Law Commission
Reforming the law

Patents, Trade Marks and Design Rights: Groundless Threats

Executive Summary

Law Com No 346 (Summary)

PATENTS, TRADE MARKS AND DESIGN RIGHTS: GROUNDLESS THREATS EXECUTIVE SUMMARY

INTRODUCTION

S.1 In 2012 the Department for Business, Innovation and Skills (BIS) and the Intellectual Property Office (IPO) asked the Law Commission to review the law of groundless threats of infringement proceedings for patents, trade marks and design rights. After consulting on our proposals for reform in 2013 we now publish a final Report which is summarised here.[1] It was clear from consultees' responses that there is an appetite for reform and a desire that this happens sooner rather than later.

S.2 Our recommendations will make the law clearer, easier to follow and apply, and will ensure that the protection against groundless threats is more consistent between patents, trade marks and design rights. The law of groundless threats has continued to develop, almost from the time the first provision was introduced in 1883. Our recommendations build on the current law for patents and are the latest step in the process. Contrary to our usual practice, the Report does not include a draft Bill; we hope that an early opportunity can be found to introduce legislation to enact a new provision on groundless threats to cover patents, trade marks and design rights.

S.3 We also consulted on an alternative model of reform. We sought views on whether the current provisions should be replaced by a new cause of action based on unfair competition law. Overall, consultees felt that this was too big a change for the immediate future, but many recognised the long-term benefits such a reform could bring. Our recommendations will tackle the pressing problems in the current law, but do not address the more fundamental issue of the uneasy relationship between UK national law and the enforcement of European and Community intellectual property (IP) rights. For that, we believe wider reform may eventually become necessary.

Enforcing IP rights without stifling innovation

S.4 Patents, trade marks and design rights are valuable IP rights; for some businesses they may be their most significant assets. The promise of reward can drive innovation and creativity. The importance of IP rights is widely acknowledged, and the law provides rights holders with the means to effectively protect them against infringement. However, the right to enforce can be misused to clear away competitors from the market and this is where the threats provisions come into play. They are part of a statutory regime which aims to strike a balance so that the effective enforcement of an IP right, which ensures that endeavour is properly rewarded, does not stifle the development of new ideas and inventions.

[1] The Consultation Paper was published on 17 April 2013, with the consultation closing on 17 July 2013. The Report was published on 15 April 2014. The Consultation Paper, consultation responses and Report are available on our website at http://lawcommission.justice.gov.uk/publications/unjustified_threats.htm.

S.5 The project is concerned with the misuse of threats to sue for infringement. A groundless threat is one where there is no infringement, or where there is no real intention to follow the threat up with enforcement proceedings. Alternatively, it is where the threat is made in respect of an invalid right as these cannot be enforced. However, in none of these cases does this detract from the potency of such threats; for those who are affected by them, they are real enough. A person who becomes aware of a threat will have no idea of whether proceedings will soon follow. Customers and retailers may have little invested in the product or service in question and so it can appear to them that the safest course of action is to switch to an alternative.

THE CURRENT LAW

S.6 The provisions we looked at are:

(1) the Patents Act 1977, section 70;

(2) the Trade Marks Act 1994, section 21;

(3) the Community Trade Mark Regulations 2006, regulation 6;[2]

(4) the Registered Designs Act 1949, section 26;

(5) the Copyright, Designs and Patents Act 1988, section 253; and

(6) the Community Design Regulations 2005, regulation 2.[3]

How do the threats provisions work?

S.7 How the provisions work in practice is best illustrated by an example.

> A, through its solicitor, sends a letter to a retailer, 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 this by bringing infringement proceedings.
>
> Despite being a best seller, B stops stocking the can opener and returns all unsold can openers to its supplier, C.

S.8 The provisions enable B and/or C to bring a groundless threat claim against A and/or A's solicitor. In doing so, either may seek an injunction to stop the threats being made, damages and a declaration that the threats are unjustified. A and A's solicitor have a defence to the claim if they can show that retailing the can opener constitutes an infringement of the patent. However, B or C may still be entitled to a remedy if they can show that the patent is not valid.

[2] SI 2006 No 1027.

[3] SI 2005 No 2339.

Why do groundless threats to sue work?

S.9 Groundless threats work as well as they do because of the fear of what may come next – IP litigation. The real and perceived effects of IP litigation mean it is widely viewed as being extremely expensive and disruptive.[4] It requires specialist courts, judges, experts and advisers. As Lord Justice Jackson commented, with such litigation "a significant level of costs is unavoidable".[5]

S.10 The Jackson Review of civil litigation costs looked at a sample of 15 High Court IP cases.[6] Three settled – with average costs to this point of £870,000 per case. The rest, which were fought, produced an average cost to judgment of £650,000.[7] Costs of smaller and simpler IP cases can be lower. If they are dealt with in the Intellectual Property Enterprise Court (formerly the Patents County Court) there is a fixed scale of recoverable costs capped at £50,000.[8] However, that still represents a significant amount of money, particularly for small businesses.

S.11 The costs of litigation are not only financial; there is also a time cost as the rights holder will have to play its part in the preparation of a case for trial. This will inevitably have an impact on the normal functioning of a business as management and staff resources are redeployed to deal with IP disputes; for smaller firms the effect can be debilitating. In a 2010 report the drain on time was described as being "nearly terminal" for the business.[9]

THE LAYOUT OF THIS SUMMARY

S.12 This Executive Summary is divided into four further parts:

(1) The development of the current law.

(2) The need for reform.

(3) Headline reforms and recommendations.

(4) The impact of reform.

S.13 At the end of this Summary we also include a list of the full recommendations we make, and comparative tables showing the elements of the current law and how these will be affected by the reforms.

4 This view is supported by research: see Jackson LJ, *Review of Civil Litigation Costs: Final Report* (December 2009) (the Jackson Review); Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010); and Helmers and McDonagh, *Patent Litigation in the UK* (LSE Law, Society and Economy Working Papers 12/2012).

5 The Jackson Review (December 2009) part 5, ch 24 at para 2.2.

6 The costs were adjusted from actual costs to current costs by reference to the hours spent on the case at current hourly rates.

7 With costs in individual cases ranging from £200,000 to £1.2 million. See the Jackson Review (December 2009) Appendix 3.

8 CPR Part 45, Section IV, rule 45.31(1).

9 Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, *Intellectual Property Enforcement in Smaller UK Firms* (October 2010) p 28.

THE DEVELOPMENT OF THE CURRENT LAW

S.14 The threats provisions were introduced as a response to the misuse of threats to sue as a form of unfair competition. Instead of being aimed at a competitor, threats were directed the competitor's suppliers or customers. Traders such as these are highly vulnerable to threats. They may have little invested in a product or service and are therefore more likely to move their custom elsewhere rather than risk being sued. The classic example of the misuse of threats is *Halsey v Brotherhood* in 1881.[10]

S.15 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. Mr Halsey sued Mr Brotherhood to try to stop the threats, but he lost. Mr Halsey's could not show that that Mr Brotherhood had acted with malice, which was what the law required at that time.

S.16 In 1883 Parliament stepped in and provided a statutory remedy for those aggrieved by groundless threats of patent litigation. The most significant change was that to obtain the new remedy it was no longer necessary to prove malice. Since then, statutory remedies have been introduced for trade marks and registered and unregistered design rights. As they share a common heritage, the provisions share many similarities but there are also stark differences. Patent law has continued to change, most recently in 2004. Those changes dealt with particular defects in the law, but they have not been implemented for trade marks and design rights.

Primary and secondary acts

S.17 In 1970 a significant reform in the law for patents came about as a consequence of the review carried out by the Banks Committee. A distinction was introduced between acts of infringement. Some acts – those which were the most likely to cause significant commercial damage – were classed as primary acts. Examples include the manufacture or importation of a product. Lesser acts of infringement – for example, the sale of the product – were classified as secondary acts. The law was changed so that threats regarding primary acts could be made without fear of liability; however, any reference to secondary acts triggered the provisions. All the threats provisions now make a similar distinction.[11]

[10] (1881-82) LR 19 Ch 386. There were other case around this time but this one clearly illustrates the problem.

[11] PA 1977, s 70(4)(a); RDA 1949, s 26(2A); CDR 2005, reg 2(5); TMA 1994, s 21(1); CTMR 2006, reg 6; and CPDA 1988, s 253(3).

The "Cavity Trays" problem

S.18 The primary/secondary act distinction created a problem. Threats that refer to primary acts may be safely made as they are excluded from the scope of the threats provisions. However, this exclusion was narrowly construed in the case of *Cavity Trays*.[12] A threat that refers to primary acts, for example importation, *and* secondary acts, such as sale, will be caught by the provisions. It is easy, particularly for those less familiar with the law, to fall into the trap of going beyond what may safely be said and risk incurring liability. It is also often the case that secondary acts are carried out alongside primary acts as part and parcel of a single venture. This can make it very hazardous to ask for undertakings to cease a range of activities, which may mean that an infringement is not comprehensively dealt with in the threat.

S.19 For patents, the problem was solved in 2004. Now, where a threat is made to a person who has carried out a primary act it no longer matters if the threat refers to other, secondary acts. The legislation now provides that this will not be a threat for which groundless threat proceedings can be brought. However, the "Cavity Trays" problem remains for trade marks and design rights.

RETAINING THE PROTECTION

S.20 Although the misuse of threats is an old problem, it has not gone away. A recent example of where the provisions have been used to provide a remedy in respect of loss suffered due to a groundless threat is the case of *Zeno Corporation v BSM-Bionic Solutions Management GmbH.*[13] Retailers (Boots) stocked a device to treat acne made by Zeno Corporation. BSM-Bionic's patent attorneys sent letters to a number of Boots stores, asking them why they had not taken BSM-Bionic's patent into consideration when marketing the device. As a result, Boots stopped stocking the device for a significant period of time. The court found that the letters amounted to a threat to sue. It was also found that the device did not in fact infringe the patent. Zeno Corporation was therefore entitled to bring a groundless threat claim against BSM-Bionic.[14]

S.21 Similarly, in *Quads 4 Kids v Campbell*,[15] the claimants sold children's dirt bikes through eBay. Another trader notified eBay that he had registered the designs of the bikes; without checking further, eBay removed the bikes from online listings. In fact there had been no infringement and, following the claimants' successful threats action, the court granted an injunction to minimise damage during the crucial Christmas sales period.

[12] [1996] RPC 361.

[13] [2009] EWHC 1829 (Pat), (2009) 32(10) IPD 32070.

[14] The judge invited further argument as to what should be ordered.

[15] [2006] EWHC 2482 (Ch), [2006] Info TLR 338.

S.22 The problem of the abuse of IP rights clearly remains. In recent times there has been a proliferation of rights, and a single product may be protected by a multitude of patents, trade marks and design rights. The risk of tripping over one of these rights and becoming involved in complex and costly litigation is greater than ever. We believe that if the threats provisions were abolished, there would be no adequate alternative remedy for those affected by threats that could take their place.[16] Nor is the misuse of threats limited to the UK. Other major jurisdictions face the same problem, although it is generally dealt with either through general tort law or through a broader law of unfair competition. Removing the protection against threats would put the UK out of step with these jurisdictions.

S.23 We asked consultees whether they agreed that the protection against threats should be retained: an overwhelming majority felt that it should. This was not least because the protection checked the "over-zealous" enforcement of rights, particularly where the intention was to disrupt a competitor's business. We have recommended that the protection against groundless threats is retained.

[16] We published two Background Papers which examined possible alternatives to protection from groundless threats; *Background Papers 1 & 2: The common law torts and other remedies* (March 2013), available on our website at http://lawcommission.justice.gov.uk/publications/unjustified_threats.htm.

THE NEED FOR REFORM

REFORMING THREATS PROTECTION

S.24 There are problems with how the current threats provisions work; broadly they fall under three headings.

The provisions are too easy to avoid

S.25 First, the provisions can be avoided using various ploys. As the protection only applies where proceedings have not been issued, well resourced rights holders can start a case and then offer to negotiate from a position of strength. Another loophole is that, since the provisions only apply to threats to sue for infringement, other kinds of proceedings can be threatened without fear of liability – for example, a claim for passing off. Carefully crafted allegations that fall short of threats can also be made. Finally, where threats are made in respect of Community rights or European Patents, a groundless threat claim can only be brought if the threat was to bring proceedings in the UK. Expressly stating that proceedings will be brought elsewhere side steps the provisions.[17]

The effect of the provisions is too wide

S.26 The provisions can work in a way that obstructs attempts to settle disputes through negotiation. The Civil Procedure Rules place obligations on disputing parties to talk through their difficulties and so avoid litigation, yet can be all but impossible to comply with. Any form of communication setting out the grounds of a dispute may be interpreted as a threat to sue. This can drive cases to court as it may be felt that the safer course is to issue infringement proceedings straight off. A professional adviser, who writes a letter on behalf of their client, can also be found liable for making threats. This allows the provisions to be used tactically against advisers.

Complexity and inconsistency

S.27 The third problem is that the threats provisions are very complex and inconsistent as between patents, trade marks and design rights. This makes them difficult to use and can set traps for the unwary. It also increases the need for costly expert advice.

Consultees' views

S.28 There was clear agreement among consultees that the law should be reformed for one or more of the reasons we put forward. It was also pointed out that the law can particularly disadvantage small and medium enterprise (SME) rights holders, who may lack the legal skills to craft careful letters and whose infringement warnings may not be taken seriously or may be met with a tactical groundless threat action. These rights holders may also lack the means to access the expert advice this complex area of law calls for. We recommend, therefore, that the law is reformed.

[17] This is a consequence of the case of *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618, [2011] FSR 30.

THE SHAPE OF REFORM

S.29 We put forward two models for reform in the Consultation Paper. The first was evolutionary in nature, based on the reforms made for patents in 2004. We proposed that these should also apply for trade marks and design rights, and the law made more consistent. We also made proposals to make clearer when it was permitted to communicate with secondary actors and to offer guidance on what could be communicated. This approach was preferred by consultees and we set out our headline reforms in the next part of this Summary.

S.30 The second model was based on the Paris Convention for the Protection of Industrial Property. We sought views on whether the existing groundless threats regime should be replaced with a new action for false allegations. It would apply where the allegation related to the infringement of a patent, trade mark or registered or unregistered design right; was made in the course of trade; and tended to discredit the establishment, goods or activities of a competitor. For some consultees the proposed change was too extensive, and it was feared that it would cause disruption and uncertainty while the new law bedded in. However, even those consultees who rejected this approach saw the benefits that the introduction of a new action might bring for the future and recognised that reform of this type may become increasingly necessary.

S.31 One benefit identified by consultees was that wider reform would enable the UK to comply with its Paris Convention obligations more clearly. Another was that it would offer broader protection by filling in the gaps in protection against threats in the current law; for example, where there was an express threat to sue outside the UK on a Community right or the soon to be introduced Unitary Patent.[18] It was also thought that it would usher in simpler and clearer law that was consistent with that of other countries, particularly those in Europe.

S.32 At this stage we are not recommending the introduction of a new action to replace the current law. However, intellectual property is becoming ever more international in scope, with many disputes covering multiple jurisdictions. We consider that the issue of how the law should respond to these new challenges will become more acute once the Unitary Patent becomes available. In the long-term we think that serious consideration should be given to the introduction of a new tort along the lines of the Paris Convention, either as a UK measure or as part of wider EU reforms.

[18] Expected to be available in 2015.

HEADLINE REFORMS AND RECOMMENDATIONS

S.33 In this part we look at the headline reforms that we recommend; these are part of a bigger package of changes that build on the current law for patents. First, we look at excluding threats made to primary actors. This is already a part of patent law and we recommend that it should also apply for trade marks and design rights. Primary actors are those who have carried out primary acts; threats made to primary actors will not be a threat for which groundless threat proceedings can be brought, even if the threat also refers to secondary acts. Secondly, we explain when it should be possible to safely communicate with secondary actors – that is, people who are not primary actors and would ordinarily be protected by the threats provisions. Finally, we look the joint liability of professional advisers for making threats, and recommend that this should no longer apply.

PRIMARY ACTORS AND THE "CAVITY TRAYS" PROBLEM

S.34 The patents reforms in 2004 introduced a change into the law which meant that threats proceedings could not be brought for any threat made to a primary actor. This dealt with the "Cavity Trays" problem, whereby a threat that referred to primary acts and secondary acts remained actionable – even if made to the same person. However, the law was not changed for trade marks and design rights.

Primary actors – design rights and trade marks

S.35 For UK registered and unregistered design rights and for Community design rights, threats proceedings cannot be brought where the threat is to sue for primary acts – that is, the making or importing of anything.[19] The primary acts for UK trade marks and Community trade marks, for which threats proceedings may not be brought, are the application of a mark to goods or their packaging, the importation of such goods and the supply of services under the mark.[20]

S.36 We proposed that, as for patents, it should not be possible to bring threats proceedings where a threat was made to someone who has carried out a primary act, even if the threat referred to other, secondary acts. We also considered that there was a gap in the current law, as it is not possible to threaten someone who intends to commit (but has not yet committed) a primary act without fear of incurring groundless threats liability. We proposed that it should be, as this would allow infringement to be tackled at an earlier stage and so avoid or minimise any potential damage that might be caused.

S.37 Where the threat is made to a person who intends to commit a primary act, it would not be enough simply to believe that there is such an intention; it will have to be shown to be the case. We do not think that the evidence needed to do this needs to be particularly complex or onerous. Intention is already a familiar concept in the current law.

[19] RDA 1949, s 26(2A); CDR 2005, reg 2(5).

[20] TMA 1994, s 21(1); CTMR 2006, reg 6.

S.38 There was very strong support for these changes for the reasons we put forward, and because the reform would make the law more consistent. It was also felt that it would be easier to raise all issues of concern in one go. We have therefore recommended this reform.

LEGITIMATE COMMUNICATION WITH SECONDARY ACTORS

S.39 The major problem with groundless threats protection is that it can drive cases to court and can force disputing parties to act in a way contrary to the ethos of the Civil Procedure Rules. Communication with a secondary actor is fraught with difficulty. Although the current threats provisions permit some communication between disputing parties without that being treated as a threat, this is not as helpful as it might be. For patents, a person is allowed to supply another with factual information about the right,[21] but it is unclear how far this goes. For example, telling someone they will be sued for infringement in seven days is factual information and on the face of it should be exempt. However, this cannot be how the law is intended to work.[22]

A safe harbour for communication

S.40 Common themes ran through consultees' responses. Some pointed out that the current law lacked a "safe harbour", which would provide a framework within which rights holders and secondary actors could communicate without triggering the threats provisions. Yet there are situations where a rights holder is obliged to contact a secondary infringer that the law should cater for. For example, in order to dispel an innocent infringement defence which would deny a rights holder damages for infringement, the existence if the right must be brought to the attention of an alleged infringer. The current law allows for mere notification of the right but it is unclear what else may be communicated.

S.41 For patents, since the 2004 reform more contact between rights holders and secondary actors is permitted – but when this may occur is strictly defined. For example, enquiries may be made of a secondary actor for the sole purpose of finding out if the patent has been infringed and by whom.[23] However there is no guidance as to what may be said. Nor is there any requirement that the person communicating the information need believe what is being said is true.

S.42 This piecemeal approach lacks any underlying general principle and is therefore fragmented and inflexible. Consultees instead wanted clear general principles of when communication is permitted and guidance as to what may be communicated. Our recommendations provide these. Communication will be permitted between a rights holder and a secondary actor where there is a legitimate commercial purpose behind it. Communicating to dispel an innocence defence or to track down the primary actor are two examples of a legitimate commercial purpose, but we anticipate that as the law continues to develop there may be others.

[21] PA 1977, s 70(5)(a).

[22] As has been pointed out in a leading text: see *Terrell on the Law of Patents* (17th ed 2011) para 22-18.

[23] PA 1977, s 70(5)(b).

S.43 We have also recommended that the legislation should provide guidance in the form of a non-exhaustive list as to the kind of information that may be communicated, for example that the right exists and is in force. Finally, as a check on the potential to abuse the exclusion from liability for permitted communication so as to mask threats, it will only apply where the person seeking to rely on it has reasonable grounds for believing that the information communicated is true.

PROFESSIONAL ADVISER LIABILITY

S.44 Liability for making threats is not limited to the rights holder: any person who issues a threat risks a threats action being brought against them. Liability arises in one of two ways. First, the person making the threat may be acting as an agent for the rights holder. Secondly, as currently drafted, the various provisions apply to "a person" or "any person" making a threat.[24] The upshot is that a legal or professional adviser may be held jointly or severally liable for making threats, even when acting on client instructions.[25]

S.45 This effect of the provisions can be manipulated by disputing parties to drive a wedge between an adviser and their client. This can add to costs by making an adviser act defensively. An adviser may seek an indemnity or have to notify their professional indemnity insurers. Where there is a conflict of interests between adviser and client, the adviser may have to stop acting for them.

S.46 The problem has been tackled in Australia, where an adviser is not liable for "an act done in his or her professional capacity on behalf of a client".[26] We proposed that the same should apply in the UK. The proposal was widely supported. Some consultees expressed the opinion that the current situation added to costs as complex matters such as joint liability and the need for an indemnity had to be explained to a client. Some were aware of the risk of joint liability being used tactically to separate adviser from client. We recommend that professional advisers acting on their client's instructions should not face joint liability for making threats.

[24] PA 1977, s 70(1); TMA 1994, s 21(1); CTMR 2006, reg 6; CDPA 1988, s 253(1); RDA 1949, s 26(1); and CDR 2005, reg 2(1).

[25] See *Reckitt Benckiser (UK) Ltd v Home Pairfum Ltd* [2004] EWHC 302 (Ch), [2004] FSR 37; see further CP 212 paras 8.33 to 8.40.

[26] Patents Act 1990 (Australia), s 132.

THE IMPACT OF REFORM

S.47 We have not been asked to provide a formal impact assessment at this stage. During the consultation we asked consultees for their assessment of the effect of the proposed reforms and, where it was possible, to provide evidence. In the Report we deal with consultees' responses in detail in Chapter 9.

S.48 In general consultees found it hard to quantify either the benefits or costs of reform because this would vary on a case by case basis. However, many expressed helpful opinions based on their analysis of the overall effect of the proposals we put forward. The evolutionary model of reform that built on the current law was preferred by many on the basis that it would bring real benefits and result in only minimal costs.

THE IMPACT OF THE CURRENT LAW

S.49 We asked consultees how the current threats provisions affect business practices. Many thought that they cast a shadow over much infringement litigation.

S.50 We were told that the provisions put obstacles in the way of constructive dialogue and impacted on the drafting of letters asking a secondary actor to stop their activities. The current law created real difficulties in the cost-effective resolution of disputes without litigation that were arguably not outweighed by any benefits of protection against threats for businesses.

S.51 Another issue was the added cost of considering and explaining pre-litigation correspondence. This is a complex area of law and we were told that advisers must expend time and care to ensure that any correspondence is compliant with the threats provisions. Consultees said that this may result in a "potentially complicated strategy" which has to be explained to the client.

S.52 We were also told of the added cost of an "issue first, talk later" approach that the current law encourages. In some cases proceedings were "inevitably" issued at the outset, even in cases that would probably have settled anyway.

S.53 Some consultees flagged up the disproportionate effect of the current law on SMEs who, as rights holders, might be bullied by larger enterprises alleging that the SMEs' threats were groundless, with the result that they are forced to issue a claim or back down.

PERMIT ALL THREATS TO PRIMARY ACTORS AND PERMITTED COMMUNICATION WITH SECONDARY ACTORS

S.54 We thought that allowing any threats to be made to primary actors in respect of trade marks and design rights would save costs, as it would make it easier to communicate and would allow greater compliance with the Civil Procedure Rules. We also considered that clear principles of when communication with a secondary actor was permitted would result in savings.

S.55 The majority of those who responded agreed there would be a saving on legal costs. It would become more straightforward to draft correspondence and ask for undertakings. It would also be easier to advise clients.

S.56 Some thought that the reforms would tend to reduce litigation as cases would no longer be driven to court as a means of avoiding liability for making threats. The reform would increase pre-litigation dialogue and allow a rights holder to set out their complete case. This would allow them to comply with the Civil Procedure Rules and avoid litigation.

NO JOINT LIABILITY FOR PROFESSIONAL ADVISERS

S.57 This change in the law would allow professional advisers to act more fully for their clients by corresponding on their behalf and on their letterheaded paper. The complexities of explaining why an indemnity is needed and how it works would be removed. The change would also remove the opportunity for the threats provisions to be used tactically to create tension or conflicts between adviser and client. We asked if consultees agreed with our analysis.

S.58 There was general agreement that the reform would improve the law. One consultee went so far as to suggest it would be "highly beneficial" as law firms are attractive targets for threats claimants – they are likely to be insured, cautious and willing to settle. Conversely, one consultee thought that the change would give a free hand to threaten.

S.59 Several consultees thought the reform would bring particular benefits for SMEs as it would make it easier for them to contact alleged infringers and "decrease the worry" inherent in providing an indemnity to their lawyers.

THE MINIMAL OVERALL COST OF REFORM

S.60 All reform invariably has a cost. However, as the evolutionary approach to reform builds on familiar law and concepts we anticipated that the costs of the changes would be minimal. We asked for consultees' views.

S.61 No consultees suggested that the reform would lead to significant costs. One consultee pointed out there would be familiarisation costs associated with the changes but that, overall, a less complex regime would lead to lower running costs.

S.62 Some consultees believed that the cost of the reform would be minimal because it extended existing principles to trade marks and design rights, and there would therefore be no need for "substantial new advice from their counsel". Another reason was that, as regulated lawyers have to undertake continuing professional development training in any event, the cost of acquiring the new information would be minimal. It was also thought that once the changes had been assimilated, this would reduce the costs of engaging an adviser.

S.63 Others considered that the offset of costs savings in the future against the initial costs of reform would be smaller, but this conclusion tended to depend on a firm's individual practice. For example, those firms that did not take an indemnity from clients as a matter of course, and so did not need to explain what this meant, pointed out that their costs savings would not be so great. However, this did not detract from their general support for the reform.

CONCLUSION

S.64 Consultees' responses support our view that the current threats provisions add small but real costs to many disputes by increasing the complexity of the issues that have to be explained to a client; preventing a rights holder from setting out their complaint in full, and inhibiting constructive negotiation towards a settlement that avoids litigation. There was also general agreement that the transitional costs of implementing the reform will be minimal and to some extent offset by future savings. We have concluded from this that the cost of doing nothing to reform the law will, in the fullness of time, far outstrip the cost of changing the law to make it clearer, simpler and easier to apply.

LIST OF RECOMMENDATIONS IN THE REPORT

CHAPTER 3: THE NEED FOR REFORM

S.65 We recommend that protection against groundless threats of infringement proceedings should be retained.

[paragraph 3.26]

S.66 We recommend that groundless threats protection should continue to apply to UK and Community unregistered design rights.

[paragraph 3.45]

S.67 We recommend that the law of groundless threats of patent, trade mark and design rights infringement should be reformed.

[paragraph 3.101]

CHAPTER 5: EXCLUDING THREATS MADE TO PRIMARY ACTORS

S.68 We recommend that a groundless threats action may not be brought for threats to bring proceedings for infringement made to a primary actor, that is a person who has carried out, or intends to carry out the following:

For patents

(1) The making or importing of a product for disposal, even where the threat refers to any other act in relation to that product.

(2) The use of a process, even where the threat refers to any other act in relation to that process.

For registered and unregistered design rights

(1) The making or importing of an article or product for disposal, even where the threat refers to any other act in relation to that article or product.

For trade marks

(4) The application of a mark, or causing a mark to be applied, to goods or their packaging, even where the threat refers to any other act in relation to those goods.

(5) The importation for disposal of goods to which, or to the packaging of which, the mark has been applied, even where the threat refers to any other act in relation to those goods.

(6) The supply of services under the mark, even where the threat refers to any other act in relation to the supply of those services.

[paragraph 5.94]

S.69 We recommend that threats proceedings may not be brought for a threat to bring infringement proceedings:

(1) For design rights, for the making or importing of anything "for disposal".

(2) For trade marks, for the application of the mark to goods or their packaging or for "causing the mark to be applied".

(3) For trade marks, for the importation "for disposal" of goods to which, or to the packaging of which, the mark has been applied.

[paragraph 5.99]

CHAPTER 6: LEGITIMATE COMMUNICATIONS WITH SECONDARY ACTORS

S.70 We recommend that communications should be excluded from the groundless threats provisions if they are made for a legitimate commercial purpose, and if the information given is necessary for that purpose.

S.71 The statute should provide examples of legitimate commercial purposes.

S.72 These should include:

(1) enquiries for the sole purpose of discovering whether, and by whom, the patent has been infringed; and

(2) 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.

S.73 The statute should provide examples of the information which may be communicated.

S.74 These should include:

(1) that the right exists;

(2) that the right is in force;

(3) details of the right including, where appropriate, copies of any registration, specifications or drawings; where details are given, they must include any limitations or other restrictions on the right; and

(4) information to identify the goods and to make appropriate enquiries.

S.75 The exclusion should apply only where the person seeking to rely on it has reasonable grounds for believing that the information communicated is true. The burden of showing there are reasonable grounds is on the person seeking to rely on the exclusion.

[paragraphs 6.113 to 6.118]

S.76 We recommend that, for patents, the current defence for making threats to secondary actors is retained but reformed to the extent that the threatener must use reasonable endeavours to discover the primary actor.

S.77 We recommend that, for trade marks, where threats of infringement proceedings are made by a person to another who would be entitled to bring a threats action, it will be a defence for the person making the threat to show that they have used reasonable endeavours to locate, without success:

(1) the person who has applied the mark or caused the mark to be applied to goods or their packaging;

(2) the person who has imported such goods; or

(3) the person who has supplied services under the mark.

S.78 We recommend that, for registered and unregistered design rights, where threats of infringement proceedings are made by a person to another who would be entitled to bring a threats action, it will be a defence for the person making the threat to show that they have used reasonable endeavours to locate, without success:

(1) the person who has made the product or article; or

(2) the person who has imported the product or article.

S.79 We recommend that – for patents, trade marks, registered and unregistered design rights – the person making the threat shall inform the person threatened either before or at the time of making the threat of the reasonable endeavours used to find the persons identified in the proposals set out above, and provide sufficient detail for the person threatened to identify what those steps were.

[paragraphs 6.131 to 6.134]

S.80 We recommend that section 70(2A)(b) of the Patents Act 1977 should be repealed.

[paragraph 6.141]

CHAPTER 7: PROFESSIONAL ADVISER LIABILITY AND OTHER ISSUES

S.81 We recommend that a lawyer, registered patent attorney or registered trade mark attorney should not be liable for making threats where they have acted in their professional capacity and on instructions from their client.

[paragraph 7.14]

S.82 We recommend that claims for the delivery up of goods, articles or products should be treated as proceedings for infringement for the purposes of the threats provisions for patents, trade marks and design rights.

[paragraph 7.38]

APPENDIX B
COMPARATIVE TABLES OF CURRENT LAW AND THE REPORT RECOMMENDATIONS

CURRENT LAW

For there to be a groundless threats claim	Exclusions / defences to the claim							
Has been a threat to sue for infringemnt. Claimant has been aggrieved Defendant made the threat	Defence of justification if the acts complained of are, or would be, infringing	Defence of justification does not apply if right is invalid in a relevant respect	Defence of justification will apply, despite the right being invalid in a relevant respect, if the threat was made in good faith	Exclusion of threats that refer only to primary acts	Exclusion of all threats to primary actors (those who have *committed* a primary act)	Exclusion of all threats to those who *intend* to commit a primary act	Defence where the threatener had used best endeavours, without success, to locate the relevant primary actor	Exclusion of certain communications that are statutorily deemed not to be threats
Intellectual Property Right								
Patent								
Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes: factual information about the patent; enquiries to discover whether patent has been infringed by a primary act, and by whom; assertions about the patent for such enquiries.
Trade mark (including CTM)								
Yes	Yes	Yes	No	Yes	No: this is the *Cavity Trays* problem	No	No	Yes: mere notification that a trade mark is registered or that an application for registration has been made.
Design right (registered or unregistered, including CDR)								
Yes	Yes	Yes	No	Yes	No: this is the *Cavity Trays* problem	No	No	Yes: mere notification that a design is registered or protected.

UNDER THE REPORT RECOMMENDATIONS

Intellectual Property Right	For there to be a groundless threats claim	Exclusions / defences to the claim						
	Has been a threat to sue for infringemnt Claimant has been aggrieved Defendant made the threat	Defence of justification if the acts complained of are, or would be, infringing	Defence of justification does not apply if right is invalid in a relevant respect	Defence of justification will apply, despite the right being invalid in a relevant respect, if the threat was made in good faith	Exclusion of threats that refer only to primary acts	Exclusion of all threats to primary actors (those who have *committed* a primary act or who *intend* to commit a primary act)	Defence where the threatener had used reasonable endeavours, without success, to locate the relevant primary actor	Exclusion of certain communications that are statutorily deemed not to be threats
Patent	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes: the communication was made for a legitimate commercial purpose; the information given is necessary for that purpose; and the threatener has reasonable grounds for believing that the information communicated was true.
Trade mark (including CTM)	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes: the communication was made for a legitimate commercial purpose; the information given is necessary for that purpose; and the threatener has reasonable grounds for believing that the information communicated was true.
Design right (registered or unregistered, including CDR)	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes: the communication was made for a legitimate commercial purpose; the information given is necessary for that purpose; and the threatener has reasonable grounds for believing that the information communicated was true.