Muscling in on unjustified threats: Reform is long overdue but is it enough?

Gill Grassie*

The UK regime of unjustified or groundless threats has long been a controversial subject for IP practitioners and their clients. It is largely unique to the UK and the Republic of Ireland and concerns threats to retailers that are merely selling goods that are alleged to infringe, as opposed to manufacturers. These retailers (‘secondary infringers’) may well want to avoid a legal fight and take the easy option of ceasing to deal in the goods concerned. As a result, the manufacturers (‘primary infringers’) may never have the opportunity to defend the allegations or even know why they have lost that particular customer. Despite its good intentions, the threats legislation and case law usually leads to a difficult discussion with a client and can, in practice, act as a barrier to exercising registered IP rights.

So what are unjustified threats all about? To recap, if an IP owner makes a communication to a third party alleging infringement that can be reasonably viewed by it as a threat to take action in the UK courts, that party, or anyone aggrieved by the ‘threat’, can sue the rights owner for making an unjustified threat of proceedings. In such an action injunctive as well as compensatory relief can be sought. The threats legislation can, as might be imagined, easily catch IP owners and their advisers out, especially those based outside the UK who may not even know of its existence or easily understand its complexity. The requirements vary according to which type of intellectual property right (IPR) is being invoked, and the regime does not include all types of IPR. Passing off, copyright, trade secrets and database right are excluded and therefore threats based on these grounds are legitimate, whether made to a secondary or primary infringer.

IP rights are, of course, intended to incentivise scientific and technical advancement, development and creativity. Arguably the threats provisions are a disincentive to do this as well as to protect IP by way of registration. Why invest in a new idea and protect it with a patent if to avoid being sued yourself you are forced to sue every infringer? Should it not be possible instead to use your rights to seek in good faith to persuade them to stop the infringement? An IP holder may know only the identity of the retailer/reseller of the infringing products and so has no option but to pursue them in the first instance. The reaction of clients is often one of disbelief when they are told of the risks of the tables being turned on them for, as they see it, perfectly legitimate use of their rights for the purpose for which they were acquired in the first place.

Originally conceived to prevent bullying use of IP monopoly rights and as a way to tackle unfair competition, the regime ironically encourages rights holders to go straight to court without any advance notice. This can be a very expensive sledgehammer to crack a nut. Also, far from assisting a negotiated commercial resolution it is more likely to put the parties at loggerheads and delay, or even take away any chance of, achieving a sensible out of court settlement. All of this is at odds with a court system in the UK that puts the onus on the parties to attempt to resolve matters out of court and to view litigation as the last resort. Indeed, failing to attempt to mediate or negotiate before suing, at least in the English courts, can result in costs penalties.

The regime has, for the reasons outlined above, been the subject of consternation in the IP profession. This is perhaps not surprising taking account of the fact that the lawyer or IP professional sending any relevant communication can themselves be sued if the threat is held to have been unjustified. Often that very angle is used by the lawyers acting for the allegedly threatened party as a nuisance tactic to try and drive a wedge between the lawyer acting for the rights holder and their client, as it raises clear issues of conflict. Frequently IP lawyers will request an indemnity from their clients as a condition of sending the potentially threatening communication, prompting the client to terminate the relationship, especially where they do not have a longstanding relationship with the lawyer concerned.

Matters would be far more straightforward if it were always easy to decide what constitutes an actionable
threat. However it is often far from clear. Case law suggests only that the definition is very broad and lawyers trying cleverly or artificially to draft their way around the provisions in any letter before action will not be guaranteed success. Also the alleged threat will potentially be ‘unjustified’ if no court action had, at the time of its issuance, yet been raised. If, on the other hand, an action has been raised for infringement, of course the threat has been carried out. That prevents any action for threats being raised, irrespective of the merits of the substantive case. This does not sit neatly with the need to prove infringement and that the right is valid to have good defence where a ‘threat’ is made before any action is raised. Merely raising an action after the threat is made does not in itself afford a defence. Apart from certain safe harbour provisions the only way to justify a threat is to counterclaim successfully and prove there has been infringement and that the right is valid. Smaller businesses that have used their limited budgets to create, protect and register their IP can frustratingly be prevented from even trying to resolve even potentially strong cases of infringement out of court for fear of being sued themselves and caught up in a court battle they are obliged to fight at huge cost. In addition, the fight is commonly with a larger entity with much deeper pockets. Is this result not simply bullying too?

Lawyers, as always, look for loopholes to exploit and with threats there is no exception. The fact that the threats regime does not apply to all IP creates the possibility of evading the legislation. An example is passing off, which is often referred to as a ground of action instead of registered trade mark infringement. However, this can be counter-productive as the alleged infringer is not then on notice of the full case against it. A procedural device which arguably can be used in the Scottish Court of Session to get around the application of threats is to raise an action and have it warranted for service and send the writ (a Summons) to the defender, along with a cease and desist letter. Scottish procedure means that an action has already been raised at the point the threat is made and so there is no unjustified threat. The benefit of this is that raising the action is not hugely costly and there is generally no obligation to pursue it further.

Bearing all of this in mind, the writer was understandably enthused when she heard some time ago that the Law Commission was reviewing the law of threats. Following consultation, the Intellectual Property (Unjustified Threats) Bill was published in October 2015. On analysis, the proposed reforms are not particularly radical and are largely aimed at bringing all the relevant IP rights into line so that there is some consistency. They do however offer lawyers and patent/trade mark attorneys immunity if they have clearly identified in the ‘threat’ that they are acting for a disclosed client. This should be good news for IP owners as there should be no more indemnity requests from their lawyers, who should be able to take a more robust approach overall without the risk of the conflict issue arising. Justification of a threat will, however, still ultimately depend on whether the IPR holder actually sues/counterclaims and wins both the infringement and validity argument. Could matters be improved if, as alluded to above, just raising an action in the first place before or after the threat is issued amounted to a defence, where the court can (as is the proposal in the Trade Secrets Directive) impose sanctions on a party where its action is manifestly unfounded. This should be a suitable disincentive to raising such abusive actions and to sending out letters alleging infringement where there is no basis. Indeed the Law Commission itself indicated that it may be appropriate to consider the introduction of a new tort of making false allegations.

Complicating matters further, the Bill has recently been amended in an attempt to deal with the new incumbent UPC (unified patent court) system. These amendments will inevitably mean the UK law of threats will continue to reach beyond these shores and may even be a more frequent issue in the future if the UPC is as successful as is hoped. If the Bill is enacted in its current form all international and UK-based IP right holders, will need to be aware that they may be sued in the UK courts if they make a communication of a threat to bring infringement proceedings regarding an alleged act of infringement in the UK. This will be irrespective of the country in which that communication was made or received, or indeed in which proceedings are threatened. On the other hand, threats of actions elsewhere in the EU for acts committed in the UK would presumably (theoretically at least) not be subject to threats provisions.

The Intellectual Property Office launched a consultation on the Bill, which concluded on 13 November 2015. It is hoped that contributions to that consultation will inform the Government’s review of the draft Bill, allowing it to progress through the legislative process. All in all, the proposed new UK threats regime raises many complex issues for IP practitioners and their clients where the latter own the affected registered IP rights. It is perhaps a pity that advantage was not taken of the opportunity to make more radical change and to create a level playing field with the rest of Europe in accordance with the policy of harmonisation. This is certainly a space to be watched as we progress through 2016.