⁶ Above, s 70(2A).

- S.58 We have been told that this exception works well. We propose that it should apply to the threat provisions for trade marks and design rights, as well as patents.
- S.59 We also invite comments on the detail of this defence. We were told that there was some uncertainty about what assertions could legitimately be made about 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.
- S.60 As currently drafted, section 70(5)(b) of the Patents Act 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.

Questions

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 mark and registered and unregistered design rights? (Q15)

If so, should the exemption be revised? In particular, should it clarify what assertions can legitimately be made about the right? (Q16)

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? (Q17)

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? (Q18)

Should other communications be permitted?

- S.61 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. It has been suggested that exceptions should be provided in two circumstances: first, where it is necessary to contact an infringer to prevent it from relying on a subsequent defence of innocent infringement; or secondly to initiate negotiations over the grant of a licence.
- S.62 We think such exceptions may be useful, but there would need to be safeguards against abuse. We propose that the communications must be made in good faith. The threatener must have no reason to believe that the right is invalid or not infringed. Furthermore, the notification must not go beyond the making of those assertions which are necessary. We think it would be helpful to define what information may be communicated.
- S.63 We ask if there are other communications which should not be actionable as groundless threats.

Questions

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? (Q19)

If so, should factual information about the right include the same information as listed in Question 17 above? (Q20)

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? (Q21)

If so,

(1) when should it be legitimate to make such a threat?

(2) Is a specific defence required? (Q22)

Are there other types of threat made to secondary infringers which should be exempted from the groundless threats provisions? (Q23)

Should a good faith requirement apply to the specific defences, set out above? (Q24)

Threatening secondary infringers with proceedings

- S.64 Currently, for patents it is possible to threaten a secondary infringer where, despite best endeavours, the trade source of the infringement cannot be found. We propose that this should be extended to trade marks and registered and unregistered design rights.

- S.65 We were told that there was some uncertainty about the meaning of “best endeavours” outside the context of commercial contracts. We ask whether it would be clearer to require the threatener to have taken “all practical steps” to identify the trade source.

Questions

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? (Q25)

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? (Q26)

Factual information

- S.66 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”,⁷ but the Patents Act now exempts providing “factual information about the patent”.
- S.67 The problem is that 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 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.

⁷ Trade Marks Act 1994, s 21(4); Copyright, Designs and Patents Act 1988, s 253(4) and Registered Designs Act 1949, s 26(3).

Question

*Do consultees agree that there should not be a general exemption for the mere notification of a right or the provision of factual information?
(Q14)*

Invalid patents – the “good faith” defence

- S.68 This defence was introduced for patents in 2004. It provides that in an action for groundless threats, even where a patent is shown to be invalid, the claimant in that action 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.
- S.69 It therefore arises at a late stage: first the claimant in a threats action must show that a threat has been made, the defendant to the action can justify the threat if they prove infringement. If, however, the claimant can show that the patent is invalid, they may still have a remedy but this is subject the “good faith” defence. The question then arises whether the defendant knew, or has reason to suspect, that the patent was invalid (in the way which the court found it to be) when the threat was made. If not, the claimant is denied any form of relief.
- S.70 This change was introduced to the 2004 Bill at a late stage during its passage through Parliament.⁸ Its stated aim was to promote “reasonable discussion to achieve settlement”. Given that the defence arises at such a late stage, we are not sure it meets this aim. Persons aggrieved by a threat can still go to court and hope to resolve the issues through an interim injunction, as the substance of the defence would not be dealt with until the final hearing.
- S.71 Surprisingly, the defence deprives the claimant of any relief, not just damages. A claimant who succeeds in showing that the patent is invalid is not even entitled to a declaration stating that the patent is invalid, or to an injunction to stop the threats being continued. This seems wrong. Threats in respect of invalid patents can be as damaging as those made in respect of valid ones.
- S.72 We conclude 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 defences we have identified.

⁸ It 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.

Question

Do consultees agree that the current “good faith” defence in section 70(2A)(b) of the Patents Act 1977 should be repealed? (Q27)

PROPOSALS FOR REFORM 2: A WIDER APPROACH?

S.73 In Chapter 6 we look at how other jurisdictions deal with the problem of groundless threats of infringement litigation. Most civil law countries do not have specific statutory provisions. Instead, the potential abuse is dealt with under general tort law or a specific tort of unfair competition. These torts offer broader protection than the UK's threats provisions.

THE GAPS IN PROTECTION

S.74 In Chapter 9, we identify four potential gaps in the protection offered by the threats provisions and ask whether these cause any problems in practice. These are:

- (1) Threats made under the cover of court proceedings. 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 hope that they do not contest the claim.¹ The rights owner would face the costs and risks of litigation if they do, but some may be sufficiently well-resourced to bear this risk.²
- (2) Allegations which fall short of threats. 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".³
- (3) Threats to sue for a different right. The statutory threats provisions do not cover other related causes of action: it is possible to threaten an action for passing off, for example, without risking liability for making groundless threats.⁴
- (4) Threats to sue elsewhere in the EU. For European rights it is possible to evade the groundless threats provisions by expressly threatening to sue in another jurisdiction.⁵

S.75 We ask if there are other gaps which need to be addressed.

¹ See, for example, *S & S Industries v Rowell* [1966] 48 SCR 193.

² For further discussion, see Consultation Paper, Chapter 7, paras 7.27 and 7.28.

³ [2012] EWCA Civ 1339 at [83] by Sir Robin Jacob. See also Chapter 7, paras 7.29 to 7.32.

⁴ See Consultation Paper, Chapter 7, paras 7.33 to 7.36.

⁵ For further discussion, see Consultation Paper, Chapter 5, paras 5.39 to 5.44.

Questions

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? (Q28)*

Are there other gaps in the protection provided by the groundless threats provisions which need to be addressed? (Q29)

UNFAIR COMPETITION UNDER THE PARIS CONVENTION

- S.76 In Chapter 6 we discuss the obligation placed on signatory states under the Paris Convention to provide protection against unfair competition, at least in relation to intellectual property matters.⁶
- S.77 For the most part, English law provides broadly equivalent protection through a patchwork of torts, but it is not complete, and there is no specific tort of unfair competition.⁷ The common law, for example, protects commercial parties against false allegations but only where they are made maliciously.
- S.78 In Chapter 9 we explain that 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.
- S.79 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.
- S.80 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.

⁶ See Consultation Paper, Chapter 9, para 9.11 and following.

⁷ Scots law likewise has no delict of unfair competition.

- S.81 The claimant would not need to show the allegation 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.
- S.82 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.
- S.83 A potential tort of this type would need to be considered carefully. Given that it changes the way the protection is conceptualised, it introduces a greater risk of unintended consequences. The advantage is that it would permit courts to craft the tort to deal with emerging problems, but this must be weighed against the risk of uncertainty. We welcome views. If there is strong support for a reform of this type, we would need to publish a further consultation paper with more specific proposals.

Question

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.(Q30)

THE IMPACT OF REFORM

THE SCALE OF THE PROBLEM

- S.84 As we explain in Chapter 10, it is difficult to know the scale of the problems caused by the threats provisions. We have identified 39 reported judgments over the last 15 years – an average of 2.6 cases a year. However, this does not include cases heard before the Patents County Court or the many cases which settle before final judgment.
- S.85 The main importance of groundless threats legislation lies in the influence it has on the way that infringement disputes are conducted. We wish to hear from legal advisers, retailer and others about how far negotiations over patent, trade mark and design rights infringement is conducted in the shadow of the legislative provisions on groundless threats.

Questions

We welcome evidence from legal advisers on the impact the groundless threats provisions have on their handling of infringement disputes. (Q31)

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. (Q32)

THE EVOLUTIONARY APPROACH: COSTS AND BENEFITS

Redefining secondary infringement in trade mark and design rights

- S.86 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.
- S.87 The main costs would be the transitional costs, as practitioners familiarise themselves with the new law. However, most will already be familiar with the broad concepts. We therefore think that the costs will be minimal.
- S.88 The main benefit is that it would be 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. Fewer cases will come to court, as disputing parties will be more confident in complying with the Civil Procedure Rules by discussing their differences. It should also be safer to start commercial negotiations for the grant of a licence.

Questions

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. (Q33)

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? (Q34)*

Protection for legal advisers

S.89 We think that legal adviser liability leads to the following problems:

- (1) It increases the complexity of advice, as advisers spend time crafting careful letters, explaining the law and asking for indemnities.
- (2) If sued, advisers must notify their professional indemnity insurer, with a potential impact on future premiums. They may be unable to continue to act for the rights holder, who is deprived of its chosen adviser, and must incur the expense and inconvenience of instructing another.
- (3) 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.

S.90 We think that the costs of providing this protection to legal advisers will be minimal and there may be benefits in terms of less expensive legal advice.

Questions

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. (Q35)

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? (Q36)

A WIDER APPROACH

- S.91 In Chapter 9 we merely raise the possibility of creating a new tort of making false or misleading allegations in principle and in very general terms. At this stage it is not possible to estimate the costs and benefits of this reform. Instead, we ask for initial views on the impact of creating the tort.

Question

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. (Q37)