Patents, trade mark and design litigation: groundless threats

BACKGROUND PAPERS 1 & 2
The common law torts and other remedies

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BACKGROUND PAPER 1

1.1 The statutory provisions relating to groundless threats of intellectual property proceedings apply only to certain intellectual property rights (namely, patents, registered trade marks, registered designs and unregistered designs). There are no statutory provisions relating to groundless threats of infringement proceedings in relation to other intellectual property rights such as copyright, rights in passing off, database right, or for related rights such as performers’ rights, and rights in confidential information.

1.2 However, there are other potential claims that an aggrieved party may bring in relation to groundless threats of infringement proceedings relating to those other IP rights. These claims may also be available to an aggrieved party in relation to an IP right where a statutory threats provision exists. This may be in addition to the statutory claim or as an alternative (e.g., where the claimant cannot bring its claim within the statutory threats provisions). We will consider these other claims in this Paper, and assess their value as potential alternatives to a statutory regime for groundless threats.

1.3 These alternative claims may arise under the common law, under the court’s inherent jurisdiction or under civil procedural rules regulating the conduct of litigation in England and Wales. There are also statutory provisions allowing a party to seek a declaration of non-infringement in respect of certain IP rights.

MALICIOUS FALSEHOOD

Description

1.4 There are three requirements for a claim in malicious falsehood (sometimes also called injurious falsehood, trade libel, slander of goods or slander of title):

(1) the defendant has published statements (in writing or orally) about the claimant (or their goods, services, or business) which were false;

(2) the defendant did so maliciously; and

(3) the claimant has suffered economic loss as a direct and natural result of their publication.\(^1\)

1.5 Malicious falsehood differs from a claim in passing off because it focuses on false negative statements made by the defendant about the claimant or about its goods or services. A passing off action is based on positive statements made by the defendant about its own goods or services. The defendant’s state of mind in a malicious falsehood action is a key factor.

1.6 The claim differs from defamation because a defamatory statement is one which damages a claimant’s reputation. A malicious falsehood damages a claimant’s economic interests. In malicious falsehood, the claimant must prove that the statement was false; in defamation, the falsity of the defamatory statement is presumed and the onus is on the defendant to prove that it is true.

\(^{1}\) The requirement is to show ‘special damage’. Section 3(1) of the Defamation Act 1952 relaxed this requirement so that the claimant does not have to prove special damage where the words published were calculated to cause pecuniary damage to the claimant.
1.7 In order to prove malice, the claimant must show that the words used were calculated to produce damage and that, when the defendant published the words, they knew that they were false. Alternatively, malice may be established if the defendant was reckless as to whether the statements were false or not (Kaye v Robertson). As the authors of Kerly note, the allegation of malice is one of dishonesty or at least an improper motive and is akin to an allegation of fraud. As such, the courts have tended to approach claims of malicious falsehood between commercial competitors with some caution. Findings of malicious falsehood are rare.

1.8 There is a limitation period of one year in respect of a claim in malicious falsehood (under section 4A of the Limitation Act 1980, as amended by section 5(2) of the Defamation Act 1996). The limitation period for bringing a claim under the statutory threats provisions is six years.

1.9 The remedies available in a claim for malicious falsehood include an injunction to restrain the issuing of the false statements, as well as damages for the economic loss that the claimant has suffered as a direct and natural result. However, as explained further below, it is not possible for a claimant to obtain an interim injunction against the defendant (except in limited circumstances).

Utility

1.10 Claims for malicious falsehood arising out of threats of intellectual property proceedings were more common before the implementation of the various statutory threats regimes. Indeed, the difficulty faced by claimants in the 19th century in bringing claims in malicious falsehood partly led to the introduction of the statutory threats regime for patents. More recently, those aggrieved by threats of infringement proceedings have on occasion brought malicious falsehood claims, either in addition to a statutory threats claim or where a statutory claim is not available.

1.11 The basis of a claim in malicious falsehood in relation to a threat of IP proceedings is that it was false to state that the relevant IP right had been infringed. The claimant must therefore prove that this is a falsehood, by proving e.g. that the relevant products do not infringe the defendant’s IP rights. This may be contrasted with the statutory threats provisions where, provided the claimant demonstrates that a threat has been made, the onus is on the IP rights holder to prove infringement.


1.12 The main difficulty with a malicious falsehood claim based on a threat of infringement proceedings is showing malice. In essence, malice cannot be demonstrated if the maker of the threat acted in good faith, even if their belief was not based on reasonable grounds (provided that they were not reckless as to whether the statement was true or not). A ‘good faith’ defence of this nature is not available in a statutory threats action and the defendant’s state of mind is irrelevant, save in the limited circumstances governed by section 70(2A) Patents Act 1977.4

1.13 For example, in Wren v Weild (a case decided prior to the statutory threats regime),5 the Divisional Court held that, in principle, an action for malicious falsehood could be brought where threats of patent infringement proceedings had been made falsely and maliciously and which had caused the plaintiff to lose business. However, on the facts, the defendant had not made the threats in bad faith in the sense of knowing that they were untrue. There was a similar result in Halsey v Brotherhood (again, prior to the statutory threats provisions),6 where the plaintiff was unsuccessful in a claim for malicious falsehood in relation to claims of patent infringement. On the appeal, Lord Coleridge LCJ said:

   It seems to be clear that if a statement is made in defence of the defendant’s own property, although it injures and is untrue, it is still what the law calls a privileged statement; it is a statement that the defendant has a right to make, unless, besides its truth and besides its injury, express malice is proved, that is to say, want of bona fides or the presence of mala fides.7

1.14 In Olin Mathieson Chemical Corp v Biorex Laboratories Ltd,8 the defendants to a patent infringement action counterclaimed under both the statutory threats provisions and for malicious falsehood. Graham J decided that the patent was valid and infringed. He stated, however, that, had he found the patent invalid or not infringed, the plaintiffs’ good faith would have been no defence to the action for malicious falsehood. This statement, which was not part of his decision, has been described as plainly wrong and based on a misinterpretation of an earlier case under the statutory threats regime.9

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4 This section provides a defence where, even if the claimant shows that the patent claimed to have been infringed was invalid in a relevant respect, the defendant proves that at the time of making the threats it did not know, and had no reason to suspect, that the patent was invalid in that respect.

5 (1869) 4 QB 730.

6 (1881) 19 Ch D 386.

7 Above, at p 388.


1.15 In many cases where a rights holder makes a threat of infringement proceedings, they are likely to have a genuine belief that there is an infringement of their rights. Even where a threat of infringement proceedings is calculated to injure the claimant's business, it will be difficult for the claimant to prove that the defendant did not have a genuine belief that there was an infringement. It is not enough that the defendant knew that, by making the statement, it would injure the claimant's business, if they have a genuine belief that the statement is true. However, knowledge of the falsity of the statement (or recklessness as to whether it is false or not) will amount to malice, as may making the statement with a dominant improper purpose such as spite, ill will or revenge.\(^{10}\) Such situations will be rare.

1.16 There have been a limited number of cases where a claim to malicious falsehood has been successful in relation to a threat of infringement proceedings. For example, in *Mentmore Manufacturing Co Ltd v Fomento (Sterling Area) Ltd*,\(^{11}\) the defendant patent holders had obtained an interim injunction against the plaintiffs, which had been upheld by the Court of Appeal. However, the plaintiffs had obtained permission in that action to appeal to the House of Lords and the injunction had been stayed pending the appeal. The plaintiffs obtained an injunction preventing the defendants making statements to the effect that they had succeeded in their action, as those statements failed to mention the pending appeal and suspension of the injunction.

1.17 Even where the allegation of infringement is clearly hopeless, it may still be difficult for a claimant to prove malice. That said, a claim did succeed in *Greers Ltd v Pearman & Corder Ltd* (a case before the implementation of the statutory threats provisions relating to trade marks),\(^ {12}\) where the claim of trade mark infringement was hopeless as it was based on a word that had been disclaimered from the registered trade mark.

1.18 A significant disadvantage to a claim in malicious falsehood is that the usual rules relating to interim injunctions (i.e. the test under *American Cyanamid*) do not apply where the defendant contends that the alleged false statements are true and that it intends to justify them at trial. In defamation cases, under the rule in *Bonnard v Perryman*,\(^{13}\) a claimant cannot be granted an interim injunction where the defendant announces his intention of relying on the defence of justification at trial. The policy justification is the protection of freedom of speech. The rule was extended to claims of malicious falsehood in *Bestobell Paints Ltd v Bigg*.\(^{14}\) In contrast, interim injunctions may be granted in groundless threats claims (even where the defendant may have an arguable case that the threat was justifiable), in recognition of the potentially irreparable damage that a groundless threat of infringement proceedings may cause.

\(^{10}\) *Horrocks v Lowe* [1975] AC 135, followed by the Court of Appeal in *Spring v Guardian Assurance plc* [1993] 2 All ER 273.

\(^{11}\) (1955) 72 RPC 157.

\(^{12}\) (1922) 39 RPC 406.

\(^{13}\) [1891] 2 Ch 269.

\(^{14}\) [1975] FSR 421.
1.19 In *Easycare Inc v Bryan Lawrence & Co*, the plaintiffs sought an interim injunction in respect of threats of proceedings for patent infringement, and for malicious falsehood. The defendant argued that there had been no threat and said that it would seek to justify the statements at trial. Aldous J refused to grant an interim injunction in respect of the claim in malicious falsehood because the statements might be capable of being justified at trial.

1.20 There are some limited circumstances in which an interim injunction may be granted in a claim for malicious falsehood, for example, if the statements are obviously untrue and libellous. Further, if the claimant relies on another claim in addition to their claim in malicious falsehood, an interim injunction may be available in respect of that other claim. In *Essex Electric (Pte) Ltd v IPC Computers (UK) Ltd*, Ferris J noted that he could not grant an interim injunction in a claim for malicious falsehood merely on the basis that he thought it probable that the plaintiffs would succeed in their claim at trial, but he did grant an interim injunction in respect of the plaintiffs’ claim for interference with contractual relations. More recently, in *Boehringer Ingelheim Ltd and ors v Vetsplus Ltd*, a claim for malicious falsehood and trade mark infringement arising out of comparative advertising, the Court of Appeal said that the *Bestobell* rule did not apply to the trade mark claim. Following that case, the authors of *Kerly* suggest that it is questionable whether the rule should continue to apply to cases of malicious falsehood brought by rival traders against their competitors.

Summary

1.21 Claims in malicious falsehood do not present a satisfactory alternative to the statutory threats regime. There are only a limited number of cases in which an aggrieved party has been successful in a claim for malicious falsehood arising out of groundless threats of intellectual property proceedings (some of those cases were interim applications where e.g. the court decided the claim was arguable but did not decide the merits). In those cases where claimants have brought malicious falsehood claims in addition to a statutory threats action, the additional cause of action does not appear to have had any material effect on the outcome of those proceedings.

1.22 The main obstacle in most cases is that it will be difficult for the claimant to demonstrate that the threats of infringement proceedings were made maliciously, i.e. that the defendant made the threats of infringement proceedings knowing them to be false or without any merit at all. The courts tend to approach allegations of dishonesty with caution and it will usually be fairly straightforward to draft a letter before action in such a way as to avoid any allegations of malice.

1.23 Aside from proving malice, the alleged infringer must also prove that its products do not infringe the rights holder’s intellectual property. Not being able to obtain an interim injunction except in very limited circumstances is a further significant drawback.

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17 [2007] EWCA Civ 583.
DEFAMATION

Description

1.24 A claim in defamation (sometimes also called libel, or slander where the words are spoken) is based on defamatory statements about the claimant made by the defendant. A defamatory statement is an untrue statement which is likely to lower the subject of the statement in the eyes of ordinary members of society, i.e. cause damage to their 'good name' or reputation. The claimant must show damage to their reputation rather than, as in malicious falsehood, damage to an economic interest.

1.25 Whilst most claims of defamation relate to the claimant personally, false statements about the claimant’s goods or services may also be defamatory if they affect the claimant’s reputation. However, where statements are made about a claimant’s goods or services, it may be difficult to demonstrate any disparagement of the claimant itself. In Drummond-Jackson v British Medical Association the majority of the Court of Appeal refused to strike out a claim in defamation brought by a dentist who had been named in a British Medical Journal article criticising an anaesthetic technique that he had invented. Lord Denning, who disagreed with the majority, drew a distinction between statements which affect a claimant’s personal reputation and those which affect the merits of the service they provide.

1.26 A defendant in a defamation action has a defence that the defamatory statement is true (known as justification). Other defences include fair comment (which protects defendants who express their opinions, rather than statements of fact, on matters of public interest) and absolute and qualified privilege, which allow defamatory statements to be made in certain limited situations where there is a public interest in the defendant speaking freely, or where the defendant has a duty to speak his mind.

1.27 A successful claimant in a defamation action is entitled to damages for the damage to their reputation (including for any financial losses that may be suffered). Compensation for damage to reputation is likely to be significantly more than in a malicious falsehood claim, where the damage is caused to the claimant’s economic interests (and more than any damages likely to be awarded in a threats action). However, a corporate claimant will usually find it more difficult to show that its reputation has been damaged to a serious extent.

1.28 The court may also order an injunction to restrain the publication of the defamatory statement although an interim injunction will not be available if the defendant intends to justify the statement at trial. Where the summary procedure under sections 8, 9 and 10 of the Defamation Act 1996 is used, the court may make a declaration that the statement was false and defamatory of the claimant and order that the defendant publish a correction and apology.

Utility

1.29 Aside from the attractiveness of potentially greater financial compensation, defamation does not have much potential value as a claim in relation to groundless threats of IP infringement proceedings. Most threats of infringement proceedings, even if groundless, will not amount to a defamatory statement which damages the claimant’s reputation. Damage to economic interests is not enough for a claim in defamation. There may be circumstances however where a groundless threat of infringement proceedings could be defamatory as it damages the claimant’s reputation e.g. if the allegation was that the claimant had deliberately copied the defendant’s products or services.

1.30 There have been very few cases where a claimant has sought to rely upon defamation in relation to groundless threats of IP infringement proceedings. A claim for defamation was made in Creative Resins International Ltd v Glasslam Europe Ltd, where the first defendant’s solicitors (the second defendant) had sent a letter before action to the claimant and its customers alleging copyright infringement. The alleged defamatory statements in the letter related to defective manufacturing, a history of infringing activity by the claimant and flagrant copyright infringement by the claimant. The first defendant did not rely upon the defence of justification but relied upon qualified privilege on the basis that it was acting in reasonable protection of its legitimate interests. The firm of solicitors applied unsuccessfully for summary judgment against the claimant and for the claim against it to be struck out (pursuant to CPR Part 24) arguing that the claim against it was an abuse of process.

1.31 The decision in Creative Resins was only a strike out application and so it is of limited use as authority. However, the allegations made in the letter appear to have been of a kind more likely to affect the claimant’s reputation than might be in the case in a standard letter before action alleging IP infringement.

Summary

1.32 A claim in defamation arising out of groundless threats of intellectual property infringement proceedings suffers from similar drawbacks to a claim in malicious falsehood, in terms of the non-availability of interim relief and the high hurdle that a potential claimant must overcome in order to establish its claim (ie damage to its reputation). As such, defamation, like malicious falsehood, does not present a satisfactory alternative to the threats regime and it is not surprising that few claims for defamation have been brought in such circumstances.

ABUSE OF PROCESS

Description

1.33 The tort of abuse of process, leading to a claim for damages, exists in very limited defined circumstances (namely malicious criminal prosecutions and a limited number of civil claims which constitute special cases of abuse of process eg malicious presentation of a winding up order or bankruptcy petition). There is no general remedy available to a defendant against whom civil proceedings have been maliciously started (Gregory v Portsmouth City Council).\(^{21}\) Attempts to extend the tort to apply in wider circumstances have failed.

1.34 However, a court may intervene in the conduct of proceedings on the grounds of abuse of process. This may be under the court’s inherent jurisdiction to restrain abuses of its own process or pursuant to CPR 3.4(2) which provides:

The court may strike out a statement of case if it appears to the court:

(a) that the statement of case discloses no reasonable grounds for bringing or defending the claim;

(b) that the statement of case is an abuse of the court’s process or is otherwise likely to obstruct the just disposal of the proceedings; or

(c) that there has been a failure to comply with a rule, practice direction or court order.

1.35 Other important provisions in the CPR include the overriding objective as stated in CPR 1.1 and 1.2 that the court must deal with cases justly and at proportionate cost,\(^{22}\) and the court’s general powers of case management in CPR 3.1(2). This includes in CPR 3.1(2)(m) the power “to take any step or make any other order for the purpose of managing the case and furthering the overriding objective”. Under the CPR, the court has a wide discretion as to how its powers should be exercised, and is not just limited to striking out a claim where it considers that there has been an abuse of process.

1.36 The Supreme Court has recently confirmed (Fairclough Homes Limited v Summers) that there is no reason for applications relating to abuse of process to be made under the inherent jurisdiction as opposed to under CPR 3.4(2)(b).\(^{23}\) It further confirmed in that case that the language of the CPR supports the possibility that a claim may be struck out for abuse of process even where to do so would defeat a substantive claim.

\(^{21}\) [2000] 1 AC 419.

\(^{22}\) The over-riding objective was revised as part of the 60th Update to the Civil Procedure Rules, which came into effect on 1 April 2013, to include a requirement that cases should be dealt with “at proportionate cost” as well as justly.

1.37 The case law has identified categories of behaviour which may amount to an abuse of process. Issuing court proceedings with an ulterior motive is not of itself enough to constitute an abuse of process (Broxton v McClelland).\textsuperscript{24} An action will only be an abuse of process if the court's processes are being misused to obtain something that is not properly available to the claimant in the course of properly conducted proceedings. In Broxton, the Court of Appeal said that there were two distinct categories of abuse of process: (a) achieving a collateral advantage beyond the proper scope of the action; and (b) the conduct of the proceedings themselves not so as to vindicate a right but rather in a manner designed to cause the defendant problems of expense, harassment, commercial prejudice or the like beyond those ordinarily encountered in the course of properly conducted litigation.

1.38 A further potential category of abuse of process is where the court's resources are used for an action where so little is at stake that it is not a proportionate procedure (as in the libel case of Jameel v Dow Jones & Co Inc).\textsuperscript{25} In the context of intellectual property, a claim to copyright infringement was struck out as an abuse of process in Sullivan v Bristol Film Studios Ltd.\textsuperscript{26} Even though the claim had a real prospect of success, the recoverable damages were likely to be extremely modest and the costs were therefore out of all proportion to the amount the claimant was likely to recover. However, the Court of Appeal said, the mere fact that a claim was small did not automatically mean that the court should refuse to hear it. The real question was whether there was a proportionate procedure by which the merits could be investigated (eg the Patents County Court, including now under its small claims track procedure).

\textbf{Utility}

1.39 Launching proceedings for infringement of an intellectual property right may constitute an abuse of process, eg if it is done for vexatious reasons, as a form of harassment or to secure some collateral advantage. In Landi den Hartog BV v Sea Bird,\textsuperscript{27} the court granted an order preventing a patent owner from bringing any further proceedings in relation to the plaintiff's products against the plaintiff's customers, except with the court's permission. The defendant's course of conduct demonstrated that it was not genuinely concerned to assert its rights under the patents but to harass the plaintiff and its customers.

\textsuperscript{24} [1995] EMLR 485.
\textsuperscript{25} [2005] QB 946.
\textsuperscript{26} [2012] EWCA Civ 570.
\textsuperscript{27} [1976] FSR 489.
1.40 In *Jacey (Printers) v Norton & Wright Group Limited*, the Court granted an order against the defendant (the owner of certain patents) preventing it from bringing claims against the plaintiff's customers for patent infringement, at least without the court's permission and unless the plaintiffs were joined as defendants to those proceedings. The purpose of the proceedings was to obtain a collateral advantage by way of interfering with the plaintiff's trade, thereby bringing improper commercial pressure to bear upon the plaintiffs. However, the court stressed that, if there was justification for bringing an action and it was not done to secure a collateral advantage, an individual's right to sue should not be curtailed in any way.

1.41 A more difficult issue is whether groundless threats of infringement proceedings may amount to an abuse of process, ie whether proceedings must have been issued before the court can intervene. In *Essex Electric (Pte) Ltd v IPC Computers (UK) Ltd*, the plaintiffs sought an interim injunction against the second defendant restraining him from threatening to commence or commencing proceedings against the plaintiffs' customers for passing off arising out of the use of the name and logo IPC. The court held that its jurisdiction to restrain an abuse of its process extended to restraining the making of threats to commence proceedings which would be an abuse. The court decided that there was a serious issue to be tried (under the *American Cyanamid* test for an interim injunction) as to whether the second defendant had a collateral purpose of injuring the plaintiffs' business and bringing pressure to bear on them, rather than the proper purpose of enforcing a genuine remedy against their customers. As the balance of convenience lay strongly in favour of the plaintiffs, Ferris J granted a qualified injunction providing that no proceedings could be commenced without the court's permission, and against the making of further threats of proceedings.

1.42 However, in *Pitman Training Limited & anr v Nominet UK & anr*, where the plaintiff had threatened to sue Nominet if it did not restore to it the domain name pitman.co.uk, the court decided that this was not an abuse of process as no proceedings had actually been issued. The court did not refer to the earlier decision in *Essex Electric* but appears to have approached the issue on the basis of the tort of abuse of process, rather than the court's inherent jurisdiction to restrain abuses of process. In any event, the court concluded that the plaintiff's overt purpose in threatening proceedings was to obtain back the domain name and not for some collateral or ulterior purpose.

1.43 Even if it is not necessary for proceedings to have been issued, it is unlikely that most threats of infringement proceedings will amount to an abuse of the court's process. A court is likely to conclude in many IP infringement cases that a letter before action is entirely commonplace and legitimately written for the purpose of asserting rights, rather than for some collateral purpose.

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However, where it is possible to identify an ulterior motive or some campaign of harassment, the court’s jurisdiction is wide enough for it to remove a cause of action. This will be the case even where a party has been given that cause of action by statute, which may include a claim to infringement of intellectual property rights. In Reckitt Benckiser UK v Home Pairfum Limited, the claimant brought proceedings for UK trade mark and CTM infringement, registered design infringement, design right infringement, passing off and breach of confidence relating to its air freshener products. The defendants counterclaimed for groundless threats and applied to join the claimant’s solicitors as a defendant to that counterclaim. The claimant sought to strike out those aspects of the counterclaim relating to unjustified threats (and to oppose its solicitors being joined to the claim). It argued that these were abuses of the court’s process or were otherwise likely to obstruct the just disposal of the proceedings. It suggested that a message should be sent out to the IP community that ‘pointless’ threats proceedings would not be allowed.

Referring to the Court of Appeal’s decision in Wallis v Valentine, Laddie J stated that the court’s powers were wide enough to remove or annul a cause of action, including one created by statute, and did not merely moderate how proceedings should be conducted. However, striking out had to be supportive of the overriding objective and a strike out of a valid claim should always be a last resort. If the abuse could be dealt with by a less draconian course of action, it should be. The Supreme Court in Fairclough Homes v Summers has recently stressed that, even though a statement of case can be struck out at any stage of the proceedings (even where it has already been determined that the claimant is in principle entitled to damages), this power should only be exercised where it is just and proportionate to do so.

In Home Pairfum, Laddie J concluded that the defendant’s claim of groundless threats was not an abuse of process. It was not in itself abusive to seek relief because it was of low value (though see the more recent Court of Appeal decision Tony Sullivan v Bristol Film Studios Ltd). It was also not appropriate to deprive the defendant of its entitlement to seek relief on the basis that it would send a message to others that the threats legislation should not be abused. However, seeking to join the solicitors as a defendant to the claim was an illegitimate purpose of the counterclaim, where it was appropriate for the court to exercise proportionate case management powers.

33 [2002] EWCA Civ 1034.
34 [2012] EWCA Civ 570.
**Summary**

1.47 Accordingly, where a rights holder is attempting in good faith to protect their intellectual property rights (as opposed to acting for some collateral or ulterior purpose or to harass their competitors and their customers), it is unlikely that the court will exercise its powers under CPR 3.4(2)(b) to strike out a claim. It may however use its powers to exercise control over the conduct of the litigation through general case management and costs orders.35

1.48 A recent example of the court exercising control over how a party conducts itself prior to beginning proceedings is *Media CAT Ltd v Adams*.36 The claimant and its solicitors had sent tens of thousands of letters alleging copyright infringement relating to downloading and sharing of pornographic material. The letters sought compensation in a fixed amount from each recipient. The claimant had then commenced proceedings against only 27 defendants, before applying to discontinue those proceedings. The Judge was very critical of the misleading content of the letters before action. As the names and addresses of the individuals had been obtained following a court order, he decided that the court should regulate how that information was used. He considered very seriously whether to make an order restraining the claimant from sending any further letters, drawing an analogy with the statutory threats regime for other IP rights and also to the use of Civil Restraint Orders (in the event, the claimant ceased trading and no order was necessary).

1.49 The High Court adopted a similar approach in *Golden Eye (International) Limited v Telefonica UK Limited* where the court was asked to order disclosure of names and addresses for the purposes of writing letters before claim alleging copyright infringement, again in relation to sharing of pornographic material.37 Arnold J stressed that a court being asked to make such an order should carefully consider the terms of the draft letter of claim and, in particular, the impact it will have upon ordinary consumers who may not have access to specialised legal advice. He ordered a number of changes had to be made to the claimants’ proposed letter before claim, in particular, deletion of a demand of a fixed sum of £700 by way of compensation.

1.50 Aside from the specific circumstances of an application for disclosure of names and addresses of potential wrong doers, however, the court will not generally be in a position to control the manner in which pre-action correspondence is conducted. Aside from the interim decision in *Essex Electric*, it has not been confirmed that a court can restrain an abuse of its process before proceedings have been issued.

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35 Including by reference to the General Practice Direction on Pre-Action Conduct.


37 [2012] EWHC 723 (Ch).
CONTEMPT OF COURT

Description

1.51 Statements which interfere with pending or imminent court proceedings may amount to a contempt of court if they prejudice the conduct or fair trial of those proceedings, thereby impeding the proper administration of justice. This may be the case even if the statements are true.

Utility

1.52 It is difficult to imagine circumstances in which a threat of intellectual property infringement proceedings, even if groundless, would genuinely interfere with subsequent court proceedings by prejudicing the conduct of those proceedings. Intellectual property infringement proceedings are heard by judges and not by juries. Threats of infringement proceedings are unlikely to affect potential witnesses in any such claim although the possibility cannot be ruled out (e.g. in a claim relating to allegations of infringement by a former employee or director of a company).

1.53 A finding of contempt of court has to be based on a solid view of the likelihood of harm being done and not upon fanciful notions of the susceptibility of the recipients of the letters. In Carl-Zeiss-Stiftung v Rayner & Keeler Ltd,38 letters written on behalf of the defendant stated that it had the right to use a particular trade mark and specified third parties did not. The letters did not mention that there were pending proceedings in which those statements were being challenged. Russell J decided that the letters did not constitute contempt of court. They would only have done so if they were intended or likely to deter witnesses from giving evidence on behalf of the claimant.

1.54 Similarly, in Easipower Appliances & Frederick Williams (Appliances) v Gordon Moore (Electrical),39 the court held that a statement relating to a passing off action (whether before or after the issue of the claim) would not be a contempt of court if it had no tendency to prejudice the fair trial of the action or to deter witnesses from coming forward, and was merely a warning to the trade.

1.55 In Therm-A-Stor Limited v Weatherseal Windows Ltd,40 the owners of a patent application commenced infringement proceedings against the defendant. It instructed its salesmen to misrepresent the status of the proceedings to the defendant’s customers by suggesting that an order had already been made in the plaintiff’s favour. The action was struck out and the misrepresentation was held to be a clear contempt of court. The court granted an interim injunction under the threats provisions to prevent the plaintiffs threatening the defendants’ customers with infringement proceedings (but refused to grant an injunction to prevent repetition of the misrepresentation, the appropriate remedy being further proceedings for contempt).

38 [1960] 1 WLR 1145.
ECONOMIC TORTS

Inducing breach of contract

Description

1.56 The tort of inducing a breach of contract was recently considered by the House of Lords in *OBG v Allan* where it rejected the so-called unified theory of the economic torts,\(^{41}\) and identified a clear dividing line between inducing or procuring a breach of contract on the one hand, and causing loss by unlawful means on the other. However, there are aspects of both torts that remain unresolved and open to argument.

1.57 There are four elements to a claim that a party has induced or procured a breach of contract:

1. Breach of contract by a third party with the claimant
2. Knowledge by the defendant that it is inducing a breach of contract
3. An intention on the defendant’s part to procure a breach of contract
4. Damage to the claimant resulting from the breach.

1.58 The classic example of the tort of inducing a breach of contract is *Lumley v Gye* (it is sometimes known as “*Lumley v Gye* liability”).\(^{42}\) In that case, a rival theatre owner “enticed and procured” a well-known opera singer to perform at his theatre, knowing that the claimant had a contract with the singer which tied her exclusively to his theatre.

1.59 The claimant in such a claim is the other party to the contract. The third party contract breaker cannot bring a claim for inducing a breach of contract, though it may bring a claim for causing loss by unlawful means.

1.60 The tort of inducing a breach of contract is a form of accessory (or secondary) liability, i.e. it is dependent on a primary wrong in the form of the breach of a contract. Merely interfering with the performance of a contract will not be sufficient, though again this may give rise to a separate claim for interfering with a contract by unlawful means.

1.61 In relation to the knowledge requirement, the defendant must know that the relevant act would be a breach of contract and must intend to procure or induce that breach. Accordingly, the defendant must have actual knowledge of the contract (though they need not know its precise terms) and must know that the acts they intend to procure will induce a breach of that contract. It is not enough to show that the defendant ought reasonably to have known that the relevant act would amount to a breach of contract but reckless indifference or consciously failing to enquire will be sufficient.

\(^{41}\) [2008] 1 AC 1.

\(^{42}\) (1853) 2 E&B 216.
The defendant must intend to procure or induce a breach of contract but it is not necessary to show any intention to harm the claimant (unlike the unlawful interference tort where the defendant must have intended to cause damage to the claimant). In *OBG Ltd v Allan*, Lord Hoffman in the House of Lords said:

> if the breach of contract is neither an end in itself or a means to an end, but merely a foreseeable consequence, then … it cannot for this purpose be said to have been intended.43

If the breach of contract was merely a foreseeable consequence of the defendant's acts, that would not be sufficient.

In terms of what amounts to inducement, direct persuasion, procurement or inducement of the third party to breach their contract with the claimant will clearly be sufficient. Communication of information or advice will not constitute direct inducement but may be actionable if there is an element of pressure, persuasion or procuration. Indirect inducement may be enough if the court is satisfied that:

> the defendant’s acts of encouragement, threat, persuasion and so forth have a sufficient causal connection with the breach of the contracting party to attract accessory liability.44

Finally, the claimant must establish that it has been damaged as a result of the breach. It will be entitled to recover compensation for the damage that was intended or which was a foreseeable consequence (provided those losses are not too remote).

A defendant to a claim of inducing a breach of contract may argue a defence of justification. This defence is not well understood and it is suggested that it is limited to fulfilment of some ‘moral duty’. In *OBG Ltd v Allan*, Lord Nicholls noted, without elaboration, that it could arise where the defendant possesses “an equal or superior right”.45 The basis for such a defence in those circumstances is that the defendant is justified in taking reasonable steps to protect its equal or superior interest, even if it knows that it will cause a breach of the claimant’s contract.

**Utility**

If an IP rights holder makes allegations of intellectual property infringement to an alleged infringer’s customers, a possible consequence is that those customers stop purchasing the relevant products, thereby breaking their contract with the alleged infringer. In those circumstances, the alleged infringer may seek to argue that this amounts to the rights holder inducing a breach of contract. Only the alleged infringer could bring such a claim, not its customers.

In order to succeed, an alleged infringer would need to demonstrate:

1. There was a contract between the customer and the alleged infringer.

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43 *OBG Ltd v Allan* [2008] 1 AC 1, [42-43].
44 Above at [36].
45 Above at 193.
(2) The customer breached the contract (e.g. refusing to take delivery of an order).

(3) The IP rights holder was aware of the contract and its key terms.

(4) The IP rights holder intended by its threat of proceedings to induce or procure the customer to breach the contract.

(5) The alleged infringer has suffered damage as a result of the contract being breached, and that that damage was intended or was reasonably foreseeable as a result.

1.68 In some cases, it will be difficult for the claimant to prove that the rights holder was aware of its contract with the recipient of the threat. However, the court may deem a third party to know of the almost certain existence of a contract where it has sent a letter before action to a retailer customer of a competitor, and perhaps some of its key likely terms.

1.69 Where reliance is placed on a letter before action in relation to infringement proceedings, there is unlikely to be any evidence of active persuasion. It is fairly simple for letters to customers to be phrased so that they warn of a potential infringement or a notification of a possible dispute over IP rights which would be unlikely to amount to a direct inducement of a breach of contract. Similarly, where advertisements or circulars are used, as opposed to direct and targeted threats, it will be difficult for a claimant to demonstrate that such threats have a sufficiently direct relationship with any subsequent breaches of contract.

1.70 It is likely also to be difficult to show that any damage caused stems from breaches of contract caused directly by the rights holder’s threats, rather than for any other reason.

1.71 Finally, the rights holder may raise the defence of justification, i.e. that it was seeking to protect an equal or superior right, its intellectual property rights. The precise ambit of this defence is uncertain but may be available where a rights holder is seeking to protect its intellectual property rights (it may be relevant whether those rights are valid or not).

1.72 There have been a small number of cases where a claimant has argued that a threat of infringement proceedings has amounted to inducing the recipient to breach its contract with the claimant. For example, in Granby Marketing Services Limited v Interlego AG, the plaintiff claimed damages against the defendants for inducing Kelloggs to breach its agreement with the plaintiff. It argued that the defendants’ threats of copyright infringement proceedings issued to Kelloggs induced the breach and that those threats were made with the knowledge that the contract existed or almost certainly would exist and with the intention that Kelloggs should breach the contract.

1.73 Mr Justice Vinelott struck out the plaintiff’s action. The case law demonstrated that no action for wrongful interference with contractual relations could lie if all the defendant had done was to assert in good faith a legal right claimed by him and to threaten proceedings if that right was infringed. The plaintiff had relied on Whitford J’s earlier decision in *Jaybean Limited v Abru Aluminium Limited*.47 In that case, the defendant owned copyright in drawings relating to a step-ladder and a registered design relating to it. Its solicitors sent a letter to the plaintiff’s customer in which they (1) impliedly claimed the plaintiff’s ladder infringed the copyright in the defendant’s drawings and (2) referred to the defendant’s registered design. Even though the rights holder was attempting merely to notify the customer of its design within the terms of the statutory notification provision, the court decided that the recipient of the letter would consider that it was being threatened for proceedings for both copyright and registered design infringement. In relation to the threats of copyright infringement proceedings, Whitford J noted that it was possible that these could give rise to a claim for interference with contractual relations. However, as Vinelott J pointed out in Granby, Whitford J did not have to decide the point and he did not examine the possible claim of interference with contractual relations, no doubt because it had been conceded in argument that the case was arguable but not strong.

1.74 In *Essex Electric(Pte) Ltd v IPC Computers*,48 the second defendant had written to the plaintiffs’ retailer customers requiring them to stop using the name IPC and a logo for IPC in the UK, under threat of an action for passing off. The evidence as to the terms of the contract between the plaintiffs and its customers was not wholly satisfactory but it clearly existed in some form. The court decided that the plaintiffs had clearly shown a seriously arguable case that the tort had been committed for an interim injunction application. There was an actual or threatened breach of the contract in that customers refused to stock goods marked IPC or removed the mark from those goods, in breach of their contract with the plaintiff. The defendant had procured those breaches and the evidence showed that they were aware of the existence of the contracts and their general effects. The court concluded that it was almost inevitable that, at trial, the defendant would be shown to have intended that there should be an interference with or interruption of contractual relations and the Judge could see no circumstances which would justify interference of the kind involved.

**Summary**

1.75 Subject to arguments in relation to aspects of the claim, such as the defence of justification, the utility of the tort in the context of threats of IP infringement proceedings appears to be limited to situations where the rights holder has made very direct and targeted threats.

Intentionally causing loss by unlawful means

Description

1.76 The ambit of the tort of intentionally causing loss by unlawful means has recently been clarified by the House of Lords’ decision in OBG Ltd v Allan. Where a party A (the defendant) commits an unlawful act against B, and A intends to cause loss to C (the claimant) by that unlawful act, then C can sue A for the losses actually suffered.

1.77 The intention requirement is an essential ingredient in the tort but is not straightforward. The defendant must have intended to inflict harm to the claimant. As noted by Lord Nicholls in OBG Ltd v Allan,\(^49\) the intention requirement is set high because it is the factor “which justifies imposing liability on the defendant for loss caused by a wrong otherwise not actionable by the claimant against the defendant”. It is not enough that the claimant’s loss was a foreseeable consequence of the defendant’s unlawful act but the defendant may intend to inflict harm either as an end in itself or as a means to an end, eg to protect or promote their own economic interests. Where the defendant seeks to advance their own business by pursuing a course of conduct, knowing it will necessarily harm the claimant, the intention requirement will be met.

1.78 A further essential ingredient in the tort is that the claimant must show that the defendant used unlawful means, ie this is a form of primary liability. Again, the precise ambit of ‘unlawful means’ remains unclear. The majority of the House of Lords in OBG Ltd v Allan concluded that unlawful means consists:

of acts intended to cause loss to the claimant interfering with the freedom of a third party in a way which is unlawful as against that third party and which is intended to cause loss to the claimant. It does not include acts which may be unlawful against a third party but which do not affect his freedom to deal with the claimant.\(^50\)

1.79 A variant of this tort is intimidation. A party will commit a tort if he delivers a threat to a third party that he will commit an act against that third party, or use unlawful means, following which that third party does or refrains from doing some act which he is entitled to do, thereby causing damage to himself or to a further party. It is essential to the action that the party who delivers the threat or coercion intended the other party or parties to suffer loss as a result of the threats. The authors of Clerk & Lindsell suggest that the effect of the House of Lords’ decision in OBG Ltd v Allan must now call into question the continued existence of a separate tort of intimidation, it instead falling under the tort of ‘causing loss by unlawful means’.\(^51\)

Utility

1.80 The utility of this tort for an alleged infringer who suffers loss as a result of threats of infringement proceedings depends on identifying an unlawful act by the rights holder as against the customer, and the requisite intention.

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\(^{49}\) OBG Ltd v Allan [2008] 1 AC 1 at [166].

\(^{50}\) Above by Lord Hoffman at [51].

\(^{51}\) Clerk & Lindsell on Torts (20th ed 2012), para 24-58.
1.81 It is unlikely that a claim for intimidation would succeed in respect of a threat of IP infringement proceedings but, as noted in relation to abuse of process above, a court may exercise its powers under its inherent jurisdiction and under the CPR to control litigation which is intended to harass a party or its customers. Whilst it is not certain whether a recipient of a threat can argue abuse of process where proceedings have not actually been started against it, the courts have shown that they are willing to step in and regulate matters at an early stage, where appropriate.
DECLARATIONS OF NON-INFRINGEMENT AND OTHER FORMS OF NEGATIVE DECLARATORY RELIEF

Description

1.82 A declaration is a statement by the court as to the respective rights of the parties, the existence of certain facts or as to a principle of law (Financial Services Authority v Rourke). The jurisdiction to grant a declaration is a discretionary one. The court’s inherent power to grant a declaration has been available since 1883 and is affirmed by CPR 40.20 which provides that “The court may make binding declarations whether or not any other remedy is claimed”. This provision confirms that the court’s jurisdiction to make a declaration is not limited to circumstances where the claimant has a separate standalone claim.

1.83 In the US, declarations are the primary protection available to those who wish to protect themselves against groundless threats of IP infringement proceedings. Historically, in the UK, declaratory proceedings under the court’s inherent jurisdiction were less common although, in recent years, the courts have adopted a flexible approach to their use, focusing on the practical needs of justice and the parties. As a result, the scope of the matters upon which the court may grant a declaration has expanded and declaratory relief is a potentially powerful remedy.

Statutory provisions relating to declarations of non-infringement

1.84 Aside from the court’s inherent jurisdiction, there are statutory provisions relating to declarations of non-infringement in relation to patents and Community designs (whether registered or unregistered).

1.85 In the patents context, section 71 of the Patents Act provides that the court (or the Comptroller of Patents) may make a declaration that an act (or a proposed act) does not infringe a particular patent. The section provides that this may even be in circumstances where the patent owner has not asserted infringement.

1.86 The conditions for a declaration under section 71 are that:

(1) the person has applied in writing to the patent owner for a written acknowledgement to the effect of the declaration sought and has provided full particulars in writing of the act or proposed acts in question; and

(2) the patent owner has refused or failed to give any such acknowledgement.

1.87 Under section 74(1)(c) of the Patents Act, in proceedings for a declaration, the court may also be asked to rule on the validity of the patent. However, the court will not be able to grant financial compensation to the party seeking the declaration.

The availability of a statutory declaration of non-infringement is extremely important in the patent arena. Third parties will often desire commercial certainty in the form of a court ruling as to the legitimacy of their acts or, more often, proposed acts. If they instead launch their product at risk, they face being sued by the rights holder (eg in the context of launch of generic pharmaceuticals) and the court will take into account any failure on their part to ‘clear the way’ when considering whether to grant an interim injunction against them (SmithKline Beecham plc v Apotex Europe Limited).\textsuperscript{53}

Recently the court has demonstrated that it is prepared to grant a declaration of non-infringement even in respect of a foreign patent (provided that the validity of the foreign patent was not in dispute). In Actavis Group HF v Eli Lilly & Company,\textsuperscript{54} the court granted a declaration of non-infringement in respect of both the UK designation of a European patent and also a number of foreign jurisdictions (France, Germany, Italy and Spain).

In relation to Community designs (both registered and unregistered), it is possible to bring proceedings for a declaration of non-infringement in some (but not all) of the Member States (Article 81(b) of the Community Designs Regulation 6/2002/EC). However, in contrast to patents, the validity of the design cannot be determined in the proceedings. In certain circumstances, the court may grant a declaration of non-infringement that will have effect across all member states, which is a potentially very powerful remedy.

In Samsung Electronics (UK) Limited v Apple Inc, Samsung sought a declaration that its Galaxy tablet computers did not infringe Apple’s registered Community design and also sought an injunction preventing Apple from making threats of infringement proceedings. The Court decided that Apple had not made threats of infringement proceedings.\textsuperscript{55} The alleged threats were said to be:

(1) Statements in German proceedings that it was asserting its registered design and other rights against Samsung across the EU

(2) Failure to respond to a request to consent to a declaration of non-infringement

(3) Statements by Apple officials that Samsung was involved in blatant copying of its products and that it needed to protect its IP rights

(4) The relative importance of the UK in the European market for tablet computers.

\textsuperscript{53} [2003] EWCA Civ 137.
\textsuperscript{54} [2012] EWHC 3316 (Pat).
\textsuperscript{55} [2012] EWHC 889 (Ch).
1.92 In the main proceedings, having decided that the Samsung Galaxy tablets did not infringe Apple’s registered Community design, the court granted a declaration of non-infringement.\(^{56}\) However, the court rejected Samsung’s application for an order that Apple be prevented from making representations to the effect that Samsung had infringed its design. Such an order risked undermining Apple’s right to freedom of speech under Article 10 of the European Convention on Human Rights and the public interest in the courts being held up to public scrutiny. There was, however, a useful purpose in a clear public statement that a product alleged to infringe did not infringe. Accordingly, the court ordered Apple to publish statements in a number of UK newspapers and magazines and on its website stating that Samsung’s tablets did not infringe and including a hyperlink to the judgment.

1.93 On appeal, the Court of Appeal set out guidelines for the making of so-called ‘publicity orders’.\(^{57}\) Article 15 of the Enforcement Directive 2004/48/EC provides for the possibility of a publicity order where the IP rights holder has been successful. The purpose of the provision is described in Recital 27 as to act as a “supplementary deterrent to future infringers and to contribute to the awareness of the public at large”. However, the Directive does not provide for a publicity order in favour of a successful non-infringer (either a defendant to a claim of infringement or a party that has obtained a declaration of non-infringement).

1.94 The Court of Appeal confirmed that, despite the absence of such a provision under the Directive, the court had the power to make a publicity order against an unsuccessful rights holder under section 37 of the Senior Courts Act 1981. This provides that

> The High Court may by order (whether interlocutory or final) grant an injunction … in all cases in which it appears to the court to be just and convenient.

However, the Court of Appeal concluded that publicity orders should not be “the norm”. As the purpose of such orders was not to punish the party concerned for its behaviour or to make it ‘grovel’ or ‘lose face’, they should only be granted:

1. In favour of a successful rights holder, where it is necessary to deter future infringers and to contribute to the public’s awareness; and

2. In favour of a successful non-infringer where there is a need to dispel commercial uncertainty.


\(^{57}\) [2012] EWCA Civ 1339.
The Court of Appeal decided that there was a need to dispel commercial uncertainty in this case. However, for reasons of proportionality, Apple only had to include a link to the notice, and for a period of one month only. Apple then published a statement on its UK website which did not comply with the Court’s ruling (e.g. it included other statements from the original High Court decision and referred to Apple’s victories against Samsung in other countries). The Court of Appeal ordered Apple to publish a corrected version within 48 hours. This chain of events demonstrates that a declaration of non-infringement, coupled with a publicity order, can be a useful remedy for an alleged infringer, where it is necessary to dispel uncertainty. However, it is not without difficulties in terms of compliance and enforcement.

The court’s inherent jurisdiction to grant a declaration

Aside from patents and Community designs, there are no other statutory provisions which provide for a party to seek a declaration of non-infringement. A party seeking a declaration of non-infringement in respect of other IP rights must rely on the court’s inherent power to grant such a declaration.

Previously, the claimant had to show that the rights holder had asserted a claim of right against it in order for the court to have jurisdiction to grant a declaration. This rule was based on the court’s decision in *Re Clay: Clay v Booth*, where it held that it could not grant a declaration under the court’s inherent jurisdiction where the rights holder had not made a claim and had not asserted any right against the party seeking the declaration.

The modern case law approach appears to be more flexible in that it does not require the party seeking a declaration to show that the rights holder has asserted its rights against it. In *Messier-Dowty Ltd v Sabena SA*, Lord Woolf MR stressed that the question was not one of jurisdiction but was one of discretion, stating:

> The use of negative declarations domestically has expanded over recent years. In the appropriate case their use can be valuable and constructive ... The approach is pragmatic. It is not a matter of jurisdiction. It is a matter of discretion. The deployment of negative declarations should be scrutinised and their use rejected where it would serve no useful purpose. However where a negative declaration would help to ensure that the aims of justice are achieved the courts should not be reluctant to grant such declarations. They can and do assist in achieving justice ... The development of the use of declaratory relief in relation to commercial disputes should not be constrained by artificial limits wrongly related to jurisdiction. It should instead be kept within proper bounds by the exercise of the courts’ discretion.

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58 [1919] 1 Ch 55.
60 Above at [36] and [41].
Similarly, in *Financial Services Authority v Rourke*, Neuberger J said that when exercising its discretion, the court had to take into account “justice to the claimant, justice to the defendant, whether the declaration would serve a useful purpose and whether there are any other special reasons why or why not the court should grant the declaration”.

**Utility**

1.100 Under its inherent jurisdiction, the court is not merely able to consider questions relating to infringement or validity of a particular IP right. The flexibility of the claim for declaratory relief means that, in recent years, the courts have been asked more unconventional questions, as in the case of *Nokia Corporation v InterDigital Technology Corporation* which concerned mobile telephone systems. The court was asked to grant a declaration that certain patented technologies were not ‘essential’ to meet an international telecommunications standard. InterDigital applied to strike out Nokia’s claim arguing that representations of essentiality did not amount to assertion of a claim of a right and therefore a declaration was not available. Pumfrey J reviewed the case law culminating in *Messier-Dowty v Sabena* and *FSA v Rourke* and identified three broad principles for a court hearing an application for a declaration:

1. Whether or not to grant a negative declaration was a matter of discretion, not jurisdiction.
2. Negative declarations were unconventional remedies and should be used rarely and only where they served a useful purpose.
3. The question that the court is asked to answer must be sufficiently well defined in order to enable the court to properly look at and answer it.

1.101 The Court of Appeal upheld Pumfrey J’s decision that the issue was clearly enough defined to be the subject of the court’s inherent jurisdiction. That said, Jacob LJ stressed that normally the court would decline to grant a declaration in favour of a party against whom no claim has been formulated, “for the obvious reason that there is no real point in doing so.” Here, however, there was a real point in doing so, namely Nokia’s manifest and real commercial interest in the declaration sought – an interest in making 3G telephones which must comply with the standard was clearly sufficient.

62 Above.
64 [2006] EWCA Civ 1618, at [15].
1.102 The court’s jurisdiction was extended further in *Arrow Generics Limited v Merck & Co, Inc* where the court granted a declaration that the claimant’s own product was obvious at the priority date of a divisional application for a patent (the effect of such a declaration being that the claimant could deal in its product without liability to the defendant for infringement of any divisional patent granted to the defendant).65

1.103 A declaration of non-infringement of copyright under the court’s inherent jurisdiction was rejected in *Point Solutions Limited v Focus Business Solutions Limited* but the case is particularly interesting for comments made in the Court of Appeal.66 The claimant sought a declaration that its software product did not infringe the defendants’ copyright and an injunction preventing the defendants from representing as such to any person. It argued that the defendants had asserted infringement in correspondence between the parties and that it needed the declaration and injunction to avoid suffering further loss and damage in the market place (e.g. it had been unable to secure venture capital funding which had led to cash flow problems and redundancies).

1.104 At trial, HHJ Frances Kirkham held that:

1. The absence of a statutory right to a negative declaration did not preclude the court from making such a declaration if it was satisfied, in all the circumstances, that it would be just to do so.

2. It was open to the court under its inherent jurisdiction to consider whether there had been sufficient assertion of right to trigger the exercise of its discretion.

3. The court should consider whether in all the circumstances it was appropriate to make the order and, in doing so, should take into account justice to both claimant and defendant, whether the order would serve any useful purpose, and whether there were any special reasons why the court should or should not grant the declaration.

4. Following the copyright case of *Wyko Group plc v Cooper Roller Bearings* the court should be slow to require a party who has made no allegation of copying to answer a negative case of non-copying.67 In that case, Ferris J had observed that “… a party who claims that facts give him a cause of action should be allowed to commence his own proceedings at a time and a manner of his own choosing and is not to be brought into court by the opposite party to resist a claim for a declaration of non-liability”.68

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65 [2007] EWHC 1900 (Pat).
66 [2005] EWHC 3096 (Ch).
68 Above at 137.
Whilst the court concluded that there had been a sufficient assertion of right by the defendant, the claimant was unable to prove, on the balance of probabilities that it had not copied the defendants' software. In any event, however, the Judge would not have granted the declaration because it would not have served any useful purpose. The Judge would also have refused a declaration on discretionary grounds, namely that there would be greater injustice caused to the defendant if the declaration were granted (e.g. that it would not be able to bring any future claim for infringement).

On appeal, the parties did not challenge the correctness of the Judge's approach and, in particular, whether it remains necessary to demonstrate a sufficient assertion of right. In any event, even if this remains a requirement, it appears that the requirement can be met by an implicit assertion or inference of infringement, and an express assertion is not necessary. Whilst the Court of Appeal did not have to consider the utility of the declaration and the Judge's comments on the exercise of the discretion, it did express doubts that a declaration would have shut the defendant out of any future claim.

Interestingly, Chadwick LJ noted that it might have been open to the judge to put the copyright owner to an election: to require it either to make a positive case as to copying or to accept that the court would try only the single issue whether it had made an assertion of infringement, with the consequence that, if the claimant were successful on that issue, the copyright owner would be required to withdraw and not repeat that assertion. Chadwick LJ did not decide whether this course would have been open to the judge but said that he could see some attraction in a 'put up or shut up' order where one party sought to spread around the market by innuendo that another party was infringing its copyright, with the aim of putting that party at a commercial disadvantage (the claimant did not pursue this avenue on appeal).

It has been suggested that a 'put up or shut up' order would be a useful tool for those against whom 'assertions' of copyright infringement are made, and following Nokia, for this procedure to be extended to any case where there exists a 'real commercial reason' for seeking a declaration of non-infringement of copyright.

Even if a party is successful in a statutory threats action, the court may also grant a declaration under its inherent jurisdiction though it may decline to do so because it is unnecessary or undesirable (Prince plc v Prince Sports Group Inc).\(^71\) In L’Oréal v Johnson & Johnson,\(^72\) the claimant brought a claim for groundless threats of trade mark infringement proceedings and also sought a declaration of non-infringement of the first defendant’s UK trade mark registrations under the court’s inherent jurisdiction. The court noted that the inherent jurisdiction was procedural only and enabled the court to declare what the existing rights of the parties were. In contrast, section 21 of the Trade Marks Act 1994 created a claim to an injunction and damages if the necessary ingredients were made out. It rejected the defendants’ argument that, where it was not possible to rely on the statutory threats provisions, the court should not grant a declaration under its inherent jurisdiction. The defendant’s letter was a threat under section 21 and also an adverse claim which was sufficiently formulated to be the subject of declaratory proceedings under the court's inherent jurisdiction.

In contrast, in Unilever v Proctor & Gamble,\(^73\) the court noted that the availability of a declaration under section 71 of the Patents Act 1977 meant that the court should be wary of granting a declaration under its inherent jurisdiction (despite the clear wording of section 71). In Nokia v InterDigital, however, the court rejected the defendant’s argument that Nokia should have relied on section 71 rather than the court's inherent jurisdiction.

**Summary**

Like the statutory threats action, issuing a claim for a declaration of non-infringement will put the alleged infringer in the position of the claimant, which may have tactical benefits. However, in terms of the burden of proof, the onus is on the person seeking the declaration to prove that it does not infringe (unlike a groundless threats action where, having established that a threat has been made, the onus passes to the rights holder to prove that there has been an infringement).

A requirement for a rights holder to elect to ‘put up or shut up’, along the lines suggested by the Court of Appeal in Point Solutions, can be seen as akin to the statutory threats regime in that, having established an assertion of rights (whether explicitly or by inference), the onus would be on the rights holder to establish infringement.

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\(^72\) [2000] FSR 686.
\(^73\) [2000] FSR 344.
However, unlike under the statutory threats regime, the successful claimant seeking a declaration is not entitled to any financial compensation for any losses that it has suffered. Further, a court granting a declaration of non-infringement is not able to grant an injunction preventing further threats being made. The attractiveness of the groundless threats provisions is that they establish the relative rights of the parties and provide for compensation for the subject of the threats. Even if a claimant is successful in obtaining a declaration, they must still rely on another cause of action in order to obtain compensation for any losses they may have suffered.
CONCLUSIONS

1.114 Aside from the statutory regime relating to groundless threats, there are a number of other potential claims or provisions that an aggrieved party may seek to rely upon. There exists a broad range of common law remedies that may be of some use to those who suffer loss as a result of groundless threats. In addition, the court has both inherent and statutory jurisdiction to grant declaratory relief, and civil procedural and inherent judicial powers to regulate the conduct of litigation, which may extend to groundless threats of infringement proceedings.

1.115 However, each of these 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 the gaps' in the protection available and provide only a partial protection against threats in the absence of statutory groundless threats provisions. Indeed, the fact that these remedies have only been sought in a small number of 'threats' type cases (either in respect of those rights where there is no statutory regime or in order to 'bolster' a statutory claim) is perhaps telling.

1.116 Where parties have sought to rely on these alternative claims in response to a threat of infringement proceedings, much of the case law we have is limited to an incomplete consideration of the issues they raise, as the arguments have mainly arisen on applications for a strike out of a claim or for interim relief.

1.117 Many of these alternative claims are, if not arcane, at least rarely used and, in some cases, poorly understood. In most cases, a person aggrieved by a threat of intellectual property infringement proceedings will not be able to bring themselves within the scope of these claims at all, unless the threat of proceedings was made in a particularly egregious manner or there is some element of dishonesty or harassment.

1.118 Where they can, they face difficult requirements of proof and sometimes complex arguments of law. At the very least, litigation using these tools is likely to be complex and unpredictable. This is undesirable.

1.119 The statutory threats regime deals with the situation where a threat of infringement proceedings was groundless simply because there is no infringement. The closest of these alternative remedies would appear to be the inherent and limited statutory jurisdiction to issue declarations of non-infringement. Whilst the courts have shown themselves willing to grant declarations where there is a genuine commercial need for them to do so, it remains the case that they will exercise real caution before doing so. Further, in the absence of additional remedies such as an injunction or financial compensation, it is doubtful whether declaratory relief would operate as an effective deterrent against the making of groundless threats of infringement proceedings, in the same way that the threats regime does.
BACKGROUND PAPER 2

2.1 This Paper considers briefly those intellectual property rights (and related rights) where there are no statutory threats provisions. In particular, we analyse the interplay between these rights and those rights where there are statutory threats provisions. There is a concern that, in some cases, rights holders seek to rely on these alternative rights in pre-action correspondence in order to circumvent the statutory threats provisions, when their case would, in fact, be better framed in another way.

2.2 For example, the owner of a registered trade mark may frame its letter before claim in passing off (and/or perhaps copyright infringement if its mark incorporates a logo) and avoid any explicit or implied references to registered trade mark infringement. If the alleged infringer does not provide assurances to the rights holder’s satisfaction, the rights holder may then proceed to issue proceedings which, at this point, will usually include the claim to registered trade mark infringement.

2.3 Or, more rarely, the owner of a patent may frame its letter before claim in relation to misuse of confidential information, perhaps arising out of a related process, rather than in patent infringement. Or, the owner of a registered design or unregistered design right may seek to rely upon copyright in the relevant product as an artistic work or upon copyright in design drawings (to the extent that it is able to do so).1

2.4 Provided the letter and any associated undertakings sought are carefully drafted so as to avoid all explicit and implied references to a right which does have a statutory threats provision, a person aggrieved by those threats of proceedings will have no remedy available to them under the statutory threats regime.

2.5 This Paper will consider, in particular, the law of passing off and misuse of confidential information. These are both common law actions that a rights holder may rely upon in addition to, or perhaps in place of, a right where there is a statutory threats provision. We will not consider in this Consultation the law of copyright and how it interplays with other rights.

PASSING OFF

Introduction

2.6 There is no statutory cause of action for passing off and the law has developed through the case law. In its ‘classic’ form, it was summarised by Lord Oliver in the famous ‘Jif Lemon’ case ([Reckitt & Colman Products Ltd v Borden Inc](https://www.findlaw.co.uk/)) as “no one may pass off his goods as those of another”.2

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1 The interplay between copyright and design protection is complex. Readers are referred to a text such as Laddie, Prescott & Vitoria The Modern Law of Copyright and Designs, (4th ed 2011), for further information.

2.7 Passing off protects a trader’s business against misrepresentations which cause, or are likely to cause, damage to the goodwill of its business. In general terms, it might be said that, together with malicious falsehood, it protects against ‘unfair competition by misrepresentation.’ However, there is no general tort of unfair competition, in the sense that that term would be understood in continental Europe. For example, in Hodgkinson Corby Ltd v Wards Mobility Services Ltd, Jacob J said:

…There is no tort of copying. There is no tort of taking a man’s market or customers. Neither the market nor the customers are the plaintiff’s to own. There is no tort of making use of another’s goodwill as such. There is no tort of competition...At the heart of passing off lies deception or its likelihood, deception of the ultimate consumer in particular. Over the years passing off has developed from the classic case of the defendant selling his goods as and for those of the plaintiff to cover other kinds of deception, eg that the defendant’s goods are the same as those of the plaintiff when they are not ... or that the defendant’s goods are the same as goods sold by a class of persons of which the plaintiff is a member when they are not ...Never has the tort shown even a slight tendency to stray beyond cases of deception. Were it to do so it would enter the field of honest competition, declared unlawful for some reason other than deceptiveness...  

2.8 Over the years, attempts to expand passing off into a broader action of unfair competition have failed. Recently, in L’Oréal v Bellure, Jacob LJ rejected the claimant’s “invitation to invent a tort of unfair competition” in a case concerning ‘smell-a-like’ perfumes:

the tort of passing off cannot and should not be extended into some general law of unfair competition. True it is that trading conditions have changed somewhat over time – but I cannot identify any particular change which make a general tort of unfair competition desirable, still less necessary. If the courts (or indeed Parliament) were to create such a tort it would be of wholly uncertain scope – one would truly have let the genie out the bottle.

2.9 However, the boundaries of the tort of passing off have been extended beyond the purely ‘classic form’. For example, under the ‘extended form’, it includes cases where the misrepresentation is that the defendant’s goods have the same kind of distinct and recognisable qualities as a particular class of products (eg Champagne, Swiss Chocolate or Vodka). The classical and extended forms are not different torts; both are types of passing off.

4 Article 10bis of the Paris Convention provides that the Convention countries should provide an effective protection against unfair competition. English law purports to comply with the Convention requirements through passing off, malicious falsehood and certain criminal statutory offences relating to trade descriptions.
6 [2007] EWCA Civ 968 at [138].
2.10 Further, the courts have been prepared to find passing off where the defendant misrepresents the claimant’s goods as his goods (known as ‘inverse’ or ‘reverse’ passing off).\(^7\) The case law has also demonstrated the wide range of different types of actionable misrepresentations from express misrepresentations through to the use of names or marks and more broad uses of similar get-up (e.g. the supermarket lookalike cases). The cases relating to passing off are highly fact specific. As such, it is difficult to define the full extent of the limits of the tort and much will depend upon the evidence before the court in individual cases.

Definition

2.11 The elements of the ‘classic’ form of passing off are often described as the ‘classical trinity’ of goodwill, misrepresentation and damage (see e.g. Lord Oliver in *Reckitt & Colman Ltd v Borden Inc*).\(^8\) In *Erven Warnink v Townsend* (the ‘Advocaat’ case, an extended passing off case),\(^9\) Lord Diplock identified five elements of passing off:

1. a misrepresentation;
2. made by a trader in the course of trade;
3. to prospective customers of his or ultimately consumer of goods or services supplied by him;
4. which is calculated to injure the business or goodwill of another (in the sense that this is a reasonably foreseeable consequence); and
5. which causes actual damage to a business or goodwill of a trader by whom the action is brought.

2.12 There is no requirement that the defendant intends to cause damage to the claimant (or that it was negligent as to whether it would cause damage). The defendant’s state of mind is irrelevant, unlike in an action for malicious falsehood.

Goodwill

2.13 Passing off protects the goodwill that a trader has in its business. A claimant must demonstrate that it owns the necessary goodwill in the UK. Damage to its reputation (which corresponds to the level of awareness of the claimant’s business) is not enough. Goodwill is a form of legal property whereas reputation is a matter of fact. Usually, the claimant will often own both goodwill and reputation.

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\(^7\) See *Bristol Conservatories Ltd v Conservatories Custom Built Ltd* [1989] RPC 455.

\(^8\) [1990] UKHL 12, [1990] 1 WLR 491.

\(^9\) [1979] AC 731.
2.14 Goodwill has been described as “the attractive force which brings in custom”.\(^{10}\) In most cases, it is not difficult for a trader to demonstrate that it owns the requisite goodwill and the courts have also been willing to identify ownership of goodwill even where the claimant is not a conventional ‘trader’, such as in the case of charities, sports personalities, trade associations etc.

2.15 The dividing line between goodwill (protected) and reputation (not protected) is however sometimes problematic for overseas businesses, which may have a reputation in the UK but have not actually traded here and have therefore not generated goodwill. For example, in \textit{Anheuser-Busch Inc v Budejovicky Budvar Narodni Podnik},\(^{11}\) the claimant US brewer was unsuccessful in its claim of passing off against the defendant Czech brewer relating to the use of Budweiser. The name was well known to a substantial number of people in the country and the claimant therefore had a reputation as the brewer of a beer called Budweiser. However, it was unable to demonstrate goodwill in the UK as its beer was only on sale at US armed forces bases and was not available to the general UK public. Accordingly, it could not show that it had customers, either directly or indirectly, in the jurisdiction.

2.16 It may now be easier to show that an overseas business has customers in the UK (and therefore the requisite goodwill), given the increased use of the internet to order goods and services from overseas businesses. For example, in \textit{Hotel Cipriani SRL v Cipriani (Grosvenor Street) Ltd},\(^{12}\) the owners of a Venetian hotel were successful in a claim for passing off against the owners of a London restaurant. There was evidence of bookings from the UK to Hotel Cipriani, both directly and via intermediary travel operators, which sufficed to demonstrate goodwill.

\section*{MISREPRESENTATION}

2.17 Misrepresentation forms the core wrongful element in a passing off action. A typical passing off situation is where a trader represents, explicitly or implicitly, to a customer that his goods or services are those of a competitor. Alternatively, the misrepresentation may be to the effect that the goods or services are associated with the claimant or are licensed or endorsed in some way by the claimant. Further, in the extended form of passing off, the misrepresentation may be to the effect that the defendant’s goods or services have the same kind of distinct and recognisable qualities as a class of products, which they do not, in fact, have.

2.18 The misrepresentation may be an express statement or, more commonly, may be made impliedly through the use of a name, logo or get-up which is the same as or deceptively similar to one used by the claimant. The cases have demonstrated a wide variety of ways in which the defendant may make an actionable misrepresentation.

\(^{10}\) Lord Macnaghten in \textit{Inland Revenue Commissioners v Muller & Co’s Margarine Ltd} [1901] AC 217.

\(^{11}\) [1984] FSR 413.

\(^{12}\) [2010] EWCA Civ 110.
2.19 The defendant’s misrepresentation must, however, be ‘material’ in the sense that it must be one which causes or is really likely to cause real and tangible damage to the claimant’s goodwill. Those to whom the misrepresentation is addressed must act in some way in reliance upon it. In Harrods Ltd v Harrodnian School Ltd, Millett LJ said “...the relevant connection must be one by which the plaintiffs would be taken by the public to have made themselves responsible for the quality of the defendant’s goods or services...”.

2.20 If the misrepresentation will deceive a substantial proportion of the public into e.g. purchasing the defendant’s goods or services, it will be actionable, even if the statement was made honestly or some members of the public are not deceived.

2.21 Whilst the language used in the case law is that the misrepresentation must be ‘calculated’ to deceive members of the public, there is no requirement of fraud or any intention on the defendant’s part to damage the claimant (although in many cases such an intention will exist and will be of relevance). The defendant’s innocence is therefore not a defence.

2.22 It is no longer necessary that the parties operate in the same or a common field of activity. However, the further apart the parties’ respective fields of operation, the less likely that the public will be confused into thinking there is some connection between the two. Accordingly, the presence or lack of a common field of activity may often be a highly relevant factor. For example, in Harrods Ltd v Harrodnian School Ltd, the Court of Appeal said that “there is no requirement that the defendant should be carrying on a business which competes with that of the plaintiff or which would compete with any natural extension of the plaintiff’s business”. However, the department store failed in its attempt to prevent a new school from calling itself The Harrodian School - the different fields of activity were relevant to the conclusion that there was no risk of confusion.

2.23 The use of an ordinary descriptive word in common usage may present difficulties for a claimant as the courts will accept comparatively small differences as sufficient to avert the risk of confusion. The claimant in such an action will need to demonstrate also that, through its use, the word has become so closely associated with its goods or services that the defendant’s use amounts to an actionable misrepresentation.

Damage

2.24 The defendant’s misrepresentation must be calculated so as to cause or to be likely to cause substantial damage to the claimant’s business or goodwill. It is not necessary for the claimant to show actual damage but damage to the claimant’s goodwill must reasonably be likely to occur.

14 Above at 714.
15 See for example Office Cleaning Services Ltd v Westminster Office Cleaning Association [1946] 63 RPC 39.
2.25 There are two main types of damage: (1) erosion or destruction of the claimant's goodwill such as where the defendant's goods are inferior, dangerous or counterfeit; and (2) where the defendant benefits from the claimant's goodwill such as diversion of sales. In *Irvine v Talksport Ltd*, the claimant, a famous Formula 1 driver, appeared in an advert holding a radio with the defendant's logo on it, the implication being that he listened to and endorsed the radio station. The claimant was awarded £25,000 in damages in recognition of the fee that he would have charged had he in fact agreed to endorse the defendant's radio station.

2.26 In order to show damage, the claimant must prove that the defendant's misrepresentation has deceived a substantial proportion of the public into believing that the defendant's goods or business are those of the claimant and that they have acted in reliance on that misrepresentation. Whilst evidence of actual confusion is likely to constitute evidence that damage is likely, the existence of confusion does not necessarily mean that there is an actionable claim of passing off. There must be the necessary damage to the claimant's goodwill. 'Mere' confusion is not enough to establish passing off.

**Relationship with the action for trade mark infringement**

2.27 A claim to passing off may arise out of the use of a sign which is the same as or confusingly similar to a registered trade mark. Accordingly, there can be some considerable overlap of factual circumstances in claims for trade mark infringement and in passing off. For example, in the Puffin/Penguin lookalike case (*United Biscuits (UK) Ltd v Asda Stores Ltd*), Walker J said:

> ...The rules as to passing off and trade mark infringement are ... a very important part of the law preventing unfair competition. Their basic common principle is that a trader may not sell his goods under false pretences, either by deceptively passing them off as the goods of another trader so as to take unfair advantage of his reputation in his goods or by using a trade sign the same as, or confusingly similar to, a registered trade mark.

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2.28 Given this overlap, many claimants asserting registered trade mark infringement will also rely upon a claim in passing off. In most instances, the passing off claim is included as a secondary claim in order to bolster the trade mark claim (particularly where the claim is based on a likelihood of confusion), rather than one which is included for its own merit. However, in some cases, the passing off is a standalone claim arising out of a different factual and legal analysis.

2.29 The Trade Marks Act 1994 specifically states in section 2(2) that "no proceedings lie to prevent or recover damages for the infringement of an unregistered trade mark as such; but nothing in this Act affects the law relating to passing off". The effect of section 2(2) is that it is no defence to a passing off action that the defendant is the registered owner of the mark which he is using.


2.30 Whilst the two claims are often pleaded together, there are considerable legal and evidential differences between the two claims, such that it is by no means inevitable that one will succeed where the other does, and vice versa.

2.31 For example, passing off is a much broader and more flexible claim than trade mark infringement as it can cover a potentially wider range of situations, including unregistered marks, get-up and other matter that might not be registerable under the Trade Marks Act 1994. The Act does provide for registered protection for matter associated with the get-up of a product and its packaging such as colours, shapes, sounds, smells etc, provided that they are capable of graphical representation and capable of distinguishing the goods or services of one undertaking from those of others. However, it is often difficult to obtain registration for such matters because of the requirement to show distinctiveness. A descriptive or non-distinctive sign will not be registrable unless it has acquired distinctiveness through use before the date of application for registration.

2.32 However, such matters may be more easily protected through the law of passing off and it can therefore be more suitable for resolving cases relating to, for example, lookalike products. Similarly, a descriptive sign might be more easily protected in passing off if the claimant can show that a substantial number of persons associate that word with the claimant's business alone (though the courts will generally accept comparatively small differences as sufficient to distinguish the defendant's goods or services if the sign is a descriptive one). In terms of assessing infringement and misrepresentation, passing off can be a useful claim where the defendant is not actually using a sign which is the same as or similar to the rights holder's mark, but is hinting at or suggestive of a relationship with the rights holder.

2.33 Whilst passing off can, therefore, ‘fill some of the gaps’ in terms of protection, it is generally accepted that it is more difficult to succeed in a passing off claim than one of trade mark infringement. This is because the need to demonstrate the three requirements of the ‘classical trinity’, namely goodwill, misrepresentation and damage, imposes a higher evidential burden on a passing off claimant.

2.34 For example, the owner of a registered trade mark does not need to prove that it owns any goodwill in the mark. Indeed, it need not even have used the registered mark to allege infringement by a third party (this is not a potential factor until the genuine use provisions become relevant, five years after the date of registration). The fact of registration is sufficient to found the claim, although the mark may be vulnerable to invalidation if it is not particularly distinctive, or is descriptive. In contrast, the claimant in a passing off claim needs to prove goodwill in the jurisdiction although, for most traders based in the UK, that will not be difficult.

19 Section 1(1) Trade Marks Act 1994.
20 Section 3 Trade Marks Act 1994 sets out absolute grounds for refusal of registration, with specific grounds for refusal of registration of shape marks.
21 Office Cleaning Services v Westminster Window and General Cleaners Ltd (1946) 63 RPC 39.
22 Trade Marks Act 1994, s 46.
2.35 There is no monopoly right in an unregistered name or other unregistered sign. The law of passing off protects against the claimant’s proprietary rights in its goodwill, not in the name or get up upon which it relies. A registered trade mark owner has exclusive rights in the trade mark; the mark will be infringed by the use of the trade mark in the UK without its consent in relation to those acts. In the case of the use of a similar sign (or of an identical sign in relation to similar goods or services), the claimant must show that there is a likelihood of confusion, which may include the likelihood of association. The court will consider the position from that of the average consumer. Under the law of passing off, the claimant must show that the use of e.g. a particular unregistered mark was a misrepresentation which was calculated to deceive a substantial proportion of the public.

2.36 The Court of Appeal has recently stressed that the ‘average consumer’ in trade mark infringement cases is a hypothetical legal construct. Accordingly, evidence from members of the public may take on a more central role in a claim for passing off compared to one for trade mark infringement (even one based on the provision relating to likelihood of confusion).

2.37 The evidential differences between a claim of trade mark infringement and one for passing off were recently highlighted by the Court of Appeal in Interflora in a decision concerning the use of survey evidence and witness gathering in a claim to trade mark infringement arising out of the use of internet keywords. The Court of Appeal noted the difference between the ‘average consumer’ test for a claim in trade mark infringement and the requirement that a ‘substantial proportion of the public’ be deceived for a claim in passing off. It noted that the latter type of scenario may be more suitable for the use of survey evidence and/or witness gathering exercises whereas, in the Court’s view, it would only be in exceptional cases of trade mark infringement relating to consumer goods/services that such evidence should be allowed.

23 Interflora Inc v Marks & Spencer plc [2012] EWCA Civ 1501.
There may be cases where a passing off action will succeed where there are problems with the registered trade mark claim, perhaps because the registered trade marks are vulnerable to being held invalid or revoked for lack of genuine use over the required period (e.g. where the claimant is able to show the requisite goodwill and that it has not been abandoned). Alternatively, there may be problems with the infringement analysis. For example, in *United Biscuits (UK) Ltd v Asda Stores Ltd*, Asda brought out a range of chocolate biscuits called Puffin which were said to be too close to the plaintiff’s get up for its Penguin range of chocolate biscuits. The claim for passing off succeeded because the packaging and get-up of Asda’s Puffin biscuits was deceptively similar to the packaging and get-up of the Penguin biscuits. A substantial number of shoppers would suppose, assume or guess at an association in the sense that United Biscuits were the manufacturer of both products, even though they would not fail to distinguish between the two products. However, the claim to trade mark infringement failed because the name Puffin was not confusingly similar to the Penguin registered trade mark so as to give rise to a likelihood of confusion. Further, some of the claimant’s marks were revoked because they had not been put to genuine use in the relevant period.

In terms of remedies, these are generally the same for both passing off and trade mark infringement, namely an injunction, damages or an account of profits, and costs. A successful claimant for trade mark infringement may be entitled to a statutory order for erasure etc of the offending sign (section 15 Trade Marks Act 1994) or for delivery up of infringing goods, material or articles (sections 16 to 19 Trade Marks Act 1994). Following a successful passing off claim, the court has an inherent power to order delivery up.

However, the scope of any injunction awarded may be narrower in a claim for passing off. For example, the defendant in a passing off action may be permitted to use the offending name or get up going forward, provided that it sufficiently distinguishes its goods from those of the claimant, thereby preventing further deception. If a defendant is found liable for trade mark infringement, the terms of the injunction will usually be broader, preventing it from infringing the mark in the future.

**Reliance on passing off in letters before claim**

As noted above, many actions for trade mark infringement will also include a claim in passing off. Often, the claim for passing off is not the primary cause of action but is included to ‘bolster’ the claim, as a subsidiary claim.

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Accordingly, it is not unusual for letters before claim to refer to the possibility of both types of action, even if the claimant’s main cause of action is for trade mark infringement. However, there are some cases where the owner of a registered trade mark decides not to assert its registered trade mark rights in its letter before claim but to allege passing off only. This may be because it has doubts about the likelihood of success in respect of its registered trade mark claim. For example, if the marks are vulnerable to invalidation or revocation, it might not want to run the risk of those marks being attacked in due course (although such risk cannot be entirely ruled out as an alleged infringer could apply of its own volition to invalidate or revoke the marks).

If a claimant does have doubts about the likely success of its registered trade mark infringement claim or it wishes to send a letter before claim to a party that is not a ‘primary’ infringer, e.g. to a retailer, it may decide to frame its letter in terms of passing off alone.

The extent to which rights holders are motivated to circumvent the threats provisions by relying upon passing off alone rather than on a claim to trade mark infringement (or indeed some other right in respect of which there is a statutory threats provision) is debateable.\(^{25}\) There can however be no doubt that the existence of the statutory threats regime can be a highly relevant consideration for a claimant faced with a secondary infringer. Indeed, there are other ways in which a rights holder can ‘get around’ the provisions such as limiting its claim to the exceptions provided for in section 21 Trade Marks Act 1994, such as using the mark in relation to the supply of services.

A rights holder adopting this approach must be extremely careful to draft its letter before claim in such a way that there is no possibility that a reasonable recipient of the letter would conclude that a threat was being made in respect of a right where there is a statutory threats provision. Even making a reference to the relevant right will suffice, if it is accompanied by an explicit or implicit threat of proceedings in respect of that other right. For example, in *Jaybeam Limited v Abru Aluminium Limited*,\(^{26}\) the defendant owned copyright in drawings relating to a step-ladder and also a registered design. The defendant’s solicitor sent a letter to the plaintiff’s customer which, as well as alleging copyright infringement in the defendant’s drawings, referred to the defendant’s registered design. The intention was to make a mere notification of the registered design within the relevant statutory exemption. However, the court decided that the recipient of the letter would consider that it was being threatened with proceedings for both copyright and registered design infringement.

\(^{25}\) The possibility of parties threatening an action for passing off to get around the issue of threats was raised by Lord Cawley when the Bill for the Trade Marks Act 1994 was at the Public Bill Committee stage in the House of Lords, where he described the relevant clause as ‘quite useless’ for that reason (PBC 19/1/1994 c.67).

\(^{26}\) [1976] RPC 308.
A rights holder who adopts this approach in pre-action correspondence might be said to be subverting the purpose of the statutory regime, but also they are presenting their case on a ‘false footing’. This may be problematic for the rights holder as much as it is for the recipient of the threat. For example, if it frames the letter before claim by reference to passing off only it must, by necessity, limit any associated undertakings to passing off. This may limit the value of any concession obtained from the defendant as it might result in a settlement of the dispute which protects the claimant’s rights inadequately from a legal perspective. If there is a further breach of the claimant’s rights, this may impact upon its ability to take further effective action as a court may be reluctant to enforce the terms of the injunction.

If the alleged infringer does not provide the assurances sought, the rights holder may then issue proceedings which will, in all likelihood, include all possible claims, including those in respect of which the statutory threats provisions apply. Inadequate delineation of the scope of a claim in pre-action correspondence is contrary to the requirements and spirit of the Civil Procedure Rules (including the Practice Direction on Pre-Action Conduct) which require parties to exchange fully information about their respective cases before proceedings are issued. The risk for the rights holder is that it will be penalised in costs sanctions by the Court, although this may not be a significant deterrent at the pre-action correspondence stage.

For example, in his decision concerning consequential orders in *A&E Television Networks LLC v Discovery Communications Limited* (following dismissal of the claimants’ claim to trade mark infringement and passing off), Peter Smith J rejected the defendant’s submission that the claimants should be penalised with an indemnity costs order because, in not referring in their letter of claim to their registered trade marks, there had been significant non-compliance with the pre-action protocol. Peter Smith J said that the failure to refer to the trade marks was not a significant one, noting “the claimants’ solicitors took a reasonable view, in my opinion (whether it was correct or not is another matter) not to include mention of trade marks because of a possible threats action arising out of that. I do not think that can possibly be called unreasonable conduct meriting an indemnity costs order.”

Many recipients of a letter before claim which is confined to, for example, threats of passing off proceedings may be unlikely to appreciate the distinction between a claim for passing off and one of registered trade mark infringement (or the reason for the claim being so limited), particularly if they do not have the benefit of legal advice. However, there may be other remedies available to the person aggrieved by such a threat of proceedings. For example, they could apply for a declaration of non-infringement.

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27 [2013] EWHC 276 (Pat).
MISUSE OF CONFIDENTIAL INFORMATION

Introduction

2.50 The law of confidential information protects against the misuse of both private and commercial confidential information (in the latter case, sometimes also called trade secrets or know how). Such information might not, depending upon the circumstances, be protectable by intellectual property rights (such as patents or copyright) or those rights may only provide protection for a limited time. For example, a patent provides a monopoly for up to 20 years in the patented product or process - in return, the inventor must make the details of the invention available to the public, which includes its competitors. In contrast, confidential information may remain protected for some significant period of time (in theory, this can be indefinite), provided it remains confidential.

2.51 Confidential information may also be relied upon to protect patentable information before a patent is obtained. If information about the patent is disclosed to the public before the patent application is filed, this may destroy the novelty of the invention. Confidential information may sometimes be the only protection available - there are some types of inventions which are specifically excluded from patent protection e.g. some business methods and computer programs; and discoveries, scientific theories and mathematical methods. Or, there may be concerns that an invention is not patentable because it may be determined to be obvious in the light of the state of the art at the relevant date.

2.52 Often, a patent is obtained for a central invention but confidentiality agreements are also put in place to protect associated know how and processes.

Definition

2.53 The requirements for a claim for misuse of confidential information were set out by Megarry J in Coco v Clark. First, the information must have the necessary quality of confidence about it. Information will no longer have the necessary quality of confidence once it is in the public domain. A product that is available to the general public may not attract confidential information protection if it is possible to readily determine through reverse engineering how it is made or to identify its composition (Mars UK Ltd v Teknowledge Limited).

2.54 Secondly, it must have been imparted in circumstances importing an obligation of confidence. This may be because of the nature of the relationship between the parties (such as employment relationships) or because the recipient owes a particular duty to the party disclosing the information (such as the solicitor/client relationship). The obligation may alternatively arise because of the circumstances in which the information was disclosed. The court will consider whether a reasonable recipient would consider upon reasonable grounds that the information was being disclosed in confidence. The most obvious way, however, to impose the obligation of confidence is through contract (i.e. a confidentiality agreement, sometimes called a Non-Disclosure Agreement).

29 A further extension of up to 5 years is available for some patents.
30 [1969] RPC 41 at 47.
31 By Lord Greene M.R. Saltman v Campbell (1948) 65 RPC 203 at 215.
2.55  Thirdly, for there to be a breach, there must be an unauthorised use or disclosure (or threatened use or disclosure) of that information. This may include, for example, using the information to manufacture a competing product.

Comparison of a claim for misuse of confidential information and for patent infringement

2.56  A claim for misuse of confidential information is very different to one for patent infringement and it is often more difficult to succeed in an action in confidential information. First, a claimant in a confidential information case must prove that the information in question has the necessary quality of confidence whereas the patent registration itself founds a claim in patent infringement. In cases concerning commercially sensitive information, it may not be too difficult for the claimant to establish that the information has the necessary quality of confidence but a patent owner does not need to establish the existence of its rights in the same way.

2.57  A patent provides a monopoly right. If the alleged infringer has done any of the acts set out in section 60(1) of the Patents Act in the jurisdiction in relation to the invention without the patent owner’s consent, there will be infringement (subject to any defences or counterclaims that the defendant may rely upon). The criteria for assessing patent infringement are therefore relatively clear and precise (although of course there will be issues in assessing whether a particular product or process infringes). This contrasts with a claim to misuse of confidential information where the circumstances in which breach may occur are not precise. There may often be difficult questions of proof (eg in establishing that the information used did not, for example, come from a public domain source).

In terms of remedies, there may be circumstances where the court will refuse to order an injunction to restrain further use or disclosure of the confidential information. An injunction is a discretionary remedy. This raises particular issues when the information has ceased to remain confidential. In a recent case concerning anti-mosquito bed nets,\(^{33}\) Arnold J said that some limited confidentiality can remain even after information has ceased to be confidential. He said that the duration of protection by injunction could be limited to the amount of time needed to reverse engineer or compile the information from public domain sources (this is known as the springboard doctrine). Arnold J stressed the need for caution in deciding whether to grant such an injunction (including also as to its form and duration). On appeal, the Court of Appeal held that Arnold J had been right to refuse an injunction against the manufacture and sale of later versions of the defendants’ product on the grounds that it would be disproportionate, not least given the passage of time (he did grant an injunction in respect of an earlier variant of the product). The Court of Appeal noted that Article 3(2) of the Enforcement Directive (2004/48/EC) requires that measures to enforce intellectual property rights must be proportionate (it was accepted that a claim for misuse of technical trade secrets was a claim to enforce an intellectual property right).

Reliance on misuse of confidential information in letters before claim

A patent owner may own confidential information in associated processes and know how relating to the invention for which it has patent protection. In those circumstances, when faced with an infringement of its patent rights, it may also have a claim to misuse of its confidential information, depending upon the acts of infringement being committed by the alleged infringer. Accordingly, a claim may refer both to acts of patent infringement and misuse of confidential information.

For example, in *FNM Corporation Limited v Drammock International Limited*,\(^{34}\) there was a claim for patent infringement and also a claim for breach of contract based on a Non-Disclosure Agreement. The NDA covered trade secrets relating to the claimant’s Magicool air freshener product range, including information contained in certain data sheets supplied to the second defendant. Arnold J found that the patent was invalid and that the claimant had made unjustified threats of patent infringement in relation to a letter before claim sent to the defendant’s customer, Superdrug. As for the claim for breach of contract, he decided that the claimant’s marketing of the Magicool product meant that certain information relating to it had entered the public domain and had therefore ceased to be a trade secret (as that information could readily be determined by analysis of the product). However, he did decide that the precise formulation for the product remained a trade secret but the defendant had not misused that information in producing its own product.

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\(^{33}\) Vestergaard Frandsen S/A v Bestnet Europe Ltd [2009] EWHC 1456 (Ch), affirmed by the Court of Appeal [2011] EWCA Civ 424.

\(^{34}\) [2009] EWHC 1294 (Pat).
2.61 However, the circumstances in which a patent owner will rely upon its confidential information alone and not its patent rights, in order to avoid falling within the statutory threats provisions, are likely to be rare. In most cases, a party that is alleged to be misusing confidential information which relates to a patented product or process will also fall within the category of a primary infringer for the purposes of the threats provisions. Where a third party is, for example, selling an allegedly infringing product (as opposed to being responsible for its manufacture), a claim for misuse of confidential information is unlikely to arise against that party as opposed to the manufacturer.

2.62 To the extent that claims for misuse of confidential information are relied upon in pre-action correspondence in order to avoid the statutory threats provisions, the points made in paragraphs 1.46 and following (presenting the case on a false footing, non-compliance with protocol and potential costs consequences) have similar application.