

UK Threats: Worldwide Consequences?

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Threats legislation in the UK may be viewed by those outside the country as a peculiar British animal confined to these shores. Our article explores how new UK threats legislation may have international reach beyond future-proofing itself for the potential introduction of the Unified Patent Court. It also selects some earlier high-profile cases involving threats, and considers whether they might be decided differently under the new law.

The law on unjustified threats of Intellectual Property infringement has been overhauled in the UK by the Intellectual Property (Unjustified Threats) Act 2017¹ (the

Act), which came into force on 1 October 2017. This article addresses some of the key changes introduced by the Act, which should mostly be welcomed, but with a particular focus on two areas into which it has introduced some uncertainty. The first is the issue of territoriality, and the question of how great a nexus with the UK is required before the unjustified threats provisions bite upon any communications, wherever in the world these are happening. The second is how the new regime will work procedurally alongside the entity that it was expressly intended to accommodate: the Unified Patent Court.

Why do we need threats provisions?

The purpose of the unjustified threats regime (both previously and under the new Act) is to prevent the abuse of intellectual property rights, chiefly (but not always) those which appear on a public register.

To take a prosaic example, Company A is manufacturing widgets in the UK and also importing widgets into the UK from a factory overseas. It sells these widgets to a series of widget wholesalers, Companies B, C and D, who in turn sell them on to individual widget retailers, Messrs X, Y and Z. This is illustrated in Figure A. If a third party considers that those widgets infringe its patent, it would ordinarily wish to make its complaint directly to the manufacturer/importer, Company A, as the source of the allegedly infringing products. If Company A denies infringement, the patentee may seek to enforce its right by suing Company A for infringement and seeking an injunction. If the patentee brings an infringement claim, it may have the validity of that right tested by a counterclaim for revocation.

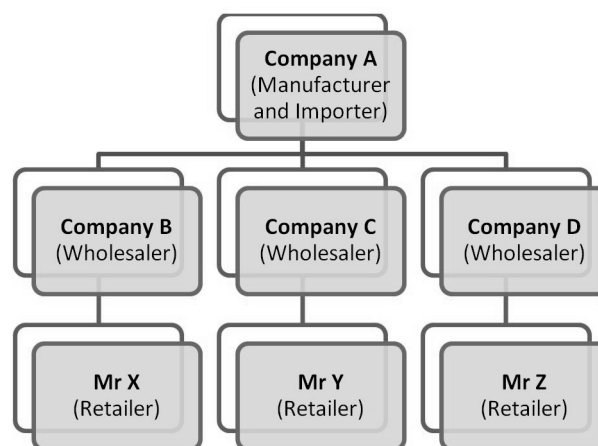


Figure A Example supply chain

The patentee may, however, decide not to confront Company A in correspondence, perhaps because it is a large and sophisticated corporation likely to be well advised and robust in its response. Instead, it may decide to interfere further down the supply chain by writing to Companies B, C and D and/or Messrs X, Y and Z,

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¹ See <http://www.legislation.gov.uk/ukpga/2017/14/contents/enacted> [Accessed 22 November 2017].

threatening to sue them for patent infringement unless they stop buying Company A's widgets, thinking that they are more likely to capitulate; those will be threats, which are actionable by "any person aggrieved by the threat".²

The patentee may defend a threats action by denying it and bringing an infringement claim, and proving that the acts complained of do, in fact, infringe. If, however, it loses that infringement claim, it risks being ordered to pay damages, a declaration that its threats were unjustified and/or an injunction to restrain further threats. However, there would be no such risk under the unjustified threats regime if it had made its "threats" directly to Company A.

As this scenario illustrates, the main purpose of the threats provisions is to encourage right holders to "put up, or shut up"; if they believe that their rights are valid and infringed, to prove it and to do so not by seeking to isolate and intimidate the secondary and tertiary levels of the supply chain (the so-called "secondary infringers"), but by confronting the manufacturer and/or importer (the "primary infringer") which usually sits at the top of the chain and is the source of the alleged infringing products being placed on to the market. The justification for this was explained by Joseph Johnson MP, Minister of State for Universities, Science, Research and Innovation (the minister responsible for intellectual property), in the Second Reading Committee debate in the House of Commons³:

"Manufacturers and importers are likely to be able to assess whether a threat to sue is justified. Having invested in the product in question, they will also be more willing to challenge a threat, if required. The provisions therefore encourage rights holders to approach the most appropriate person or business while protecting others, such as retailers, from unfair approaches and unreasonable threats. Making threats to primary actors actionable would stifle the ability of rights holders to enforce their rights."

Once the right holder has engaged with the primary infringer, it must be willing to act upon the threats, a policy point which was neatly summarised by the late Pumfrey J (as he then was) in *Quads 4 Kids*⁴:

"It is entirely wrong for owners of intellectual property rights to attempt to assert them without litigation, or without the threat of litigation, in reply. If somebody goes around saying, 'I will sue you for infringement of patent [*sic*] unless you stop buying your goods from X', then the natural response of anybody to whom that statement is made was to stop buying the goods of X. The statement may be entirely truthful and it may also be made with the

complete belief in its truth. In those circumstances, the action of malicious falsehood is not available. The action for threats was therefore invented to cover precisely the case where a bona fide statement which is untrue as to infringement was made and has caused the claimant loss. It enabled the claimant, and it enables the claimant, to start proceedings once somebody starts asserting infringement, but refuses to bring proceedings in which that assertion can be tested."

What changes does the new regime make, and why?

While the previous threats regime was based on the above admirable intentions, in practice it was fraught with problems, and the Act was introduced following a Law Commission review which criticised the existing body of law governing this issue. The need for reform was also emphasised by the eminent jurist Lord Hope of Craighead,⁵ during his speech at the Second Reading Committee in the House of Lords when the Act was making its way through Parliament. He explained as follows⁶:

"[T]he present approach [to unjustified threats] in the statute suffers from major defects, among which are a failure to distinguish clearly between those threats that may be made legitimately and those that may not. The defences which may be advanced if proceedings are taken need to be clarified. The existing law fails to set out clearly what communications will not amount to an unjustified threat and, as has been pointed out, says nothing either about the position of professional advisers acting on the instructions of someone else. The result is a situation that, despite its apparent simplicity, has been shown to be unduly complex as the boundaries between what is permissible and what is not are unclear, resulting in unnecessary costs."

Accordingly, the changes introduced by the Act aim to achieve four key purposes:

1. to provide a clearer and more prescriptive guide as to what will and will not count as an actionable threat. This is intended to achieve greater legal certainty, while balancing the interests of right holders against manufacturers and suppliers of allegedly infringing goods and services;
2. to extend the regime to cover threats relating to unitary patents;

² This terminology was used under the old provisions, and is replicated in the new provisions—see Patents Act 1977 s.70A(1); Trade Marks Act 1994 s.21A(1); and Copyright, Designs and Patents Act 1988 s.253A(1).

³ Delegated Legislation Committee, *Intellectual Property (Unjustified Threats) Bill*, 16 January 2017 – C5.

⁴ *Quads 4 Kids v Campbell* [2006] EWHC 2482 (Ch); [2006] Info. T.L.R. 338 at [24].

⁵ Lord Hope was previously Deputy President of the Supreme Court of the United Kingdom, and now serves as Convenor of the Crossbench peers in the House of Lords, the upper chamber of the Westminster Parliament.

⁶ Grand Committee (HL 2017-773; 9GC).

3. to harmonise the approach to unjustified threats against primary infringers across patents, trade marks and designs; and
4. to provide a defence for any legal advisers who make actionable threats on the instructions of clients.

Clearer guidance

Under the new rules, a communication contains an actionable threat if a reasonable person in the position of a recipient would understand from the communication that (emphasis added):

1. a relevant IP right exists; and
2. a person intends to bring proceedings for infringement of that IP right *whether in a court in the UK or elsewhere*;
3. in relation to an act done in the UK (or an act that, if done, would be done in the UK).

What communications are allowed?

Threats against primary infringers

Threats are allowable if they are made directly to the primary infringer, i.e. those who have done or intend to do the following acts:

- **patents:**
making or importing a product or using a process;
- **trade marks:**
importing goods or supplying services, applying a sign to goods or packaging (or outsourcing this process to a third party); and
- **designs:**
making or importing a product for disposal.

“Permitted communications” with secondary infringers

The new rules have clarified the limited forms of communication that are allowable with secondary infringers, who are generally those involved in selling or offering infringing goods for sale. Right holders are able to provide basic information to these types of infringer if the following conditions are met (emphasis added):

1. there is no express threat;
2. the communication is made for a *permitted purpose*;
3. the information regarding the threat is necessary for the permitted purpose; and
4. the IP owner reasonably believes such information to be true.

The new rules set out a list of permitted purposes for each IP right and a list of what information is necessary for those permitted purposes, such as providing details of an IP registration. The court does have a discretion to treat other situations as “permitted purposes” where it is in the interests of justice to do so, but it is not yet clear how this discretion will be exercised. Non-permitted purposes include asking the other party to cease and desist from doing anything commercial in relation to the product, and asking them for undertakings relating to the product.

Unitary patents

Much uncertainty currently surrounds the future of the unitary patent and, as we write, the prospect of infringement proceedings based upon unitary patents seems still to be some way off. However, one of the express purposes of the legislative changes was to extend the protection against unjustified threats so as to cover acts done in relation to unitary patents when, if ever, they should come into being. This aim was made clear by Baroness Neville-Rolfe, Mr Johnson MP’s predecessor as Minister of State responsible for intellectual property, in the Second Reading Committee debate in the House of Lords. Having explained the new test for the definition of a threat, she stated as follows:

“The test is taken from existing case law, with one change that provides the necessary link between the threat and the UK market. It also allows the provisions to apply to the forthcoming Europe-wide unitary patent, but not to apply outside the UK.”

Under the old regime a threat would only be actionable if the reasonable person in the position of the recipient would understand the threat to mean that the sender has an IP right and intends to enforce it in the UK courts. By conventional wisdom the Unified Patent Court (the UPC) will not be a UK court, and so threats to sue in the UPC may have fallen outside of the threats regime. The new wording, “A person intends to bring proceedings (whether in a court in the United Kingdom or elsewhere) ...”,⁷ avoids this potential difficulty, but may cause another one as we explain below.

Harmonisation across IP rights—primary infringers

Under both the old and the new regimes, the unjustified threats provisions covered communications made in relation to three families of intellectual property rights: patents, trade marks and designs. Prior to the Act, however, the approach was not uniform across these rights.

As already discussed, part of the policy rationale which underlies the unjustified threats regime is the desire to force right holders to pursue the primary infringer—i.e. the individual or entity which carries out acts of primary infringement such as manufacturing and importing

⁷ Patents Act 1977 s.70(1)(b).

infringing goods. However, in practice, the primary infringer is often carrying out acts both of primary and secondary infringement—they may, for example, be manufacturing infringing goods within the UK (a primary act of infringement), and then selling them on to UK customers (a secondary act of infringement).

In relation to patents, these multiple activities were irrelevant: the Patents Act 1977 was amended in 2004⁸ to the effect that no threat made to a primary infringer would be actionable, even if the threat related to a secondary act also committed by that same individual or entity. However, no such amendment had been made to the equivalent trade mark and designs provisions, necessitating careful and contrived wording in any warning letter to limit threats only to the acts which that individual or entity had done which were primary, rather than secondary infringements. This often led to unsatisfying outcomes for right holders, because it promoted settlement approaches which related only to the primary infringement.

The Act brings the threats provisions for trade marks⁹ and designs¹⁰ into line with patents on this point, such that no threat made to a primary infringer is actionable, even if it also relates to an act of secondary infringement, provided that the acts relate to the same goods or services. This is a welcome reform.

Professional advisers' defence

Section 70(1) of the Patents Act 1997, prior to amendment, stated as follows (emphasis added):

“Where a person (whether or not the proprietor of, or entitled to any right in, a patent) by circulars, advertisements or otherwise *threatens another person* with proceedings for any infringement of a patent, a person aggrieved by the threats ... may... bring proceedings in the court *against the person making the threats ...*”

In practice, many sophisticated right holders do not send pre-action letters themselves, this task instead being carried out by their external legal counsel. Under the old regime, as highlighted above, those external professional advisers were potentially liable themselves for any threats made on behalf of their clients. The new regime, however, removes this risk by providing an exemption for professional advisers who make otherwise actionable threats on the instructions of their clients. Baroness Neville-Rolfe, speaking at the Second Reading Committee in the House of Lords, explained the Government's reasoning for this, as follows:

“Currently, liability for making threats is not limited to the rights holder; any person who issues a threat will risk a threats action being brought against them. This means that professional legal advisers, such as solicitors and registered patent or trademark attorneys, may be held personally responsible for making threats even though acting on client instructions. This disadvantages rights holders as well as the legal advisers themselves. Threats actions can be used as a tactic to disrupt relations between adviser and client and may result in advisers asking for indemnities or telling clients that they can no longer act for them.”

It remains to be seen how the wording of the exemption “in making the communication the professional adviser is *acting on the instructions of another person ...*”¹¹ (emphasis added) will be interpreted by the courts.

Territoriality—communicating outside the UK

In a series of decisions made under the old regime, the English courts have considered the territoriality aspects of the threats provisions. Many businesses operate across multiple jurisdictions, and indeed certain IP rights to which the threats provisions apply (for example the EU trade mark¹²) are valid across multiple jurisdictions in addition to the UK. This can lead to correspondence between right holders and alleged infringers with a more international flavour than the simple case of a UK-based patentee writing to a UK-based infringer in respect of acts done in the UK. These cases take a variety of forms: perhaps the sender or recipient or both are outside of the UK, the activities complained of are primarily being conducted outside of the UK or the threat is to bring proceedings in jurisdictions outside of the UK, or indeed it may be a combination of all of these factors. We will refer to such cases as “non-UK communications” for ease of reference, and they add a layer of complication when determining whether or not there has been an actionable threat. The UK courts have provided guidance on the correct approach to non-UK communications, but the Act appears to have shifted the goalposts with potentially uncertain results.

Leading case—Best Buy v Worldwide Sales Corp Espana SL

The leading case is *Best Buy v Worldwide Sales Corp Espana SL*,¹³ in which Lord Neuberger MR (as he then was) was asked to consider whether a communication

⁸ Patents Act 2004 s.12.

⁹ Trade Marks Act 1994 s.21A(4).

¹⁰ Copyright, Designs and Patents Act 1988 s.253A(4).

¹¹ Patents Act 1977 s.70D(3)(a); Trade Marks Act 1994 s.21(D)(3)(a); Registered Designs Act 1949 s.26(D)(3)(a); and Copyright, Designs and Patents Act 1988 s.253D(5).

¹² Readers will be aware that the Office for Harmonisation in the Internal Market (OHIM) changed its name to the European Union Intellectual Property Office (the EUIPO) on 23 March 2016, at which point the “Community trade mark” (CTM) became the “European Union trade mark” (EUTM). For clarity and consistency, in this article when referring to this institution or right we use the current nomenclature, albeit that at the relevant time the old nomenclature may still have been in official use.

¹³ *Best Buy v Worldwide Sales Corp Espana SL* [2011] EWCA Civ 618; [2011] Bus. L.R. 1166.

made by a Spanish right holder to a US-based company in relation to an EU trade mark was caught by the UK threats legislation.

The claimant, Best Buy Co Inc, is a US-based company. It operates a well-known chain of consumer electronics shops in the US, and had developed plans to open a similar chain in the UK. One of its subsidiaries, Best Buy Enterprise Services Inc (BBES), applied for an EU trade mark incorporating the phrase “Best Buy”, which was opposed by the defendant Worldwide Sales Corp Espana SL (Worldwide), which already owned two EU trade marks incorporating this phrase. A series of correspondence ensued, culminating in the “September Letter” (as defined in the judgment), written by Worldwide’s Spanish lawyers to BBES’s London lawyers. The September Letter referred to Worldwide’s EU trade marks, and said that Worldwide had “learned from several press articles” that BBES was planning to expand into the “European market including the Spanish one” in the near future, and stated that use by BBES of the Best Buy mark

“in Europe and in particular in Spain, as well as in advertising and in the media, as at present, represents a conflict with the intellectual property rights duly registered by [Worldwide] in Spain and Europe which would entitle it to take the appropriate legal action to defend its interests”.

The last three paragraphs of the September Letter read as follows:

“If, taking into account the above, [BBES] were to remain interested in using the BEST BUY trademark in Europe my client would be prepared, taking up the proposal made by [BBES] in your fax of 28 August 2008, to reach a negotiated solution which would enable [it] to do so while at the same time compensating [Worldwide] for the cessation of its activity that this would undoubtedly entail.

Until a negotiated solution is reached, we hereby request that [BBES] refrain from using the BEST BUY trademark in Europe, issuing any press articles or making any announcements of its imminent activities in Europe (news that has already caused confusion and concern among [Worldwide’s] customers).

In order to ensure that [Worldwide] is able to protect its rights in a proper fashion, we hereby request that, within a term of fifteen (15) calendar days as of the date of receipt of this letter, you reply to us in writing confirming (i) [BBES’] willingness to start a negotiation process with [Worldwide] in order to attempt to find a negotiated solution to the conflict; or (ii) [BBES’s] undertaking to not use the BEST BUY trademark in Europe, or issue any news in the press or make any announcements of any imminent activity in Europe, or indeed use such trademark in any other way.”

Lord Neuberger asked himself (inter alia) two questions:

1. Does the September Letter contain a threat of infringement proceeding within section 21(1)? If so,
2. Does the September Letter contain a threat of such proceedings in the English courts?

At first instance, Floyd J (as he then was) had answered “Yes” to both of these questions, although the threats action eventually failed because the September Letter was found to be privileged as without prejudice correspondence. Before embarking on his analysis in the Court of Appeal, Lord Neuberger addressed “one point of principle, namely the proper approach to the interpretation of the September letter”. He explained that

“in so far as such question turns on the meaning of any particular passage in the September Letter, it is to be answered by reference to what a reasonable person, in the position of the recipient of the letter, with its knowledge of all the relevant circumstances as at the date the letter was written, would have understood the writer of the passage to have intended, when read in the context of the letter as a whole”.

This formulation has been codified by the Act—see for example s.70(1) of the Patents Act 1977.

Lord Neuberger, like Floyd J, went on to answer both of these questions in the affirmative. In answer to the first, he made the following points about actionable threats:

- A “threat” of infringement proceedings need not be explicit.
- He endorsed the test for what counts as a “threat” formulated by Lightman J in *L’Oreal (UK) Ltd v Johnson & Johnson*¹⁴:

“In summary, the term ‘threat’ covers any information that would convey to a reasonable man that some person has trademark rights and intends to enforce them against another. It matters not that the threat may be veiled or covert, conditional or future, nor does it matter that the threat is made in response to an enquiry from the party threatened ...”

- On the facts at hand, he agreed that the September Letter constituted a threat:

“The defendant stated that its registered marks were ‘reputed and distinctive’, that BBES’s actions were already ‘causing irreparable and irreversible damage’ to the defendant, and that this would entitle the defendant ‘to take appropriate legal

¹⁴ *L’Oreal (UK) Ltd v Johnson & Johnson* [2000] F.S.R. 686 Ch D at [12].

action to defend its interests'. A reasonable recipient of the September letter would take those statements in particular to indicate not merely that the defendant was asserting its legal rights, but that it was intending to enforce those rights against BBES."

- This conclusion was reinforced by the "ultimatum at the end", of which he said:

"The natural implication ... is that, if one of the two stated options is not adopted in the next fifteen days, the defendant will 'protect its rights in a proper fashion', namely to take the obvious, indeed the only remaining, option, which would be to issue infringement proceedings."

In relation to the second question, to which he also answered "Yes", Lord Neuberger stated as follows:

- The threat must relate to proceedings in the UK:

"The Judge proceeded on the basis that a Community-wide trade mark could found the basis of a claim under section 21, but only if the threat concerned was of proceedings in the United Kingdom ... There is no challenge to that conclusion, and I consider that it is right."

- Because the underlying IP right applied across the whole of Europe, and in light of Worldwide's repeated references in correspondence to "Spain and Europe", the circumstances indicated that the threat was Europe-wide.
- It was a "fanciful" notion to suggest that the reasonable recipient would have understood Worldwide to be intending to bring infringement actions in each and every EU Member State. However, even if suit is only actually brought in one Member State, there was still a threat in all of the others: "A threat to do something is not the same as a promise to do it".
- In any event, owing to the circumstances, it was "far from fanciful to conclude that [the threat] was intended to extend to courts in [the UK]" because "the parties would both have known that the Best Buy group were intending to launch their European business in the UK."

Accordingly, he concluded that:

"In these circumstances, the Europe-wide assertions, claims and threats in the September letter would, in my view, clearly have been understood by a reasonable recipient in the position of BBES to have been a threat (*not a promise*) of infringement proceedings in the UK."(Emphasis added.)

Subsequent cases—*Samsung and Nvidia*

The tests laid down by Lord Neuberger have subsequently been applied in a number of cases.

The *Samsung* case

In *Samsung v Apple*,¹⁵ Mr Justice Mann was asked, in the absence of any express threat to bring infringement proceedings in the UK, to consider whether a series of acts could be considered together to constitute an actionable threat.

The alleged threats related to various Galaxy® tablets, manufactured by Samsung, which Apple considered to infringe its Registered Community Design (the RCD). The series of acts included the following:

1. Apple instituted infringement proceedings in Germany, stating in its Particulars of Claim that it asserted its RCD across the EU.
2. Two Community-wide injunctions were granted to Apple by German courts, but one was subsequently restricted to Germany.
3. Subsequent attempts were made to obtain further Community-wide injunctions, both in Germany and in the Netherlands.
4. Apple's counsel stated in a hearing before the Dusseldorf regional court that Apple intended to seek relief in other jurisdictions.
5. Apple appealed a decision in Germany which, Samsung alleged, implied that if Apple were unsuccessful, it would seek relief elsewhere.
6. An Apple spokesman made a public statement that:

"It's no coincidence that Samsung's latest products look a lot like the iPhone and iPad, from the shape of the hardware to the user interface and even the packaging. This kind of blatant copying is wrong, and we need to protect Apple's intellectual property when companies steal our ideas."

This was published by a number of British newspapers and on BBC News.

All of this, Samsung argued, must be read in light of the commercial importance of the UK market: it amounted to approximately 25 per cent of the European tablet computer market as a whole.

¹⁵ *Samsung Electronics (UK) Ltd v Apple Inc* [2012] EWHC 889 (Ch); [2013] F.S.R. 7.

Mann J held that these acts did not constitute actionable threats. He accepted that the commercial importance of the UK as a market was an important factor, stating that it

“is capable of colouring events so that matters which might just seem to be related to the enforcement of rights in one jurisdiction, or in no particular jurisdiction, could be taken to be relating to the enforcement of rights in this jurisdiction because that would be one of the logical, if not the most logical, place to enforce them so far as market impact is concerned”.

However, he concluded that:

“The fact is that all this litigation was taking place in countries other than this one, and pan-European relief was being sought there. Samsung in the UK might have guessed they may be sued in the future. It does not follow that there was an actionable threat.”

The *Nvidia* case

Mr Justice Mann was again called upon to apply the threats provisions in *Nvidia Corp v Hardware Labs Performance Systems Inc.*¹⁶ In that case, the defendant, Hardware Labs, was a Philippines-based proprietor of three EU trade marks, “GTX”, “GTS” and “GTR”, which it used in connection with computer water-cooling technology (the EUTMs). There were 12 claimants, all members of the Nvidia group of companies, including the US-based parent (Nvidia Corp), two German entities and three English entities. The Nvidia group produced graphics processing units for computers and used the designations GTX and GTS in connection with multiple products.

Hardware Labs’ German attorneys wrote to Nvidia Corp in the US, citing the EUTMs and stating that if undertakings not to infringe were not given by a specified date “we will recommend to our client then [*sic*] bring legal action immediately ...”. Importantly, the focus of the letter was on Germany. It complained of the acts carried out by Nvidia Corp and one of its German subsidiaries, cited a number of exemplary acts as evidence of infringement, all of which related to Germany, and supported the allegations by reference to German legislation. Mann J stated that these factors “brought it home to Germany”, holding that the letter clearly amounted to a threat but that the reasonable person in the position of the recipient would not consider it to be a threat to bring proceedings in the UK, and thus the threat was not actionable.

In making his decision Mann J provided an interesting gloss to Lord Neuberger’s statement from *Best Buy* that the construction of a threat should be:

“by reference to what a reasonable person, in the position of the recipient of the letter, with its knowledge of all the relevant circumstances as at the date the letter was written, would have understood the writer of the passage to have intended, when read in the context of the letter as a whole”.

Considering this, Mann J stated that in appropriate cases, “a threats letter should be treated as it would be viewed with the benefit of legal advice”, going on to explain that:

“If it couches the threat in legal technical terms which a layman would not readily understand, I do not see why a legal elaboration should be excluded. If it incorporates legal technicalities whose effects go to the extent of the threat, then again I do not see why it should not be viewed with those technicalities in view, which would require a legal perspective. That is not to say that a person making threats should be able to hide behind legal technicalities if the meaning is otherwise clear; but they cannot be generally ignored.”

Part of Lord Neuberger’s formulation from *Best Buy* has now been codified in the Act, which states that “A communication contains a ‘threat of infringement proceedings’ if a reasonable person in the position of a recipient would understand from the communication that ...”¹⁷ and it will be interesting to see whether on that basis Mann J’s gloss relating to legal advice will be applied by the courts under the new regime.

What will be the challenges for UK courts interpreting the new regime?

Territoriality—non-UK communications

Previously there were two key territoriality questions when considering an unjustified threats claim:

1. **Acts:**
Do the acts to which the threats relate amount to infringement? Only acts carried out in the UK will be infringing acts; and
2. **Forum:**
Would the reasonable person in the position of the recipient understand the threat to be of proceedings before a UK court?

The first of these two questions remains unchanged by the Act, but the second has been removed completely.

That second question relating to forum, i.e. the requirement that the threat be of proceedings in a UK court, was introduced by Floyd J at first instance in *Best Buy*.¹⁸ He did so with the express intention of limiting the

¹⁶ *Nvidia Corp v Hardware Labs Performance Systems Inc* [2016] EWHC 3135 (Ch); [2017] Bus. L.R. 549.

¹⁷ See for example Patents Act 1977 s.70(1).

¹⁸ *Best Buy Co Inc v Worldwide Sales Corp Espana SL* [2010] EWHC 1666 (Ch); [2010] Bus. L.R. 1761.

otherwise long-arm jurisdiction that a wider interpretation would bestow upon the UK courts, endorsing counsel for Worldwide's submission that

“the threatened proceedings must be proceedings in the United Kingdom. Otherwise, he submits, section 21 [of the Trade Marks Act 1994] will be a trap for the unwary practitioner in 26 countries of the European Union who cannot be assumed to know of this peculiarly UK provision”.

In doing so Floyd J acknowledged the lacuna that this requirement created, explaining that

“I accept that one consequence of this is that a harmful threat could be made by making it clear that the only proceedings contemplated will be abroad”.

The Law Commission picked up on this lacuna in its 2014 Report.¹⁹ It called it the “Best Buy Gap”, which it defined as “a potential loophole where liability for threats could be avoided by threatening to sue in a foreign court”. It expressed a view that this loophole should be closed, but after examining stakeholder feedback from the public consultation on this point, the Law Commission concluded that no amendment was required. It stated that:

“The rule in Best Buy is a developing concept, which the courts are unlikely to interpret narrowly. The majority of consultees did not consider that it caused problems for existing Community rights or European Patents. We agree ... We think that Best Buy should be interpreted widely and purposively, so that the UK threats provisions should apply where the threat can be understood as meaning that proceedings may be brought in the UK or a judgment obtained in a member state court will be enforced in respect of acts carried out in the UK.”

However, it went on to acknowledge that the proposed purposive approach to the *Best Buy* test

“is not the complete answer to the vagaries of when the threats provisions apply and when they do not. The gap arises due to the focus of the groundless threats action, which is on the threat of proceedings and not the allegation of infringement”.

The Law Commission reiterated this rationale in a later report published in 2015,²⁰ but recognised that a change would need to be made to accommodate the UPC. Having explained that the UPC “is not, in legal terms, a UK national court”, it stated that:

“The requirement in Best Buy, that the threat should be understood by the reasonable recipient in the position of the actual recipient to mean that infringement proceedings will be brought in a UK court, cannot be satisfied for UPs [because the UPC

is not a ‘UK court’]. Therefore, there needs to be a new requirement that provides the necessary link to the UK.”²¹

The solution that it proposed was a two-stage test:

“First, the test is whether the communication would be understood by the reasonable recipient in the position of the actual recipient as meaning that someone has a right and intends to enforce it against another.

The second stage also concerns what the reasonable recipient in the position of the actual recipient would understand. Would they understand the relevant threats to be made in respect of acts of alleged infringement which have been or would be committed in the UK?”

This two-stage test was adopted in the legislation, and can be seen for example in s.70(1) Patents Act 1977.

This rationale is reflected in the comments of Baroness Neville-Rolfe, who stated in the Second Reading Committee that the purpose of removing the requirement that the threatened proceedings be in the UK was to cover threats of infringement in the UPC (making no mention of the “Best Buy gap”). However, this amendment may have far wider consequences. These consequences can be illustrated by seeking to apply the new rules first to a series of hypothetical scenarios, and then by revisiting the decisions in *Best Buy*, *Samsung* and *Nvidia* and asking whether the new regime might have resulted in different outcomes.

Hypothetical scenarios—internet sales

It is now common for businesses to offer their products for sale on websites which are accessible by or targeted to prospective customers all over the world. This may amount to an offer to dispose of the product in the UK for patent purposes (or an offer for sale for trade mark purposes, if it is sufficiently targeted to UK customers), which could be an infringing act and therefore satisfy the territoriality requirement for UK unjustified threats action even if there is no other connection to the UK.

To develop our widgets example from above: the patentee, Company A and Companies B, C and D are all French entities, Company A manufactures the widgets (incorporating the patentee's registered EU trade mark) in France and offers them for sale in a range of currencies including pounds sterling on a multi-lingual website which is accessible from the UK. This could lead to a number of scenarios, as set out below, some of which may have unintended consequences:

1. The patentee writes to Company A, explaining that the widgets infringe its European patent (French designation, there

¹⁹ Law Commission Report No. 346 “Patents, Trade Marks and Designs: Groundless Threats” (April 2014).

²⁰ Law Commission Report No.360 “Patents, Trade Marks and Designs: Unjustified Threats” (October 2015).

²¹ Law Commission Report No.360 “Patents, Trade Marks and Designs: Unjustified Threats” (October 2015), para.3.37.

- being no UK designation) and threatening infringement proceedings if they continue to sell them.
2. The patentee writes to Company A, explaining that the widgets infringe its unitary patent²² and threatening infringement proceedings if they continue to sell them.
 3. The patentee writes to Company A, explaining that the widgets infringe its registered EU trade mark (an EU-wide right) and threatening infringement proceedings if they continue to manufacture and sell them.
 4. The patentee writes to Companies B, C and D, explaining that the widgets infringe its registered EU trade mark and threatening infringement proceedings if they continue to sell them.
 5. The patentee writes to Companies B, C and D, explaining that the widgets infringe its unitary patent and threatening infringement proceedings if they continue to sell them.
 6. The patentee writes to Companies B, C and D, explaining that the widgets infringe its GB patent (there being no equivalent patent protection in France) and threatening infringement proceedings if they continue to sell them.

Scenario 1 does not contain an actionable threat because there is no UK patent right and therefore no infringing act in the UK. In each of scenarios 2 to 6, the website offer may be considered an offer to dispose/an offer for sale in the UK and therefore an infringing act within the UK, meaning that the patentee may be exposed to a UK unjustified threats claim. This is the case even though there is no greater nexus to the UK than the website which is targeted at customers in a range of countries. In scenarios 2 and 3, however, the threat will not be actionable because it is made to Company A which is the manufacturer which is applying the mark to the widgets.

Best Buy revisited

Applying the old regime in *Best Buy*, Lord Neuberger held that the September Letter amounted to an actionable threat. Under the new regime the analysis would differ, but the result would probably be the same. Much was made in the judgment of the fact that BBES's launch was planned for the UK and this influenced Lord Neuberger's decision that, while it may be "fanciful" to suggest that the reasonable recipient would have understood Worldwide to be intending to sue in Romania, it was reasonable to appreciate an intention to sue in the UK. As we have explained, the question of where the proceedings are to be brought is now irrelevant, and so

the only territoriality question is whether the acts complained of are done or would be done in the UK—a test which would clearly have been satisfied in this case on the basis of Lord Neuberger's reasoning.

However, it should be noted that because BBES would have been a primary infringer, Worldwide may be entitled under the new regime to benefit from the exemption in s.21A(4) Trade Marks Act 1994 which was previously available for threats in relation to patents but not trade marks.

Samsung revisited

The *Samsung* case is less clear-cut, but in contrast to *Best Buy* might have been decided differently if considered under the new regime. In that case Mann J found that in principle "an accumulation of events" could amount to a threat, but that on the evidence the behaviour was not sufficient to make Samsung anticipate imminent suit in the UK and that the threats would have been understood by the reasonable recipient to relate to the ongoing continental European proceedings.

However, again the question of location of the litigation no longer seems to apply under the new regime. Allegedly infringing devices were being sold in the UK as in other Member States, and Apple sought EU-wide relief both in Germany and the Netherlands on the basis of acts carried out across the Union. On this basis it is arguable that the threats could "relate to acts carried out in the UK" and therefore trigger the UK unjustified threats provisions.

It is not entirely clear whether the particular Samsung entity in these proceedings was alleged to be a primary infringer, but if it were, as with *Best Buy* Apple might have been able to benefit from the new exemption for threats made against primary infringers.²³

Nvidia revisited

As explained above, in *Nvidia* Mann J held that, while there was a clear threat of trade mark infringement proceedings, it was not actionable because the reasonable person in the position of the recipient would not consider it to be a threat to bring proceedings in the UK. However, under the new rules this would no longer be sufficient. The right in question was an EUTM (and therefore effective in the UK) and the acts complained of included both internet offerings which Nvidia acknowledged were accessible from countries other than Germany, and UK sales which Nvidia raised during earlier EUIPO proceedings. Accordingly, as the threats relate to acts which may have constituted infringing acts within the UK, it is irrelevant that the threat to sue was in Germany, so if the same facts were to present themselves today, Hardware Labs might be liable for threats where previously they were not.

²² A right valid in many jurisdictions, including for the purposes of this example, France and the UK.

²³ Community Design Regulations 2005 (SI 2005/2339) reg.2A(4).

As with *Samsung*, it is not entirely clear whether the particular Nvidia entity in these proceedings was a primary infringer, but if it were, Hardware Labs might also have been able to benefit from the new exemption in s.21A(4) Trade Marks Act 1994.

Bifurcation or even trifurcation?

A stated purpose of the Act, as explained above, was to ensure that the unjustified threats provisions applied to threats to bring proceedings in the Unified Patents Court. As we have also explained, a patentee may “justify” its threats by bringing an infringement claim and proving that the acts complained of did or would amount to infringement if carried out in the UK. For a GB or European (UK) patent there is no procedural difficulty; the UK courts have jurisdiction over the threats action, the infringement claim and any invalidity counterclaim and will deal with the matters together.

However, this is not the case for a unitary patent. In such cases, it appears that jurisdiction over the unjustified threats claim remains with the UK courts, but jurisdiction over any infringement claim and revocation counterclaim lies with the Unified Patents Court.²⁴ It is a fundamental part of the unjustified threats regime that a patentee has the opportunity to defend itself and *justify* its threats, by proving in court that the acts complained of amount to infringement. It would seem that for a unitary patent the UK court cannot determine this question itself, as infringement is a matter for the UPC, so if a patentee is sued for unjustified threats against a party which is not a manufacturer or importer, how will the UK courts react?

They may opt to stay the threats action pending a determination on infringement by the UPC. This was the option advocated by the Law Commission, which stated as follows in its 2015 Report:

“A UK national court will not have jurisdiction over actions for infringement or validity in respect of UPs. Therefore, where these issues are raised in the context of a groundless threats action they can only be finally determined by the UPC. We anticipate that this will require the threats action to be stayed in the meantime and then resumed (or settled or withdrawn) once the UPC has reached a decision. At the point the court stays the threats proceedings it might take a preliminary view on issues of infringement and validity in order to consider the question of whether interim relief should be granted.”

However, there is no mechanism for a UK court to refer a question to the UPC, i.e. equivalent to a preliminary ruling of the Court of Justice of the EU under art.267 TFEU,²⁵ so it is up to the patentee to bring a separate infringement claim.

In our view, it is unrealistic that the UK courts would decide that there is no need for a stay and that they are competent to determine the question of infringement themselves for the purposes of the threats provisions, although this would appear to be theoretically possible. While this might result in a quicker resolution of the threats action (and provide support for there not being a stay), there would remain a risk that the UK court and UPC might reach conflicting decisions in relation to infringement.

Furthermore, the scope for procedural entanglement is even greater when it is considered that the UPC itself may bifurcate its own proceedings. If an infringement claim is brought before the local division of the UPC and then the alleged infringer counterclaims for revocation, art.33(3)(b) of the UPCA²⁶ allows the counterclaim to be referred to the central division while the infringement claim continues in the local division. The significance of this is reduced by the fact that the old invalidity justification has been removed by the Act,²⁷ but it may nevertheless result in the dispute being spread between three courts, where previously there would only have been one.

It is worth noting that at least some of these issues have already been tackled in relation to other unitary rights. As noted at para.3.35 of the Law Commission’s 2015 Report:

“A similar situation can now occur, for example in a threats case where there is a counterclaim for revocation or for a declaration of invalidity brought before a member state’s designated [EU] trade mark court. In some cases the UK courts have taken a robust approach and, where it is appropriate and equitable, formed a view on the issue of infringement or validity in order to dispose of a matter. Alternatively, the court may stay the infringement proceedings and direct that the defendant applies to [the EUIPO] for revocation or for a declaration within a particular time period in order to determine one or both of these issues. If this is not done, the proceedings before the [EU] Trade Mark Court will resume and the counterclaim will be treated as if it has been withdrawn.”

²⁴ It should be noted that this is the way that the Law Commission saw it in their 2015 Report. However, it is not necessarily the case that the UPC does not have jurisdiction of a UK threats action. Article 24(1) of the UPC Agreement states that when hearing a case the UPC shall base its decision on a number of factors; these include EU law and the EPC, but also “national law” (art.24(1)(e)). This could arguably be interpreted as giving the UPC jurisdiction over a UK threats action.

²⁵ Treaty on the Functioning of the European Union.

²⁶ Unified Patents Court Agreement.

²⁷ Under Patents Act s.70(2A)(a), the recipient of a threat was able obtain relief even if the patentee had proven that the acts complained of amount to infringement, if they could show that the patent was invalid in any relevant respect. This provision has been removed by the Intellectual Property (Unjustified Threats) Act, reducing the relevance of any invalidity proceedings to an ongoing threats action.

Conclusion

Until the judicial approach to the new provisions in the UK becomes clear there remains some uncertainty. As we have explained, two key areas with which the UK courts will have to grapple are: (1) how liberally to apply the broad new jurisdiction over non-UK communications (indeed, over communications and acts which have only a negligible nexus to the UK); and (2) how to cope procedurally with the justification defence.

In relation to (2), it seems unlikely that the UK courts will take to determining infringement in parallel with the UPC, and the practice of granting stays is more likely to develop.

In relation to (1), however, it is really anybody's guess. The uncertainty appears to flow from the legislative wording, which seems to open the door to a long-arm jurisdiction over any and all threats for the UK courts. Such a long-arm jurisdiction was cautioned against by Floyd J in *Best Buy*, who expressed concern that the UK threats provisions should not become a "trap for the unwary practitioner in 26 countries of the European Union" who may be complying with their own national requirements in sending a cease and desist letter, and despite some initial concern about plugging the "Best Buy Gap", the Law Commission expressly confirmed their view that such a legislative intervention was unnecessary.

It appears from the 2015 Law Commission Report,²⁸ and from the comments of Baroness Neville-Rolfe in the House of Lords, that this amendment was instead drafted simply in a desire to extend the unjustified threats regime to cover threats of proceedings before the UPC in respect of acts carried out in the UK.

With all of this in mind, the British judges may apply their new powers sparingly and take the Law Commission's advice and treat this extension only as legislative approval for a purposive application of the *Best Buy* approach. Of course, one of the central tenets of the *Best Buy* decision, the requirement that the threats must be of proceedings in the UK courts, has now been removed, but Floyd J's motivation of avoiding unfairly creating a "trap" for non-UK parties remains.

From a patents perspective, the authors cannot help observe that the same end might have been achieved much more easily, and without introducing such new uncertainty, by simply naming the UPC explicitly in the Act, but this would oversimplify the situation. There is evidently still some appetite in the Act to protect those being threatened in respect of UK-based (alleged) infringements, when the threat is also of lawsuits in another country. There was a lot of discussion and some elegant reasoning and debate in the various preparatory documents, hearings and case law prior to the legislative changes, but the threads of the reasoning process behind this particular change do not seem to be drawn together in an easily accessible way. The authors cannot help wonder whether, in the general tide of approval for harmonising the threats regimes across patents, trade marks and designs (which is welcome), and reducing external legal counsel's potential liability for threats (which is also welcome), some of the more complex territorial questions were swept over to an extent, so that a neatly encapsulated reasoning of exactly how we arrived at "or elsewhere", has now been lost.

²⁸ Law Commission Report No.360 "Patents, Trade Marks and Designs: Unjustified Threats" (October 2015).