Government approves reform to groundless threats

The UK government is expected to expedite planned reform of the groundless threats legislation. Nathan Smith examines the impact this could have.

The mere threat of IP infringement proceedings can often be enough to stop a third party engaging in an allegedly infringing activity, even if such activity is in fact entirely legitimate. Even if you are confident that you would ultimately prevail in litigation, complying with a threatener’s demands can be more attractive than incurring the cost and inconvenience of legal proceedings. To prevent threats of IP infringement proceedings that are legally unfounded and that can unfairly distort competition, the law seeks to deter people from making such groundless threats.

The existing laws relating to groundless threats of IP infringement proceedings are in need of reform. They are inconsistent across the various IP rights and difficult to navigate for the unwary. In some areas the provisions are overly restrictive of IP owners and in others they do not offer sufficient protection to the recipients of threats.

In January, the government accepted the Law Commission’s proposals for reform in this area and a draft bill reflecting these proposals. The government’s latest report suggests that the reform may be pushed through parliament using an expedited process for uncontroversial Law Commission proposals.

The new law will harmonise groundless threats provisions for patents, trademarks and design rights (there is no groundless threat legislation in respect of copyright), bringing welcome simplicity and consistency to this area of law. The reform also seeks to redress the balance between the right of IP owners to police their valuable assets and the risk that overzealous policing may unfairly distort competition in addition to ironing out certain peculiarities in the current law.

The Patents Act 2004 has already made important changes to the law of groundless threats in relation to patents. The reforms are, therefore, most pronounced in the context of trademarks and design rights and to a great extent bring law as it relates to trademarks and designs into line with the current position for patents.

What is a threat?

Broadly, the current position is that a person that threatens to sue for trademark, patent or design right infringement in the UK will be liable to any person ‘aggrieved’ by the threat unless the threat was justified (ie, the IP right is valid and the right was infringed) or the alleged infringement is an exempt primary act infringement.

The proposals codify the objective approach that courts’ have taken to determine whether a threat of legal proceedings has been made. Whether particular correspondence constitutes a threat of legal proceedings is determined by considering what a reasonable person in the position of a recipient would understand from the communication.

Under the existing law it is a requirement that legal proceedings in the UK are threatened. As a consequence, in relation to pan-European rights, IP owners can evade the UK groundless threats provisions by threatening to start proceedings outside the UK courts. This was highlighted in the 2011 case of Best Buy Co Inc and Anotr v Worldwide Sales Corp and consequently this loophole is known as the Best Buy gap.

The impact of the Best Buy gap is of particular concern in the context of patents, as certain claims will fall within the exclusive jurisdiction of the Unified Patent Court, which will not be a UK court despite being in part physically located in the UK. Under the current law, a threat to sue for patent infringement in the Unified Patent Court would not be actionable as a groundless threat, even if the alleged infringing acts were said to have taken place in the UK.

The bill addresses the Best Buy gap by extending the definition of the requisite threat to cover proceedings in any court. Nevertheless, a UK nexus is maintained by requiring the act for which the proceedings are threatened to be carried out in the UK.

While a groundless threat of proceedings abroad in relation to acts abroad may still result in a recipient of the threat ceasing legitimate behaviour in the UK, there is naturally reluctance for the UK to legislate over such matters.

What can be safely asserted?

The existing legislation provides that merely notifying another person of the existence of an IP right does not constitute a threat of proceedings. However, the courts have interpreted this narrowly and even when correspondence is worded carefully a threat may be implied. There is little certainty as to what can be communicated without the risk that communication constitutes a threat. In the words of the Law 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.

The reforms seek to bring clarity to this area by detailing what constitutes a permitted communication and providing examples of the information that can be safely communicated. This will be welcomed by IP owners, particularly as the courts are granted a wide discretion to treat communications as permitted even when they do not fall directly within the scenarios expressed in the bill. The bill therefore provides much needed guidance without being overly prescriptive.

Change in terminology
The law of ‘groundless’ threats is no more. The bill proposes a change in terminology – the new provisions are entitled ‘unjustified threats’. While this change is of little consequence, it reflects the fact that even if a threat is groundless (ie, the claim threatened would be unsuccessful) it can nevertheless be justified in certain circumstances.

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The primary infringement exemption
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 that 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 trademarks, 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, under the existing legislation 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.

The current law 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 it is arguably 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. The draft bill addresses this point and widens the primary infringement exemption to include acts of secondary infringement carried out by a person who is also carrying out primary infringement. This brings the treatment of designs and trademarks into line with the position for patents, which has already been reformed along these lines. So, for design rights and trademarks, threats could be made to someone who has carried out a primary act even if the threat refers to secondary acts.

Primary infringer is unidentifiable defence
The draft bill extends to trademarks and designs a defence, which currently exists only in relation to patents, that the threatener has taken all reasonable steps to discover the identity of the primary infringer but has been unsuccessful, provided he informs the recipient of the threat of those steps.

Pre-emptive threats
Currently, 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.

The draft bill addresses this issue by providing that if a person has carried out or intends to carry out primary infringement, a threat in respect of future acts will not be actionable. There is, of course, a risk that the threatening IP owner may wrongly believe that the person intends to carry out an infringing act and therefore the threat may be actionable.

Exclusion for legal advisors
The draft bill includes an exemption for legal advisers making threats on behalf of clients. Presently, 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. To ensure that they fall within the new exemption, which covers lawyers, trademark attorneys and patent attorneys, legal advisers should be careful to make sure that they are acting on clear instructions from their client and identify their client in the communication. The burden of proof is on the legal adviser to show that they were acting on instructions, so instructions should be documented, as is, of course, best practice in any case.

Discussion
The draft bill addresses the key deficiencies in the current law and would make the rules as they apply to patents, trademarks and designs consistent. It is apparent from the Law Commission’s previous proposals, and responses to the various consultations that have taken place during the development of the proposed reforms, that there is some appetite for more revolutionary reform in this area. The Law Commission previously floated a radical proposal of a new tort of making false allegations in the course of business similar to that found in other European jurisdictions. The draft bill would go some way to resolving the current shortcomings in the law, but radicals will see it as a missed opportunity for an overhaul.

Nathan Smith is a senior associate at Dechert.