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UK Law Commission Publishes Report on Groundless Threats Over IP Rights

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In late April 2014, the UK Law Commission published a report suggesting how the law on groundless threats should be reformed. The proposals demonstrate a more business-minded and practical approach to a difficult and inconsistent area of law.

The threat of legal action to try to stop a third party infringing one's intellectual property rights can be a powerful weapon, and complying with a threatener's demands is often a more attractive option than incurring the cost and inconvenience of litigation. To prevent these types of threats from stifling legitimate business (i.e. where there are no valid rights behind the threat), there are currently laws in place to deter people from making groundless threats. There are, however, significant flaws in the current law. The commission's recommendations to reform these laws suggest that a solution could be on the horizon.

Current Law

Currently, a person that threatens to sue for trade mark, patent or design right (whether registered or un-

registered) infringement will be liable to any person "aggrieved" by the threat unless:

- (i) The threat was justified (i.e. the IP right is valid and the right was infringed); or
- (ii) The infringement is an exempt "primary" act infringement.

What is a Threat?

Threats are determined objectively, considering the communication as a whole together with all related correspondence.

Simply notifying another person of the existence of an IP right 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).

What Remedies Can Be Awarded?

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.

Exempt “Primary” Infringement

The difference between a “primary” act of infringement and a “secondary” act of infringement is key to understanding the law on groundless threats. Acts of “primary” infringement are those which are likely to cause significant commercial damage. In the context of patents and designs these acts are the making or importing of an offending product (and also, for patents, the use of a process). In the context of trade marks, “primary” acts of infringement are applying a mark to goods or their packaging, importing for disposal goods to which, or to the packaging of which, the mark has been applied and the supply of services under the mark. “Secondary”, or lesser, 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.

The reason that the law limits threats to sue for “secondary” infringement is that those carrying out “secondary” infringement are thought to be less willing to incur substantial costs in relation to a product (usually because they have less invested in the product). They 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.

Patents Reform

Some reform has already taken place in the UK. The Patents Act 2004 reformed the law of groundless threats in relation to patents, by:

- (i) Widening the “primary” infringement exemption to include acts of “secondary” infringement carried out by a person who is also carrying out “primary” infringement;
- (ii) Introducing additional scenarios in which a communication will not be classified as a threat;
- (iii) Offering protection from a claim by a “secondary” infringer where the threatener has used its best endeavors to discover the “primary” infringer without success; and
- (iv) When the threat is groundless on the basis that the patent is invalid, exempting a person from liability where at the time of making the threat that person did not know and had no reason to believe that the patent was invalid.

Problems With the Current Law

The current law (particularly the law as it relates to designs and trade marks) is unsatisfactory in a number of ways:

- It does not adequately distinguish between “primary” and “secondary” infringers. That is to say the current law (except in relation to patents) focuses on what

acts of infringement threats can relate to, whereas many think it 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 who also retails or distributes goods may have a right of action if it receives a groundless threat that relates to its retail or distribution.

- A threat made to a person who 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 owners 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 words of the commission, the law on what an owner of IP rights can safely say is “fragmented”, “inflexible” and “lacks any underlying general principle”. IP owners are therefore likely to be guarded in their correspondence for fear of making a groundless threat. 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.
- Under the current law, in order to avoid liability for any threat, a potential claimant may issue proceedings as a first step (the protection afforded by groundless threats actions only applies if proceedings have not been issued) and only then begin settlement discussions. The law therefore discourages open and frank discussion prior to starting proceedings. 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 CPR.
- In relation to European rights, IP owners can sidestep the UK groundless threats provisions by threatening to start proceedings outside the UK. This was highlighted in the 2011 case of *Best Buy v. Worldwide Sale Corp* (consequently the commission refers to this as the “Best Buy Gap”). 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.
- Lawyers can be liable for groundless threats made on behalf of their clients. This can complicate the lawyer-client relationship and as such allegations of groundless threats are often made as a tactic in litigation, incurring unnecessary cost and delay.
- The law is complex and inconsistent in its treatment of groundless threats in relation to different IP rights. IP owners may therefore incur disproportionately high costs due to the need for specialist advice.

Consultation

The commission consulted between April 17 and July 17, 2013 on two proposed avenues for reform. The first “evolutionary” proposal suggested amending existing provisions and took inspiration from the Patents Act 2004. 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 and which was more consistent with the law found in a number of European jurisdictions.

In April 2014 the Commission published a report of its recommendations to the government incorporating the results of the consultation. Contributors to the consultation fundamentally agreed that there is a need for reform.

Radical vs Evolutionary

The consultation showed insufficient support for the “radical” proposal to take it forward at this stage. Some saw benefits in introducing wider reform, for example that it would simplify and clarify the law and would make English law more consistent with the law in other European jurisdictions. However, contributors also expressed concern about the disruption and uncertainty that such an extensive change would entail. As such, the consultation showed the “evolutionary” approach to be the preferred option. Nevertheless, the commission stated that in the long-term a new action for false allegations should be given serious consideration.

Recommendations

The recommendations set out in the commission’s report therefore demonstrate an “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 IP rights. The commission’s key recommendations are as follows:

- For design rights and trade marks, a threat made to someone who has carried out a primary act should not be an actionable groundless threat even if the threat refers to secondary acts. This aims to resolve the first problem listed above concerning the distinguishing between “primary” and “secondary” infringers and 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 who intends to carry out a primary act is not an actionable groundless threat. This will resolve the preemptive threat issue mentioned above. The commission’s 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 IP right owner 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. The commission sets out that the following would be included within the concept of “legitimate commercial purposes”:
 - enquiries for the sole purpose of discovering whether, and by whom, the patent has been infringed; and
 - where a rights holder has a remedy which depends on the infringer being aware of the right, the rights holder may alert a potential infringer of the right.

The Commission proposes that any legislation should include a non-exhaustive list demonstrating the kind of information which 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 to solve the problem about the lack of clear, underlying principles. 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 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. This would resolve the problem relating to lawyers being made liable as is under the current law.

The commission does not make any recommendations to the government to plug the *Best Buy Gap* relating to international threats. However, according to the report, contributors to the consultation did not see the *Best Buy Gap* as a significant issue in practice. The commission does, however, suggest that the courts should adopt a purposive approach to the *Best Buy* principle and interpret it widely such that threats to sue in a non-UK jurisdiction can be actionable groundless threats if any judgment would be enforced in the UK.

Comment

The commission’s proposals would do much to resolve the problems with the current law and demonstrate a more commercial approach to this area. 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 protect their IP rights 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 pur-

poses". Greater certainty in this regard should also reduce the number of IP owners 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 moving forward.

Nathan Smith is an associate at Dechert's London office. Nathan specialises in all matters relating to IP, particularly IP litigation. His practice ranges from brand protection and enforcement to advising on the international expansion and development of IP portfolios with particular emphasis on the fashion, retail, telecoms, leisure and beauty sectors. He also regularly advises on copyright and design infringement with a focus on the fashion industry.