TALE OF THE TIGER: UNLAWFUL THREATS OF TRADE MARK OR PATENT INFRINGEMENT PROCEEDINGS

Why is this relevant?

1. Trade mark and patent rights are valuable assets, and help drive innovation and creativity. But such powerful monopoly rights may be misused by IP owners to unfairly stifle competition, particularly by threatening to sue for infringement where there is no infringement or valid IP right, or where there is no real intention to follow through with enforcement proceedings. But such a threat can be very potent and damaging, especially for customers and retailers.

2. For professional advisers, it is critical to understand the operation of the statutory threats provisions, to ensure clients do not fall foul of these provisions, which have been introduced to strike a balance between effective enforcement of IP rights and promotion of fair competition. You want to make sure, as much as possible, that your client does not take a tiger by the tail, in finding itself on the wrong end of unjustified threats proceedings. Or, if your client has received what might be a threat, you are in a position to provide effective advice as to what should be done about it.

A. When, and how, does one threaten a person with infringement proceedings?

What is a threat?

3. While the Patents Act 1990 s.128(1) refers to “means of circulars, advertisements or otherwise”, the Trade Marks Act 1995 contains no such language; and neither statute actually defines what is a threat. One must look to the authorities to determine what words or conduct will mean one “threatens a person with infringement proceedings” (for purposes of the Patents Act), or “threatens to bring an action against another person” (under the Trade Marks Act).

4. These provisions cover both written and oral threats. A threat arises where the language used, by direct words or implication, conveys to a reasonable person that the author of
the letter (or maker of the statement) intends to bring infringement proceedings against the person said to be threatened; and it is not necessary that there be direct words that action would be taken: *JMVB Enterprises Pty Ltd v Camoflag Pty Ltd* (2005) 67 IPR 68 at [209]; *U & I Global Trading (Australia) Pty Ltd v Tasman-Warajay Pty Ltd* (1995) 60 FCR 26 at 31.

5. The conclusion as to whether a document (or other statement) amounts to a threat of infringement proceedings is essentially one of fact: *Occupational and Medical Innovations Ltd v Retractable Technologies Inc.* (2007) 73 IPR 312 at [9]. It is a jury-type decision to be decided against the "appropriate matrix of fact": *Brain v Ingledew Brown Bennison & Garrett* [1996] FSR 341 at 349. The meaning of a letter alleged to be a threat has to be decided in accordance with how it would be understood by an ordinary recipient, in the position of the applicant, reading the letter in the normal course of business: *Occupational and Medical Innovations*, supra, at [9]; *Brain v Ingledew Brown Bennison & Garrett (No.3)* [1997] FSR 511 at 521.

6. Although the question whether a letter constituted a threat is required to be judged objectively, the Court is normally assisted by knowing how the recipient actually read and understood the letter. In *Occupational and Medical*, supra, at [9], Dowsett J held that the way in which the plaintiff understood the alleged threat is of some, albeit marginal, relevance.

7. An honest and genuine belief that its rights have been infringed will not protect the respondent: *SW Hart & Co Pty Ltd v Edwards Hot Water Systems* (1980) 30 ALR 657 at 661; nor will labelling a letter “without prejudice”: *Racing and Wagering Western Australia v Software AG (Australia)* Pty Ltd [2007] FCA 1345 at [4], [5]. It also does not matter that the maker of the alleged threat merely “reserves its rights to sue” at some future time: *U & I Global* at 32.

8. It is also clear that a threat may be made by a patent (or trade mark) applicant, prior to grant, threatening infringement proceedings after grant: *U & I Global Trading (Aust) Pty Ltd v Tasman-Warajay Pty Ltd* (1995) 60 FCR 26 at 31-2; *Occupational and Medical v Retractable* at [1]; *Cavity Trays Ltd v RMC Panel Products Pty Ltd* [1996] RPC 361.

9. In the patent context, the threat must be made (i.e. received) in Australia, relate to an Australian patent, and threaten proceedings for infringement in Australia: *Townsend Controls Pty Ltd v Gilead* (1989) 16 IPR 469 at 474; *JMVB Enterprises Pty Ltd v Camoflag Pty Ltd* (2005) 67 IPR 68 at [208]; *Norbert Steinhardt & Son Ltd v Meth* (1961)
In order to be so characterised, one would expect that an act of alleged infringement in Australia be identified: *Brain v Ingledeew Brown Bennison & Garrett* [1996] FSR 341 at 349. Similar requirements apply in relation to threats of proceedings for infringement of Australian trade marks. Further, since to be actionable there must be a territorial nexus to Australia, while a threat may originate in an overseas country, it must be received in Australia: e.g. *Occupational and Medical*, where the threat was made by a letter sent from American attorneys to an Australian recipient.

10. A threat need not be explicit and may be made by “necessary implication”: *Parramatta Design & Developments Pty Ltd v Concrete Pty Ltd* (2005) 144 FCR 264 at [29. A recent case shows how a threat may be made indirectly. In *Mizzi v Morellini* (2013) 104 IPR 109, Dowsett J. held (at [115] – [119]) that the applicant’s causing an advertisement (noting its patent application) to be published in the Canegrowers magazine, alongside an article written by a marketing consultant entitled “Infringement Danger”, was sufficient to constitute a threat. The juxtaposition of the advertisement identifying the patent application, alongside the article warning about the potential consequences of infringement, was found by the Court to constitute “unjustifiable threats”.

11. The breadth of conduct which may be covered by the threat provisions has also been highlighted in a decision of the High Court of Justice in England, which held that they extend to the making of a complaint under eBay’s Verified Rights Owner (VeRO) policy, which enables rights owners to report product sale listings that infringe their rights. In *Quads 4 Kids v Campbell* [2006] EWHC 2482, a Community design owner filed a VeRO notice to the effect that an advertising vendor of quad bikes infringed his design rights. eBay took down the listing, but the vendor commenced proceedings in the Chancery Division seeking an interim injunction (to minimise damage over the crucial Christmas period) that Campbell refrain from making groundless threats pending a trial at which the reality of those threats would be determined. The court held that this amounted to an arguable actionable threat and granted the injunction since the balance of convenience favoured the vendor. While I am not aware of any similar proceedings in Australia, it does give some indication of how potentially far-reaching are the threats provisions.

12. It seems that other unlawful or blameworthy conduct on the part of the recipient of the alleged threat appears to have no bearing on whether a communication is to be regarded as a threat or not. In *Bradken Resources Pty Ltd v Lynx Engineering Consultants Pty Ltd* (2008) 78 IPR 586 at [48], [49], Emmett J. held that the fact that the recipient of the alleged threat had infringed Lynx’s copyright or wrongfully used
confidential information of Lynx (related to the subject matter of the patent application), or contravened the Trade Practices Act, had no necessary connection with the assessment of whether the letters in question constituted a threat; although his Honour did add that the matter was not beyond argument.

What is not a threat?

13. A communication merely notifying a person of the existence of a patent or patent application does not constitute a threat of proceedings for purposes of s.128: see s.131, Patents Act. Although not expressly stated in the Trade Marks Act, it should be understood that the same position applies there.

14. It is also not a threat even if such a communication is accompanied by a statement that any suggestion that the recipient is entitled to replicate the invention is not maintainable, or a communication seeking confirmation that no improper or wrongful use or infringement of the patent has come to the recipient's attention: Australian Steel Co. Operations Pty Ltd v Steel Foundations (2003) 58 IPR 69 at [17]; JMVB Enterprises v Camoflag at [209]. The fact that something is not a mere notification does not make it a threat: U & I Global at 32.

15. Protection from personal liability for acts done in a professional capacity by a lawyer or registered patent attorney or trade mark attorney is provided by the Patents Act s.132 and Trade Marks Act s. 129(6). But while the professional adviser may not have personally made a threat by sending a letter on behalf of a client, that does not mean the client hasn’t! Indeed, a lawyer's letter may well be considered even more threatening than if delivered by a business person.

16. It has also been held that if a solicitor merely indicates an intention to advise a client to commence infringement proceedings, that is not a threat: Occupational and Medical, supra, at [10]; Earles Utilities Ltd v Harrison (1934) 52 RPC 77 at 80.

17. Nor is it a threat to give a general warning to persons not to infringe, provided it does not identify any particular alleged infringer: Challenger v Royle (1887) 36 Ch D 425 at 441; Avel Pty Ltd v Intercontinental Grain Importers Pty Ltd (1996) 65 FCR 154 at 159. But if the warning was in reality directed at the products of some specific manufacturer or seller, the warning would become an actionable threat.
B. The Tiger roars: threat proceedings

Who can sue, and be sued, in relation to threats?

18. In both the Trade Marks Act (s.129(1)) and the Patents Act (s.128(1)), there is a requirement that one must be a "person aggrieved" to complain of threats. It should be clear that a threats proceeding may also be brought by a person other than the recipient of the alleged threat. For instance, threats made to a company's customers or distributors are likely to adversely affect its business and cause it damage, so as to give that company standing to sue for the unlawful threats.

19. In the slightly different context of cancellation proceedings under s.88, and removal proceedings under the old s.92, the High Court in Health World Ltd v Shin-Sun Australia Pty Ltd (2010) 240 CLR 590 held that the word "aggrieved" as used in the Trade Marks Act should be liberally construed. Although there may be greater public policy considerations which apply to such applications, that decision indicates the modern liberal approach taken to standing in such proceedings. Applying Health World, being in the same trade as the trade mark owner has been held to be sufficient to establish standing in relation to a removal application under the old s.92: Austin, Nicholls & Co. Inc v Lodestar Anstalt (2011) 202 FCR 462 at [70]-[77].

20. The maker of a threat can be sued, even if the maker is not the registered owner or authorised user of the trade mark alleged to be infringed (TMA s.129(3)), or is not entitled to or interested in the patent or patent application the subject of the threat (Patents Act s. 128(2)).

Pleading considerations

21. What is apparent from the structure of the statutory provisions, and the authorities, is that the mere making of a threat of infringement proceedings, is of itself prima facie unjustifiable, unless the person making the threat establishes that it was justified: JMVB v Camoflag, supra, at [210]; U&I Global, at 32.

22. What follows from that, it seems to me, is that an applicant for relief is merely required to plead the circumstances said to amount to the making of the threat; and is not required to plead facts that establish (or the legal conclusion) that the maker of the threat had no grounds for making it, or the threats were unjustified.
23. In a case where s.129A of the *Patents Act* is relied upon, then obviously the facts establishing that claim i.e. the innovation patent has been applied for but not granted, or is had not been certified, at the time the threat was made, would also need to be pleaded, and proved.

24. If damages for particular identifiable losses eg. contracts or clients lost by reason of threats made to retailers or distributors, are claimed, then all the relevant facts supporting such claims would need to be fully and carefully pleaded and particularised.

*Defences*

25. There are three principal defences to threats proceedings.

26. First, the *mere notification* defence has already been mentioned. But that is really an aspect of the broader defence that the respondent’s words or conduct did not constitute a threat.

27. Secondly, the respondent may plead *justification* (or *actual infringement*) i.e. that the acts about which the threats were made would infringe a claim of the patent not shown by the applicant to be invalid (*Patents Act* s. 129), or would constitute an infringement of the registered trade mark (*TMA* s.129(4)). In that regard:

   a. Even though a standard patent has not been granted, the contingent rights conferred by the *Patents Act* s.57(1) can be relied upon in defence of a threats claim: *Bradken* at [34].

   b. In reply to that defence, the applicant may plead its conduct did not infringe, or the relevant patent claims were invalid. And it seems the applicant may also respond by arguing that the trade mark was not validly registered: *Miller v JLCS Pty Ltd* (2007) 158 FCR 1 at [170].

28. Thirdly, *TMA* s.129(5) (but not the *Patents Act*) provides for the unique defence of *due diligence*. Pursuant to that provision, a threats proceeding under s. 129 may not be brought, or (if brought) may not proceed, if infringement proceedings against the threatened person are begun and pursued by the trade mark owner or authorised user, with due diligence.

29. This is a most unusual provision, in that the threatener can bring to an end, and effectively extinguish, an otherwise existing and possibly meritorious claim by a threatened person for damages for unjustified threats, by the apparently simple
expedient of **commencing** (and **pursuing**) with **due diligence**, a claim for infringement of the subject trade mark. It is not necessary that the infringement proceeding be successful, although it must be bona fide and not brought merely to avoid the threats proceeding, but it would be for the alleged infringer to show it was not bona fide: *Craig v Dowding* (1908) 25 RPC 259.

30. What is "due diligence" in this context? There is no definition provided in the Act. In a case concerning the predecessor of s.129(5) in the *Trade Marks Act 1955*, *Dial an Angel Pty Ltd v Sagitaur Services Systems Pty Ltd* (1990) 96 ALR 181, Wilcox J said (at 195) that the words "with due diligence":

"...must be given their ordinary English meaning. It is necessary to ask whether the person making the threats has commenced the action within a reasonable period thereafter, having regard to the whole of the relevant circumstances, and whether the action has been prosecuted in a reasonable manner."

In that case a delay of *ten weeks* between the receipt of the threat and commencement of the proceeding was considered "near the outer limit of what might be regarded as a reasonable time to commence an infringement action".

31. In *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421 at [104]-[106], the Full Federal Court held that it was necessary to understand the reason for the delay, and that a period of *three months* between the threat and commencement of an infringement counterclaim did not amount to a lack of due diligence, considering the counterclaim was filed within the four weeks directed by the court at the first directions hearing in the threats proceeding. It has been suggested that this decision should be seen as turning on its own facts, and does not establish a principle (contrary to earlier authority) that due diligence is only to be assessed from the date of commencement of the threats proceeding: *Shanahan's Australian Law of Trade Marks and Passing Off, 5th ed.*, 2012, pp 914-915.

32. If necessary, the Court will, after adjudicating on whether the infringement proceeding has been commenced, and pursued, with due diligence, order a stay of the threats proceeding: *Advanced Data Integration Pty Ltd v ADI Ltd* (2004)138 FCR 520 at [14], [15], [25].

33. It may also be noted that the Acts (*Patents Act* s.130, *TMA* s.130) provide that the respondent to a threats proceeding may also launch a counterclaim seeking relief for infringement, although that is not essential.
C. Is the Tiger toothless? What relief may be claimed and likely to be granted?

34. The relief which may be sought in threats proceedings is identified in the Acts (*Patents Act* s.128(1), *TMA* s.129(2)), namely:

   a. A *declaration* that the threat is unjustifiable, or without grounds;

   b. An *injunction* against continuance of the threats;

   c. *Damages* in respect of damage sustained by the threatened person as a result or because of the threats.

*Declaration and Injunction*

35. It might be thought that there is a strictness to these provisions such that if a threat is proved and not found to be justifiable, the applicant should be entitled to an injunction, almost as of right. That was argued by the applicant in the *Occupational and Medical* case, but rejected by Dowsett J, who held, after careful consideration of Australian and English authorities on the point, that the availability of declaratory and injunctive relief pursuant to s.128 *Patents Act* was discretionary.

36. Having regard too to the approach taken by Bennett J in *JMVB v Camoflag* (2005) 67 IPR 68 at [210]-[213], and Emmett J in the later decision in *Bradken v Lynx* (2008) 78 IPR 586 at [38]-[50], the following principles emerge:

   a. The court has a broad, over-arching, general discretion as to whether to grant all or any of the relief sought by the applicant in a threats proceeding.

   b. Where it is unlikely there will be any further unjustifiable threats, and a declaration will be adequate to vindicate the applicant’s position, the Court may decline to grant an injunction, as occurred in *Occupational and Medical v Retractable*, at [41].

   c. In a patent case, where the court concludes that the patent (although found to be invalid) would, if valid, have been infringed, and the threats relate to bringing proceedings for infringement of that patent, and there was no evidence the threats were likely to be repeated (because infringement proceedings had been commenced), the court may decline to exercise the discretion to grant injunctive or declaratory relief: *JMVB v Camoflag* at [213]; *Bradken* at [41]. That result is perhaps surprising, given a finding that the patent is invalid.
d. Similarly, if the court revokes a patent in proceedings brought under *Patents Act* ss 128 and 129, the court may conclude there is no reason to make the declaration that the threat was unjustified, since the revocation of the patent establishes that. So the court may then grant an injunction against the making of further threats, but decline to make a declaration: *Bradken* at [41]; *Townsend Controls Pty Ltd v Gilead* (1989) 16 IPR 469 at 475.

**Damages**

37. Damages may be awarded if they flow as a natural consequence of the threat, not from any infringement proceedings which may be subsequently commenced by the maker of the threat: *Nine Network Australia Pty Ltd v IceTV Pty Ltd* (2007) 73 IPR 99 at [234]. In that case, Bennett J held (at [231]-[234]) that damages accrue from the date the threat was issued and cease upon commencement of infringement proceedings, and no damages resulting from commencement of those proceedings are recoverable in the threats action. It also follows from that judgment (at [230], [233], [234]), that while technically it might be possible to cross-claim for threats in an infringement proceeding, the available relief is further limited because no injunction would be granted, since the threat no longer exists once infringement proceedings have been instituted.

38. In *Bell v Steele (No. 3)* (2012) 95 IPR 574 at [18], Collier J identified these aspects of damage which may be compensable in damages for unjustified threats in a patent or trade mark context:

   a. Impacts upon the readiness of third parties to do business with the applicant;

   b. Losses arising from threats to the applicant’s customers;

   c. Lost sales or lost potential sales;

   d. The cost to the applicant of instituting proceedings for relief, such as a declaration, following receipt of the threat.

39. Although related unlawful conduct of the maker of the threat (such as misuse of the threatened person’s confidential information or infringement of its copyright) may not be a discretionary bar to the granting of relief, it may be relevant to whether the applicant has sustained compensable loss or damage as a result of the threat: *Bradken* at [49], [50].
D. Practice pointers – How not to get a tiger by the tail!

40. There is a real tension in intellectual property disputes between the threats provisions, and the requirements to take genuine steps to resolve disputes before litigation imposed by the *Civil Dispute Resolution Act 2011* (Cth). The former tends to drive cases straight to court, while the latter pushes a party towards issuing a letter of demand before commencing infringement proceedings.

41. How can advisers best meet those genuine steps obligations, and minimise the prospect of getting a tiger by the tail ie. being on the receiving end of unjustified threats proceedings?

42. First, consider whether a letter can be sent which merely notifies of the existence of the trade mark or patent, and nothing more. Or it may be possible to issue a general warning (perhaps by advertisement), without it being directed to, or identifying, any person in particular. Neither of those acts could be construed as a threat. You may also consider sending a solicitor’s or attorney’s letter to the effect that if the infringing conduct does not cease advice will be given to the client to commence proceedings, although it has been suggested it would not be prudent to rely upon such wording in practice: Allison, “Unjustified Threats”, (2009) 79 *Intellectual Property Forum* 24 at 27.

43. Secondly, consider whether a separate cause of action can be established, such as passing off, or in respect of misleading or deceptive conduct or false or misleading representations under the *Australian Consumer Law*. If so, threatening proceedings for relief in relation to those causes of action would not amount to a threat. Also, in an appropriate case, it may be possible to threaten commencement of proceedings outside Australia. That would not be an actionable threat under the Australian provisions we have been considering.

44. Thirdly, consider whether it may be appropriate to simply issue the infringement proceeding, and then seek to negotiate from a position of strength. In terms of compliance with the genuine steps requirements, it may be possible to argue that a letter of demand or other communication before action was not feasible in view of the urgency of the proceeding, or the need to avoid a likely threats proceeding.

45. Fourthly, if it is considered that, for costs and other reasons, a letter of demand before action is warranted, do not make empty threats. Only issue a letter of demand which expressly or impliedly threatens infringement proceedings, if you are clearly satisfied infringement can be established, and the client is prepared to promptly launch and
diligently prosecute enforcement proceedings.

46. So, the take home message here is to carefully investigate the client's claimed rights and whether there is infringement, before formulating any letter of demand. That includes ensuring the client is the registered owner of the trade mark or patent, or authorised user of the trade mark or exclusive licensee of the patent (within the relevant definitions in the legislation).

47. Then, issue proceedings promptly, ie. within 10 weeks of sending the threat, or much sooner if possible. If threats proceedings have already been issued against your client, it may be possible to wait until the first directions hearing and apply then for leave to issue a counterclaim, but it is not necessary to take that course, and indeed may be safer to act quickly and issue the infringement proceeding as soon as possible.

48. Finally, if acting for the recipient of a threatening letter, consider carefully what relief may be available, in the circumstances. Is the conduct ongoing such that an injunction may be appropriate? Can damages be proved? And, most importantly, has the client infringed a valid patent or trade mark, and is it ready to face the infringement proceeding, possibly in a different court and/or different state, which inevitably will erupt if the threatener is sued?

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