



**BRIEFING PAPER**

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# Intellectual Property (Unjustified Threats) Bill [HL] 2016-17

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## Summary

There are several types of intellectual property (IP) protection including patents, trade marks and design rights. IP rights can sometimes be used by a trader or business to threaten a rival without justification. Statutory protection has developed so that an aggrieved person can take action against someone making threats. They might obtain:

- an injunction to prevent more threats being made; or
- a declaration that the threats are unjustified.

They might also claim damages for loss caused by the threat.

The Law Commission has referred to a case where eBay removed bikes from its website after another seller claimed to have registered the design of the bikes. The designs were not in fact registered. The claimant in the case obtained an order to stop any further threats being made, and was able to resume trading.

A Law Commission [review](#) of unjustified threats to IP rights found, among other things, that the threat of infringement proceedings can cause commercial damage to businesses. IP litigation is also perceived as being expensive and disruptive. A [draft Bill](#) was published by the Law Commission in October 2015.

### **The *Intellectual Property (Unjustified Threats) Bill [HL] 2016-17***

The *Intellectual Property (Unjustified Threats) Bill [HL] 2016-17* was introduced in the House of Lords on 19 May 2016.

As the Bill is a Law Commission Bill, it is subject to particular parliamentary procedures. These are described in a Library Briefing Paper, [The Law Commission and Law Commission Bill Procedures](#).

The Bill received cross-party support in the Lords. A number of Government amendments were agreed to at the Bill's Report Stage.

The Bill was introduced in the House of Commons on 13 December 2016. It was debated in a Second Reading Committee on 16 January 2017 where it was broadly welcomed by Labour and the SNP. The Bill was not amended in Public Bill Committee on 24 January 2017.

The Bill would reform the law of unjustified, or groundless, threats as it applies to patents, trade marks and designs. It would extend to the whole of the UK.

# 1. Background

## 1.1 Intellectual property protection

Protecting [intellectual property](#) (IP) makes it easier to take legal action against anyone who steals or copies it. There are different types of IP protection:

- [Copyright](#) protects writing and literary works, art, photography, films, TV, music, web content, sound recordings
- [Trade marks](#) protect product names and logos
- [Patents](#) protection inventions and products
- [Design rights](#) protect the shape of objects
- [Registered designs](#) protect the appearance of a product including, shape, packaging, patterns, colours, decoration

The [Intellectual Property Office](#) (IPO) is the official government body responsible for IP rights. Further information on its [work](#) and the different types of [IP protection](#) is available from the IPO website.

The IPO site also has sections giving overviews of the main legislation:

- The [Trade Marks Act 1994](#) (as amended)
- The [Copyright, Designs and Patents Act 1988](#) (as amended)
- The [Patents Act 1977](#) (as amended)
- The [Registered Designs Act 1949 \(as amended\) and the Designs Rules 2006](#)

IP rights are considered to be important for economic growth.<sup>1</sup>

However, the IPO has pointed out that “enforcement must not be misused to stifle competition, by allowing a trader to threaten a rival’s customers without justification” and that “the law of groundless threats plays an important part in achieving this balance”.<sup>2</sup>

### **What is the law of groundless threats?**

The IPO gives the following summary:

1.4 IP litigation has a reputation for being extremely expensive and disruptive. This means that a groundless threat to sue for infringement, if made to a rival’s customers, can be enough to persuade the customer to take their business elsewhere. One way to damage a competitor is to write to retailers who stock the competitor’s products, threatening IP litigation. Few retailers are likely to contest the threat: it is easier and cheaper to destock the product.

1.5 Statutory protection against groundless threats of patent infringement was first introduced in 1883. Since then, the protection has amended and extended to trade marks and design rights. The law allows an aggrieved person to bring an action

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<sup>1</sup> IPO, [Simplifying the law of groundless threats of patent, trade mark and design right infringement](#), IA No: BISIPO010, 13 July 2015, p3

<sup>2</sup> Ibid, p3

against a person making threats, and to obtain an injunction to prevent more threats being made, a declaration that the threats are unjustified and possible damages for loss caused by the threat. At this point, the onus is on the person making the threat to show that infringement has occurred or will occur.

1.6 The law in this area remains an important protection...<sup>3</sup>

The IPO refers to the following 2006 case to illustrate the importance of the law:

Quads 4 Kids v Thomas Campbell

The claimant sold children's bikes on eBay. The defendant told eBay that he had registered the design of the bikes. Faced with the prospect of infringement action, eBay removed the bikes from their website without further investigation. In fact, the designs were not registered. The claimant obtained an order to stop the defendant from repeating the threats and was able to resume trading during the lucrative pre-Christmas season.<sup>4</sup>

## 1.2 Law Commission review of unjustified threats

In 2012, the Department for Business, Innovation and Skills and the IPO asked the Law Commission to review the law of unjustified threats.

A [consultation document](#) was published in April 2013. This sought views on the current system and noted that criticism of it falls into three broad categories:

First, the provisions may do too little: they may be circumvented, allowing a well-advised rights holder to drive away a rival's customers.

Second, the provisions may do too much: they can be used tactically to undermine genuine attempts to settle disputes before engaging in litigation.

Third, the provisions are complex and inconsistent, requiring considerable expertise to navigate.<sup>5</sup>

### 2014 report and recommendations

An April 2014 [report](#) recommended that:

- The protection against groundless threats of infringement proceedings should be retained but reformed for patents, trade marks and designs.
- A threats action may not be brought for all threats made to a primary actor, that is, someone who has carried out or intends to carry out one or more of the most commercially damaging acts. These are referred to as primary acts and include manufacture or importation of products or applying a sign to goods. This is already part of the current law for patents but should apply to all the rights.
- In certain restricted circumstances it should be possible to communicate with someone who would otherwise be able to

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<sup>3</sup> Ibid, p3

<sup>4</sup> Ibid, pp3-4

<sup>5</sup> Law Commission, [Patents, trade marks and design rights: groundless threats](#), A Consultation Paper No 212, April 2013, p91

bring a threats action. This would allow disputing parties to exchange information and try to settle their differences.

- A professional adviser acting in their professional capacity and on instructions from their client should not face personal liability for making threats.

The Government accepted the recommendations in February 2015.<sup>6</sup>

## 2015 report and recommendations

Another [report](#) was published in October 2015. The report's main purpose was, at the Government's request, to draft an *Intellectual Property (Unjustified Threats) Bill*.

Appendix C to the report contains the Bill. Commentary on the Bill is given in chapter 4. Appendix A gives a summary of the current law. Other chapters give details of the earlier stages of the Law Commission project.

The report also made two recommendations:

- To extend the protection of the threats provisions to European patents that will come within the jurisdiction of the Unified Patent Court.
- To modify the current test for whether a communication contains a threat.

Both recommendations were accepted by Government in November 2015.<sup>7</sup>

A section of the Law Commission [website](#) is dedicated to the review and contains further documents, including responses to the consultations.

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<sup>6</sup> Law Commission website, [Patents, Trade Marks and Designs: Unjustified Threats](#) [accessed 2 February 2017]

<sup>7</sup> Ibid

## 2. The Bill

The [\*Intellectual Property \(Unjustified Threats\) Bill \[HL\] 2016-17\*](#) was introduced in the House of Lords on 19 May 2016.

As the Bill is a Law Commission Bill, it is subject to particular parliamentary procedures. These are described in a Library Briefing Paper, [\*The Law Commission and Law Commission Bill Procedures\*](#).<sup>8</sup>

The Bill's Second Reading Committee debate took place on 15 June 2016 when Lord Stevenson of Balmacara (Labour) said that the Opposition did not wish to oppose the Bill "in any sense", although he added that "we might wish to see it improved."<sup>9</sup>

The Bill had a formal Second Reading on 27 June 2016 and subsequent scrutiny by a Special Public Bill Committee. The Committee considered amendments to the Bill on 9 November 2016. The Bill was reported without amendment.

Further examination of the Bill took place at Report Stage on 23 November 2016, when a number of Government amendments were agreed to, prompted by the earlier Committee Stage. The Bill had its Third Reading on 13 December 2016 when it was passed without further amendment.

The Bill [no 113] was introduced in the House of Commons on 13 December 2016. It was debated in a Second Reading Committee on 16 January 2017 where it was broadly welcomed by Labour and the SNP.

The Bill was considered in Public Bill Committee on 24 January 2017 where a Labour amendment and new clause were defeated on division. The Bill was reported without amendment.

The Bill, Explanatory Notes, and further documents are available from the [parliamentary website](#)

The Bill would extend to the whole of the UK.

### What would the Bill do?

The Explanatory Notes state that, in the Government's view, the Bill would:

- Produce a clearer law of unjustified threats, in particular by introducing consistency between the threats provisions for patents, trade marks and designs.
- Strike an appropriate balance which allows rights holders to protect their valuable IP assets but not to misuse threats in order to distort competition or stifle innovation.
- Distinguish clearly those threats made legitimately and those used to damage a commercial rival.

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<sup>8</sup> SN/PC/7156, 27 March 2015

<sup>9</sup> [HL Deb 15 June 2016 c17](#)

- Support disputing parties in reaching a negotiated settlement, thereby avoiding litigation.
- Prevent threats being brought against professional advisers where the adviser is acting in a professional capacity and on the instructions of their client.
- Make necessary changes to the law so that the protection against unjustified threats can apply to European patents that will come within the jurisdiction of the Unified Patent Court.<sup>10</sup>

## 2.1 The Bill's structure and main provisions

The Bill is made up of nine clauses. The first six substantive clauses set out the threats provisions for the different types of IP protection.

Each of these clauses follows the “same structure and uses the same language in all material respects”.<sup>11</sup> The Minister, Baroness Neville-Rolfe, explained during the Second Reading Committee debate:

The provisions in the Bill are essentially the same for patents, trademarks and designs—both registered and unregistered. For each right there are five main parts which deal, first, with the test for what constitutes a threat; secondly, with which threats are actionable; thirdly, with the safe harbour of permitted communications; fourthly, with the remedies and defences; and, finally, with exemptions for professional advisers.<sup>12</sup>

Baroness Neville-Rolfe then gave the following overview of the main parts of the Bill:

**The first is the definition of a threat.** There are three elements to the test, which are to be understood from the perspective of a “reasonable person” receiving a communication such as a letter or email. Would a reasonable person, knowing what the recipient knows, understand from that communication that an IP right exists, that a person intends to bring proceedings for infringement of that right, and that the alleged infringement relates to an act done—or to be done—in the UK? If the answer is yes to all three aspects, then the communication can be said to contain a threat to sue for IP infringement. 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.

**The second part sets out which types of threats trigger the threats provisions and which do not.** The provisions set out that threats may be made freely to manufacturers or importers and their equivalents and they will not trigger the provisions. This allows rights holders to approach the trade source of a potential infringement, which could cause the most commercial damage. Manufacturers and importers are likely to be able to assess whether a threat to sue is justified and, having invested in the product in question, will be more willing to challenge the threat if it is not justified. In contrast, retailers, stockists and customers are unlikely to be able to make an informed decision about whether a threat to sue is justified. They are likely to be risk averse and want

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<sup>10</sup> [Explanatory Notes](#) to the *Intellectual Property (Unjustified Threats) Bill [HL] 2016-17*, May 2016, para 3

<sup>11</sup> *Ibid*, para 11

<sup>12</sup> [HL Deb 15 June 2016 cc2-3](#)

to avoid being taken to court and, as a result, they will probably simply stop stocking or buying the product in question without investigating further. Clearly, this is potentially unfair and damaging to a legitimate business. For that reason, threats made to businesses and people such as these are generally not allowed. Of course a rights holder may legitimately need to speak to such businesses, so the third part of the provisions gives guidance on what can safely be said to retailers or customers, and for what purpose. It clarifies the existing law by introducing the concept of “permitted communications” **[the third part]**

**The fourth part of the Bill sets out remedies available in the case of a successful threats claim and the defences available to a defendant—the person who made the threat.** The range of remedies available will be unchanged by the Bill. Damages may be awarded for commercial damage done by the threat and the claimant may seek an injunction to stop the threats, as well as a declaration that the threats were unjustified. I should stress that the threats provisions are not intended to stop rights holders being able to protect their assets, but to prevent the unscrupulous use of unjustified threats to manipulate the marketplace and prevent fair competition. Consequently, the ability to prove that the threat was in fact justified because an infringement occurred will remain a defence. An additional defence was introduced by the 2004 patents reforms. A person making a threat to a retailer or the like would have a defence if their efforts to find the trade source of the infringing patented goods were unsuccessful. This Bill will extend that limited but useful defence to trademarks and designs. The provisions also clarify that the person making the threat must use “all reasonable steps” to find the importer or manufacturer of the product in question before they are safe to approach the retailer.

**The fifth part of the Bill prevents threats claims being brought against regulated professional advisers acting on instructions from their client.** 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. The Bill therefore provides an exemption for professional advisers in relevant situations, but the instructing client will still remain liable for making the threat.<sup>13</sup>

As each of the clauses follow the same structure, the Explanatory Notes to the Bill only provide a detailed commentary on clause 1 (on patents). The equivalent provisions for trade marks and designs are cited in footnotes to the Explanatory Notes.<sup>14</sup>

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<sup>13</sup> [HL Deb 15 June 2016 cc3-4](#), emphasis added

<sup>14</sup> [Explanatory Notes](#) to the Intellectual Property (Unjustified Threats) Bill [HL] 2016-17, May 2016, para 11

## 2.2 Patents

**Clause 1** concerns UK and European patents. It substitutes sections 70 to 70F for section 70, *Patents Act 1977*.

At first sight, the replacement of section 70 of the 1977 Act with seven sections (70–70F) might appear to complicate the law with regard to remedies for unjustified threats of infringement proceedings. Lord Hope of Craighead (Cross Bencher) argued otherwise during Second Reading Committee:

The provisions in this Bill are longer and more elaborate. One might wonder whether it was wise to depart from the simple approach. However, the present approach 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.

One notable subsequent amendment, made during the Report Stage, relates to remedies and defences. In connection with patents (clause 1), this change occurs in the inserted section 70C, subsection 4(A): a person making a threat would have a defence if reasonable steps (rather than *a//*reasonable steps) had been taken to identify the source of the alleged IP infringement. During Report Stage, Baroness Neville-Rolfe accepted that requiring “all” reasonable steps as originally provided in the Bill did place too high a bar on the rights holders. They would now have a defence available in relation to their sending a threat to a trader, or other secondary actor, who is not the source of the alleged infringement, if only “reasonable steps” to find the primary actor had been unsuccessful. Other amendments at Report Stage sought to achieve greater clarity over what would constitute permitted communications (i.e. those not triggering the threats provisions). Another amendment sought to clarify the position in relation to some pending IP rights.

While Clause 1 of the Bill introduced in the Lords (HL Bill 4) is substantially the same as that proposed by the Law Commission, changes subsequently made to the latter will ensure that Clause 1 will also (at a later date) amend section 70F and Schedule A3 (once Schedule A3 has been inserted into the 1977 Act by the Patents (European patent with Unitary Effect and Unified Patent Court) Order 2016).

The European Patent Office, formed in 1977, currently provides a single ‘European’ patent grant procedure, but not a single patent from the point of view of enforcement. The European Council and European Parliament have moved to establish a ‘unitary patent’, applicable across the EU, together with a ‘Unitary Patent Court’ to conduct infringement

proceedings (rather than each country individually deciding on infringement). However, a report published in September 2016 by the EU [Competitiveness Council](#) acknowledged that the predicted timeline for the [Unitary Patent Court](#) to become operational “may have to be revisited” following the outcome of the UK referendum of 23 June.

In response to a [written question](#) on 20 October 2016, the Science Minister Jo Johnson MP, stated that:

The UK’s participation in the European Patent Office will be unaffected by leaving the European Union. The European Patent Office and the European Patent Organisation are established by an international treaty, the European Patent Convention, to which the UK is a contracting party. The European Patent Convention is not restricted to EU countries and it currently comprises 38 Contracting Member States.

## 2.3 The other types of IP Protection

As explained above, the structure and language of clauses 2-6 reflects that of clause 1.

**Clause 2** of the Bill concerns UK trade marks. It substitutes sections 21 to 21F for section 21, *Trade Marks Act 1994*.

**Clause 3** concerns European Union trade marks. It amends Regulation 6, *Community Trade Mark Regulations 2006*.

**Clause 4** concerns UK registered designs. It substitutes sections 26 to 26F for section 26, *Registered Designs Act 1949*.

**Clause 5** concerns UK design right. It substitutes sections 253 to 253E for section 253, *Copyright, Designs and Patents Act 1988*.

**Clause 6** concerns Community designs. It substitutes Regulations 2 to 2F for Regulation 2, *Community Design Regulations 2005*.

The final three clauses of the Bill deal with technical matters such as territorial extent and commencement.

## 3. Debate in the House of Commons

### 3.1 Second Reading Committee

The Bill was [debated](#) in Second Reading Committee on 16 January 2017.

For Labour, Chi Onwurah said that “reforming current legislation to protect IP rights while avoiding an overly litigious culture is...the right step to ensure that our creative industries, and others highly dependent on IP, can prosper”.<sup>15</sup>

However she raised concerns about whether the Bill would do enough to protect manufacturers from unjustified threats. In response, Joseph Johnson, Minister for Universities, Science, Research and Innovation, said that threats to manufacturers or importers and their equivalents would not trigger threats actions:

(...) That will allow rights holders to approach the trade source of a potential infringement. 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. We therefore believe that the Bill strikes the right balance, and there is no evidence that stakeholders want that aspect of it to change.<sup>16</sup>

Chi Onwurah was also disappointed that the Bill “offered little in the way of alternative remedies to claimants”.<sup>17</sup> The Minister said that the threats provisions were just one option for those seeking to resolve genuine issues, and could be used alongside a range of alternative dispute resolution measures.<sup>18</sup>

### 3.2 Public Bill Committee

The Bill was [considered](#) in Public Bill Committee on 24 January 2017.

Chi Onwurah moved **amendment 2**. She claimed that this would improve the Bill by further reducing the scope for unnecessary litigation:

(...) The amendment would allow people or companies that claim to be the primary infringer—that is, the manufacturer or importer of the product—to be communicated with freely by the rights holder, until it is clear that they are not the rights holder. That is a detailed point, and it may seem to be an obscure change, but it is important...

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<sup>15</sup> [Second Reading Committee 16 January 2017 c5](#)

<sup>16</sup> *Ibid*, cc7-8

<sup>17</sup> *Ibid*, c5

<sup>18</sup> *Ibid*, c8

Under the Bill, the rights holder would not be able to communicate with a party falsely claiming to be the primary infringer, as that would run the risk of triggering the Bill's provisions. If the amendment is agreed, the provisions would allow for communication from the rights holder until it is clear that the retailer or stockist is not, in fact, the manufacturer. That would reduce the impact on small and medium-sized enterprises—supporting SMEs is a constant theme of ours—and other organisations, because there would be fewer court actions and more such matters would be dealt with in the right way, which is directly between the participants...<sup>19</sup>

The Minister, Joseph Johnson, resisted the amendment. He said it would undermine protection for retailers and others further down the supply chain who “inadvertently use ambiguous language, such as a reference to ‘our new product’”.<sup>20</sup>

He also questioned whether there was an issue that needed solving: “If a rights holder is uncertain about whether a retailer is also a manufacturer, it can use a permitted communication to seek clarification. That removes the risk of an unjustified threats action.”<sup>21</sup>

The Committee divided on the amendment. It was defeated by 9 votes to 5.<sup>22</sup>

Chi Onwurah also moved **new clause 1**. This would require the Secretary of State, within 12 months of the Act coming into force, to publish a report on the impact of the Government's Brexit plans on the Act's provisions.<sup>23</sup> Chi Onwurah pointed out that leaving the European Union would have “numerous impacts” on the application of patent law, that is was unclear whether the UK would remain a member of the European Patent Office, and that the UK would “almost certainly” not be able to join the new unified patent court. She asked the Minister to commit to “taking all necessary steps to ensure that patent law, and IP law more generally, does not take a retrograde step in terms of its coherence and applicability following Brexit”.<sup>24</sup>

Joseph Johnson said there was “no question of the UK leaving the European Patent Office and the international patent convention that underpins it. It is not connected to the EU.” He also said that no decision had been taken on the UK's future involvement in the EU's intellectual property framework. Publishing a report as required by the new clause “could well undermine our ability to negotiate the best deal for Britain in this area”.<sup>25</sup>

Chi Onwurah said that business needed as much certainty as possible and that not giving a report one year on was “short-sighted”.<sup>26</sup>

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<sup>19</sup> [Public Bill Committee 24 January 2017 c5](#)

<sup>20</sup> Ibid, c6

<sup>21</sup> Ibid, c6

<sup>22</sup> Ibid, c7

<sup>23</sup> Ibid, c8

<sup>24</sup> Ibid, c9

<sup>25</sup> Ibid, cc11-2

<sup>26</sup> Ibid, c12

## 14 Intellectual Property (Unjustified Threats) Bill [HL] 2016-17

The Committee divided on the new clause. It was defeated by 9 votes to 5.<sup>27</sup>

The Bill was reported without amendment.

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<sup>27</sup> Ibid, c14

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