

# Threatening patent infringement proceedings – an international perspective

The **International Life Sciences Group** at Simmons & Simmons identifies the issues (and pitfalls) to be aware of before asserting your patent rights in a number of major markets.

In most jurisdictions and for most forms of civil litigation a *'letter before action'* will be sent as a final attempt to reach a settlement before issuing proceedings. However, in the area of patent infringement (and for the infringement of certain other intellectual property rights) the rights holder may need to exercise caution or risk facing an action for *'groundless threats'* or unfair competition. The law in this area is not harmonised, with the consequence that a company looking to assert its patent rights internationally may be caught out unless it considers the position on a case-by-case basis in each jurisdiction.

The justification for a remedy against *'groundless threats'* is the protection of suppliers, retailers and consumers from *'bullying'* by a patentee seeking to damage the business of a competitor. For example, it would be an abuse of the patent system if a pharmaceutical company which knows that its case on patent validity and/or infringement is weak, threatens infringement proceedings against retailers which stock the competing product of a rival company. However, the patentee faced with the risk of a *'threats'* action or an action for unfair competition may be inclined to sue first and negotiate later. In this way there is a tension between, on the one hand, protecting the supply chain from unjustified threats and, on the other, encouraging pre-action dialogue.

## The UK

For more than a century there has been a statutory right of action for *'groundless threats'* of infringement. Recently, with the introduction of the relevant provisions of the Patents Act 2004<sup>1</sup> the law in this area has been softened to extend the ability of patentees to approach infringers without risking a threats action.

The new law, set out in s70 of the Patents Act 1977 (as amended by the

Patents Act 2004), retains the same general basis for a threats action, with the same remedies as the old law: a declaration that the threats made were unjustified, an injunction preventing further threats and/or damages for any consequent losses. Any person aggrieved by an unjustified threat made orally or in writing (which expressly includes *'threats'* made in an advertisement or circular) may bring an action against the party who made the threat. Thus if a threat is made to retailers or consumers, an action may be brought by the manufacturer of the allegedly infringing product which has suffered a loss of business as a result.

Several defences and exceptions exist. First, a patentee will have a defence to a threats action if it can prove that the threat was justified. So long as infringement can be established, the claimant will not be entitled to relief if the relevant claims are shown to be valid or at the time of making the threat the patentee did not know, and had no reason to suspect, that the patent was invalid (new s70(2A)). Second, threats can now be made with impunity to *'primary infringers'* (manufacturers, importers or users) for any act (new s70(4)). The new law still follows the public policy that *'secondary infringers'* (those further down the supply chain – eg distributors, retailers and customers) may have less bargaining power than primary infringers and so need to be afforded greater protection from threats. Nevertheless, the new law allows threats to be made to secondary infringers provided that the patentee has used its best endeavours to identify the primary infringer and has disclosed the same at the time of making the threat (new s70(6)).

Under the old law, the level of what constitutes a threat was set fairly low. The test is whether the ordinary recipient (in the position of the actual recipient and taking

into account the relevant background) would interpret the words used as a threat of proceedings. If so, it is actionable (subject to the statutory defences and exceptions). Thus a threat may be made indirectly or by implication. For example, although the provision of purely factual information about a patent cannot constitute a threat of infringement (new s70(5A)), notification of the existence of a patent may still be actionable if the context is such that a threat is seen to be intended – eg if the notification is accompanied by factual information about infringement actions against third parties or if proceedings under other IP rights are threatened.<sup>2</sup> The degree of latitude that the new law may provide is not yet known.

This is a tricky area of law where great care needs to be taken to avoid the risk of a threats action. As well as the risk of damages for issuing an unjustified threat, the patentee risks putting the validity of its patent at issue and losing the tactical advantages associated with being the claimant and of deciding who to sue and when. An action may also be brought against a patentee's legal advisers (if they sent the letter) and this tactic may be employed to make life difficult for the patentee.

## Germany

The position in Germany regarding warning letters is well established and has recently been confirmed by the Great Senate of the Federal Supreme Court in a decision of 15 July 2005 (Case GSZ 1/04). In this case the Great Senate stressed the importance of preserving liability for unjustified threats as a curb on abuse of the patentee's monopoly rights. In doing so the Great Senate affirmed a series of earlier decisions to the effect that the patentee is liable for warning letters threatening infringement proceedings where the threat is unjustified (as

determined objectively). This is so regardless of whether the addressee of the warning letter is a direct competitor or, for example, a distributor.

Under the general liability provisions in German tort law, a threat will be deemed to be unjustified if the patent is found to be invalid and/or not infringed and the patentee knew or ought reasonably to have known the same. Thus for a patentee to be liable for damages, the test is whether the patentee knew or ought reasonably to have known that the patent is invalid and/or not infringed. The courts have looked closely at the patentee's knowledge and in certain circumstances it may be difficult for a 'sophisticated' patentee, such as a pharmaceutical company, to argue that it was unaware that the patent was not valid or was not infringed. Importantly, however, a preliminary injunction may be ordered to prohibit the patentee from sending letters threatening infringement proceedings without needing to establish 'knowledge' that the threat was unjustified.

In light of the recent decision of the Great Senate, patentees will have to consider their exposure for damages in an action for unjustified threats if they threaten infringement action and there is a risk that the patent will subsequently be found invalid or not infringed.

### France

French law does not provide for a specific action for groundless threats, be it in the Intellectual Property Code (IPC) or in the Civil Code. On the contrary, sending letters before action (*mise en demeure*) is a common practice in France.

However, two types of action could be used by a person who is subject to a groundless threat for patent infringement.

When the recipient of the threat is the manufacturer of the allegedly infringing product, it may, under specific conditions, seek a declaration of non-infringement. Article L 615-9 of the IPC provides that any person who has an industrial activity in an EU Member State, or has made real and effective preparations to that effect, may invite the patentee to provide his opinion as to whether that activity constitutes an infringement of his patent.

If the patentee replies that the activity does constitute an infringement of his rights or does not confirm his position within a period of three months, a declaration of non-infringement may be sought.

Alternatively, when the groundless threat is addressed to retailers or consumers, the manufacturer of the allegedly infringing goods can bring an action and claim damages for unfair competition if he suffered damage as a result of such a threat. This action will be based on the provisions of art 1382 of the Civil Code regarding general tortious liability. Accordingly, unless a court has ruled that the product/process in question does infringe, particular care must be taken by the patentee in communications with retailers or consumers (even if it has initiated infringement proceedings against the manufacturer).

Finally, if it can be established that an unsuccessful infringement action was brought with 'malice', the defendant will be entitled to claim damages in compensation for the loss suffered as the result of the malicious prosecution. The patentee also risks being ordered by the court to pay a fine of up to €3,000 (art 32-1 of the French Civil Procedure Code).

### The Netherlands

The Dutch Court of Appeal<sup>3</sup> has developed a rather strict test for the unlawful issuance of warning letters (which in the Netherlands are often sent by means of having a bailiff issue a 'notice of awareness'). However, the mere fact that a patent is ultimately revoked does not necessarily mean that the threat was unlawful. The same applies for infringement. The patentee will only be at risk of a claim that the threat was unlawful if it knew or ought reasonably to have known at the time of issuing the threat, that its patent was not valid and/or not infringed.

The Dutch Patent Act 1995 provides for a registration system without examination of patentability by the Dutch Patent Office. As a requirement for obtaining a Dutch patent with a 20-year period of protection, a novelty search will be performed. However, the results of this search do not

affect patentability. Therefore, one can obtain a Dutch patent even if the search report clearly shows novelty destroying prior art. Consequently, within the Dutch system the risk that a threat relating to a national 'registration patent' could be deemed unlawful is greater than for a European patent designating the Netherlands.

### Italy

Groundless threats of infringement are not specifically provided for under Italian law, but may constitute acts of unfair competition under s2598(2) of the Italian Civil Code. In particular, any person who is unjustifiably threatened with infringement proceedings (eg through a warning letter, circular, or advertisement) may bring an action for unfair competition against the party that made the threat, claiming that the letter circulated discrediting information. Possible remedies include an injunction preventing future threats (including an interim injunction, if the claimant can satisfy the court that he has a *prima facie* case and urgent action is needed), steps to minimise the effects of the threat and/or damages.

There are, however, various defences available to a patentee faced with an unfair competition action. First, he might argue that the claimant is not entitled to claim unfair competition – eg because the two parties are not competitors. Second, if the patentee can demonstrate that the threat was made exclusively to the alleged infringer, and not to third parties, the claim that discrediting information was circulated should fail.<sup>4</sup> Third, it is a defence if the patentee can establish that the threat was justifiable – ie it was expressed in fair terms and went no further than necessary to protect the right allegedly infringed. However, a threat will not be justified if the patent in question is found to be invalid, or if the patentee's infringement action does not succeed. The patentee's belief that the patent is valid and infringed is irrelevant to a consideration of unfair competition (although this may have a bearing on the award of damages).

Before issuing any warning letter or notification, careful consideration should

also be given to the risk that such action may entitle the threatened party to bring legal proceedings for a declaration of non-infringement or invalidity.

### Japan

In Japan the threat of legal action for the infringement of certain intellectual property rights, including patents, designs, utility models and trade marks, can trigger an action for unfair competition. Under the Unfair Competition Prevention Act, the making or circulating to a third party of a false allegation (either orally or in writing) which injures the reputation of a competitor (broadly defined) in the eyes of that third party is deemed to be unfair competition.

The key test is whether the allegation is true or false. The party alleging infringement will have a defence to an action for unfair competition if the allegation of infringement is found to be true. The party alleging infringement cannot hide behind a belief that the allegation was true or claim to have simply been acting on the opinion of its legal advisers; although acting on such advice can be used to refute a charge of negligence. Legal action can also be brought against the advisers to any party falsely alleging infringement.

The alleged infringer can seek an injunction against the party falsely alleging infringement and/or claim damages in an action for unfair competition. The Japanese courts can also order measures to restore the alleged infringer's business reputation (eg through the making of a public apology) in lieu of or in addition to granting damages. Proof of malice or of negligence on the part of the party falsely alleging infringement will not be necessary to secure an injunction but will be required in order to claim damages or measures to restore a business reputation.

### The US

In the US a number of considerations need to be taken into account before sending a 'cease and desist' letter (or threatening infringement proceedings orally). When drafted with due care, a warning letter may have a number of benefits: even if it does not cause the suspected infringer to stop the

activities complained of or to come to the negotiating table, it should put the recipient on notice for purposes of recovering damages and for establishing wilful infringement. However, care needs to be taken to ensure that the warning does not give the recipient standing to file a declaratory judgment suit to have the patent declared invalid, not infringed and/or unenforceable, or a basis on which to assert tort or unfair competition claims against the patentee.

Before an alleged infringer can initiate a declaratory judgement action regarding a US patent there must be an 'actual controversy' between the parties.<sup>5</sup> This will be the case where the alleged infringer has a 'reasonable apprehension', judged objectively, that the patent owner will sue the alleged infringer for infringement.<sup>6</sup> If the patent owner's letter says 'We will sue you for infringement' then the 'reasonable apprehension' has been shown. However, such direct threats are not always provided. In the circumstance of whether an implied or veiled threat was also sufficient to provide a 'reasonable apprehension', the court will look at the overall impact of the letter and the totality of the circumstances in order to decide whether or not it is sufficient to give rise to a reasonable apprehension of suit. Accordingly, even veiled or implied threats (eg implying that no other option but litigation exists) can give the recipient standing to bring a declaratory judgment action. Merely notifying the recipient of the patent in question or proposing licensing negotiations does not of itself create a 'reasonable apprehension' of suit. However, the right to bring proceedings for a declaratory judgment may be triggered if the letter also includes an express charge of infringement or even where there is a threat of suit under foreign patents.

The tactical consequences of giving the alleged infringer standing to bring a declaratory judgment suit are considerable; the alleged infringer will be able to strike first and choose where the suit will be litigated and the alleged infringer will assume the position of plaintiff in the litigation, which has some psychological advantages to a jury.

In addition, if a threat of infringement is made in bad faith (ie if the patentee knows that the patent is invalid, unenforceable or not infringed), this may expose the patentee to claims of unfair competition or tortious interference with the alleged infringer's business. ■

- 1 The relevant provisions of the Patents Act 2004 came into force on 1 January 2005.
- 2 See for example, *Jaybeam v Abru Aluminium* [1976] RPC 308 and *Reymes-Cole v Elite Hosiery* [1964] RPC 255 and [1965] RPC 102.
- 3 *Koppert v Boekestein*, Court of Appeal 20 September 2001, IER 2001/57.
- 4 See, for example, the judgments of the Court of Ravenna 19 January 1996; Court of Milan 6 April 1995. Other commentary suggests, however, that a threat made exclusively to the alleged infringer may in certain circumstances constitute an act of unprofessional conduct under s2598(3) Italian Civil Code.
- 5 Declaratory Judgment Act, 28 USC s2201(a) and see *EMC Corp v Norand Corp*, 89 F3d 807, 810 (Fed Cir 1996).
- 6 *Teva Pharm USA, Inc v Pfizer Inc*, 395 F 3d 1324 (Fed Cir 2005).

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