

IP AND IT BRIEFING

Groundless threats of IP proceedings: a potential solution?

The threat of legal action to try to stop a third party infringing intellectual property rights (IPRs) can be a powerful weapon. Complying with a threatener's demands is often a more attractive option than incurring the cost and inconvenience of litigation. However, where a threat is groundless and there are no valid rights behind it, this can stifle legitimate business. The current law aims to deter people from making groundless threats, but it is significantly flawed (see box "Current law").

In April 2014, the Law Commission (the Commission) published a report suggesting how the law on groundless threats should be reformed (the report) (http://lawcommission.justice.gov.uk/docs/lc346_patents_groundless_threats.pdf). The proposals demonstrate a more business-minded and practical approach to a difficult and inconsistent area of law, and suggest that a solution could be on the horizon.

Problems with the current law

The current law on groundless threats is unsatisfactory in a number of ways. It does not adequately distinguish between primary and secondary infringers. Except in relation to patents, it focuses on the acts of infringement that threats can relate to, whereas many think that it is more important to consider which recipients of threats should be protected. The original source of goods (such as a manufacturer) is thought to be less deserving of protection than those less connected to the goods. However, as the law stands, a manufacturer that also retails or distributes goods may have a right of action if it receives a groundless threat that relates to its retail or distribution businesses.

In addition, a threat made to a person that intends to carry out a primary act, but has not yet done so, can amount to an actionable groundless threat. This makes it more difficult for rights holders to take steps to stop infringement at an early stage and before significant commercial damage is caused.

There is little clarity as to what can be communicated without the risk that the communication constitutes a threat. In the

Current law

Currently, a person that threatens to sue for trade mark, patent or design right (whether registered or unregistered) infringement will be liable to any person aggrieved by the threat unless the threat was justified (that is, the intellectual property right (IPR) is valid and the right was infringed), or the infringement is an exempt act of primary infringement.

Primary acts of infringement are those that are likely to cause significant commercial damage. For example, for a patent or design, this would include making or importing an offending product and, for a trade mark, would include applying a mark to goods or supplying services under the mark. Secondary acts of infringement include acts further down the supply chain, such as retailing or distributing infringing goods.

Generally, a threat in relation to a primary act cannot be an actionable groundless threat, whereas a threat in relation to a secondary act can. This is because those carrying out secondary infringement are thought to be less willing to incur substantial costs in relation to a product and are therefore more susceptible to groundless threats as they may comply with demands in order to avoid litigation, even if they have not actually done anything wrong.

Threats are determined objectively, considering the communication as a whole together with all related correspondence. Simply notifying another person of the existence of an IPR does not usually constitute a threat of proceedings, although the courts have interpreted this narrowly and, even when correspondence is worded carefully, a threat may be implied; for example, in *Grimme Landmaschinenfabrik v Scott*, the Court of Appeal upheld the Patent Court's decision that a letter included a "veiled threat" even though it contained a statement that there was no intention to commence proceedings ([2010] EWCA Civ 1110).

Although it is possible for a court to order that a person making unjustified threats pay damages, the most common remedies are injunctions to prevent further threats and declarations that the threats are not justified.

The Patents Act 2004 reformed the law of groundless threats in relation to patents (see *News brief "Patents Act 2004: key changes"*, www.practicallaw.com/8-102-9292).

words of the Commission, the law on what a rights holder can safely say is fragmented, inflexible and lacks any underlying general principle. Rights holders are therefore likely to be guarded in their correspondence for fear of making a groundless threat, whereas open discussion at the outset of a dispute can benefit the parties as they have the opportunity to resolve the dispute quickly without incurring substantial legal costs.

The opportunity for open and frank discussion before starting proceedings is also frustrated by the current law allowing a person to avoid liability for a threat by issuing proceedings as a first step (the protection afforded by groundless threats actions only applies if

proceedings have not been issued) and only then beginning settlement discussions. Equally, the person threatened may decide to issue proceedings for groundless threats in order to seize the initiative and this, again, runs contrary to the letter, and spirit, of the Civil Procedure Rules.

In relation to EU rights, rights holders can sidestep the UK groundless threats provisions by threatening to start proceedings outside the UK. This is referred to as the "Best Buy gap", which was highlighted in *Best Buy v Worldwide Sales Corp*, where the Court of Appeal affirmed the High Court's decision that a threat must relate to proceedings in the UK ([2011] EWCA Civ 618; www.practicallaw.com).

com/3-506-6397). The recipient of the threat may comply with the demands to avoid litigation in an unfamiliar territory without any recourse if the threat is groundless.

Another flaw is that lawyers can be liable for groundless threats made on behalf of their clients. This can complicate the lawyer-client relationship so allegations of groundless threats are often made as a tactic in litigation, incurring unnecessary cost and delay.

The current law is also complex and inconsistent in its treatment of groundless threats in relation to different IPRs. Rights holders may therefore incur disproportionately high costs due to the need for specialist advice.

The consultation

In April 2013, the Commission consulted on two proposed avenues for reform (<http://lawcommission.justice.gov.uk/consultations/groundless-threats.htm>). The first, evolutionary, proposal suggested amending existing provisions and took inspiration from the Patents Act 2004, which has reformed the law of groundless threats in relation to patents (see *News brief "Patents Act 2004: key changes"*, www.practicallaw.com/8-102-9292).

The second, radical, proposal involved scrapping the existing law and creating a new tort of making false allegations in the course of business based on the Paris Convention for the Protection of Intellectual Property, which was more consistent with the law found in a number of EU jurisdictions.

The report

The report included the results of the consultation and the Commission's recommendations to the government. Consultees fundamentally agreed that there is a need for reform, but showed insufficient support for the radical proposal to be taken forward at this stage. Some consultees saw the benefits of introducing wider reform but others showed concern about the disruption and uncertainty that such an extensive change would entail. The "evolutionary" approach was therefore the preferred option. However, the Commission said that, in the

long term, a new action for false allegations should be given serious consideration.

The Commission's recommendations demonstrate the evolutionary approach by building on the reform that has already taken place in relation to patents. The proposals aim to make the law clearer and more consistent across the different IPRs. The Commission's key recommendations are that:

- For design rights and trade marks, a threat made to someone that has carried out a primary act should not be an actionable groundless threat even if the threat refers to secondary acts. This would bring the law relating to design rights and trade marks closer to the already reformed law on patents.
- For design rights, trade marks and patents, the law should be extended so that a threat made to someone that intends to carry out a primary act is not an actionable groundless threat. The report includes a detailed discussion of what would constitute the requisite intention, suggesting that existing legal tests should apply. The Commission suggests that it should be necessary to show an actual intention on the part of the recipient of the threat rather than that the rights holder believed there to be an intention.
- Communications for legitimate commercial purposes should not amount to an actionable groundless threat where the information given is necessary for that purpose. This would include enquiries for the sole purpose of discovering whether, and by whom, the patent has been infringed, and a rights holder alerting a potential infringer of its IPRs where the rights holder has a remedy that depends on the infringer being aware of the IPRs. Any legislation should include a non-exhaustive list demonstrating the kind of information that can be communicated safely. This would replace the current concept of mere notification. If defined with sufficient clarity, a legitimate commercial purposes safe harbour would go some way to providing the certainty

needed. However, to guard against the abuse of this exclusion, it will only apply where the person seeking to rely on it has reasonable grounds for believing that the information communicated is true.

- Lawyers, registered trade mark attorneys and registered patent attorneys should be exempted from liability in relation to acts done on behalf of their client.

The Commission does not make any recommendations to the government to plug the *Best Buy* gap. However, according to the report, consultees did not see it as a significant issue in practice. The Commission suggests that the courts should adopt a purposive approach to the *Best Buy* gap and interpret it widely so that threats to sue in a non-UK jurisdiction can be actionable groundless threats if any judgment would be enforced in the UK.

A solution?

The Commission's proposals demonstrate a more commercial approach and would do much to resolve the problems with the current law. The proposed safe harbour for legitimate commercial purposes has the potential to strike a fair balance between, on the one hand, the need for businesses to be able to protect their IPRs and resolve potential disputes quickly, and, on the other hand, the need to protect others from illegitimate threats. However, whether this is achieved successfully depends, to a large extent, on the clarity of the language used in any legislation and the examples used to demonstrate the meaning of legitimate commercial purposes.

Greater certainty in this regard should also reduce the number of rights holders starting legal proceedings as a first step. The Commission's preference for evolutionary development means that a drastic overhaul of the area has not been implemented. However, the Commission's support for the new action for false allegations leaves open the possibility for more ground-breaking developments in the future.

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