

Bills Committee on Trade Marks Bills

Relief from Groundless Threats of Infringement Proceedings

Introduction

As requested by the Bills Committee at its meeting on 11 February 2000, this note sets out the rationale for making provisions on the remedy against groundless threats of infringement proceedings in Clause 24 of the Trade Marks Bill.

Background

2. The threats provision was first introduced in the UK in 1883 in relation to patents. The UK Parliament considered that special safeguards were warranted for the grant of a statutory monopoly to a patentee. This has evolved into Section 70 of the UK Patents Act 1977 and subsequently an equivalent provision for unregistered designs in Section 253 of the Copyright, Designs and Patents Act 1988.

3. In *Johnson Electric Industrial Manufactory Ltd v Mabuchi-Motor KK [1986] FSR 280*, a case involving threats of patent infringement proceedings, Whitford J, referring to Section 70 of the UK Patents Act 1977, summarized at page 284 the essence of such threats and the potential damage that they can inflict -

“It has to be recalled that this threats procedure is, and has for many years been, a creature of statute. It is in some respects unusual, in that there are many areas in which threats can be issued without any immediate danger of proceedings being brought to restrain the issue of such threats. The enactment of a statutory right to bring proceedings to restrain threats of proceedings for infringement of patent arose because of the very

harmful effect that the issue of threats of this character might have. Over the years going back to the last century there have frequently been observations about the dire results of the bringing of proceedings for infringement of patent so far as the person sued is concerned. It is never advisable to get involved in any type of litigation if it can possibly be avoided, but the expense and the waste of time and money which is involved in patent litigation is likely to mean that the mere threat of proceedings is going to be a very effective deterrent calculated to ensure that anybody who might have embarked upon a course which could bring him into conflict with a patentee will decide that it is better to abandon it.”

4. In Hong Kong, relief from groundless threats provisions are found in Section 89 of the Patents Ordinance, Section 57 of the Registered Designs Ordinance, Section 187 of the Copyright Ordinance and Section 13 of the Layout-Design (Topography) of Integrated Circuits Ordinance. However, there is as yet no decided case in Hong Kong on these provisions.

5. Relief from groundless threats provisions are also found in Sections 129 and 130 of the Australian Trade Marks Act 1995 and Section 24 of the Irish Trade Marks Act 1996.

The Need for Relief from Groundless Threats of Infringement Proceedings

6. Under the common law, the main remedy available against such unfair acts is by action for the tort of trade libel. To establish this cause of action, the plaintiff must prove, following *The Royal Baking Powder Co. v Wright, Crossley & Co.*[1901] 18 RPC 95 at 99 -

- (i) that the statements complained of were untrue;
- (ii) that they were made maliciously, i.e. without just cause and excuse; and
- (iii) that the plaintiffs have suffered special damage thereby.

However, the requirement to prove malice before relief can be obtained severely limits this common law action.

7. The law treats threats of intellectual property proceedings differently because of their especially influential nature and their ability to inflict commercial damage even where claims are not pursued. Fear of the high cost of defending an intellectual property claim, regardless of its merits, and the specialised nature of intellectual property laws, are often enough to swiftly bring many alleged infringers to surrender.

8. Threats of intellectual property proceedings are particularly pernicious when issued to customers and distributors, whose response to a serious threat of proceedings is typically to seek indemnities from their suppliers or to cease carrying the subject goods. The commercial pressure created by a threat of intellectual property proceedings is often sufficient to ensure that a claim will not be tested at trial. The relief from groundless threats provision in intellectual property statutes will safeguard against such situation.

Clause 24 of the Trade Marks Bill

9. Clause 24 of the Trade Marks Bill is based on Section 21 of the UK Trade Marks Act 1994, which in turn was modeled on Section 70 of the Patents Act 1977 referred to above. To be actionable under Clause 24, there must be a threat to bring an action against another person for infringement of a registered trade mark. The mere notification that a trade mark is registered, or that an application for registration has been made, does not constitute actionable threat (Clause 24(5)). In *Paul Trading Coy Ld. v J. Marksmith & Coy Ld. & Another* [1952] 69 RPC 301, a case on Section 26 of the UK Registered Designs Act 1949, the defendants' solicitors wrote to the plaintiffs in the following terms -

“Our client, the proprietor of the Registered Design No. [XXX] covering a glove holder, has asked us to draw your attention to his registered design in case you are unaware of it. He is prompted to do this because he understands you are offering for sale a glove ring and he thinks you might like to know of his

design registration.”

This was held not to be anything more than, in a fair and courteous manner, drawing the attention of the recipient of the letter to the existence of the registered design, and cannot be construed as threats of proceedings.

10. It is considered that the provisions in Clause 24 for the action against groundless threats of proceedings would have the effect of deterring the making of totally unsupportable allegations of trade mark infringement in the first place. As Laddie J. observed in *Antec International Ltd. v South Western Chicks (Warren) Ltd* [1997] FSR 278, “it is not acceptable for those who have the status of expert professional men in the trade-mark field to use the weight of their professional qualifications to make clearly unsupportable allegations of trade-mark infringement against a trader.”

11. Clause 24 provides for relief by way of declaration that the threats are unjustifiable, injunction against continuance of the threats and damages. Since groundless threats of trade mark infringement proceedings can have the effect of driving away customers or distributors of a rival trader who may thereby suffer serious loss, the provision for award of damages for such loss is particularly useful against such abuse of rights.

12. Notwithstanding, it should be noted that Clause 24 is not applicable to persons who are said to have infringed a trade mark by applying the trade marks to goods or their packaging, or supplying services under the trade marks (Clause 24(1)). The rationale for such exemptions is that these alleged “primary” infringers, as opposed to persons involved in activities down the distribution chain, are likely to be in a better position to determine whether the threats of action are groundless. It is up to them to decide on the likelihood of an action ensuing or succeeding and on whether to defend it.

Conclusion

13. The relief from groundless threats of infringement proceedings provided by Clause 24 of the Trade Marks Bill is an internationally

accepted precaution against the abuse of intellectual property rights based on the evolution of more than a century of case law.

Trade and Industry Bureau

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