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International report, by Mark Anderson

On Question B:

Should there be legal restrictions on the ability of persons who claim, without sufficient justification, to hold IP rights that have been infringed to bring, or to threaten to bring, legal proceedings based on such claims against their competitors or others?

Introduction, and context for this report

LIDC asked its national members to answer Question B (set out above), and appointed the author of this report as its international reporter for the project. The international reporter asked more detailed questions of national members. Members in various countries collaborated to produce national reports in response to those questions. This international report considers and discusses the eight national reports that have been submitted and proposes action for national legislatures in light of the responses that have been received.

Three developments in intellectual property (IP) law and practice may be said to provide a context for the writing of this report.

1. Active assertion of IP through litigation and pre-litigation conduct

IP (including patents, copyright, design rights and trade marks) is used in different ways. Sometimes, it is necessary to assert IP rights through litigation in order to derive a commercial benefit from them. The benefit might be to prevent competing products reaching the market, or it might be the payment of royalties or other sums to the IP owner.

Sometimes, litigation is not necessary. The mere ownership of IP (and others' awareness of that ownership) may be enough to persuade others to take a licence or modify their competitive behaviour. Or it may be a combination of owning IP and asserting it actively – but perhaps not going as far as litigation – that persuades the other party to take a licence or cease the allegedly-infringing activity. Whether the IP is valid and infringed may not be tested in court; instead the “infringer” is persuaded to cease infringing or to take a licence.

It is this third route – active assertion of IP rights, particularly before the start of litigation – that is the main subject of this report. Some active assertion of IP rights is uncontroversial, and there is a public policy interest in not wasting the public resources of the court with unnecessary litigation. In other cases, an IP owner may behave in a way that is considered unacceptable, e.g. by using their superior financial resources or exploiting weaknesses in the legal system to derive an unfair benefit from their IP. In such cases, the IP may not be valid or infringed, but this is never tested in court. Or there may be public policy reasons why the IP owner should not be able to assert his IP, e.g. on competition law grounds.

Some of the national reports on this project have mentioned an increase in the active assertion of IP rights. This report argues that the law should protect the IP user from such behaviour, particularly where it amounts to an unjustified threat of legal proceedings or is otherwise abusive.

2. IP is international

A second context for this report is that IP agreements and disputes are often international, in that they involve parties based in different jurisdictions, or they concern IP that exists in more than one jurisdiction. The legal framework for IP matters varies between jurisdictions, but there is an argument for having consistency between jurisdictions in the interests of international trade.

3. Recent changes to UK law

A third context for this report is that in the United Kingdom (UK), recent legislation - the Intellectual Property (Unjustified Threats) Act 2017 - has modernised long-standing laws that give a remedy to the recipient of an unjustified IP threat. The previous laws were thought to have become unbalanced in favour of the user or infringer, and the 2017 legislation tried to redress the balance. The new law

is discussed in detail in the UK national report that accompanies this international report, but the following summary provides some further context.

Consider the case of a consumer product (Product A) that is sold through retail outlets. The manufacturer and seller of that product (Company A) has a rival (Company B), who sells a competing product (Product B). Company B owns IP, and asserts that the manufacture and sale of Product A infringes the IP. Company B sends letters to retailers and end-users of Product A that threaten to sue them for IP infringement. Retailers and end-users are intimidated into ceasing to buy Product A, and instead they elect to buy Product B.

In this situation, the UK legislation provides a remedy. A recipient of such a threat may be able to sue Company A to claim damages in respect of the threat. This is a useful protection against the making of unjustified threats, i.e. where there is, in fact, no infringement, or the IP is not valid. But it can also tip the balance of power too far in favour of Company B, in that it may discourage the legitimate assertion of rights. Prior to the amendment of the law in 2017, the way that the UK law in this area was applied, was thought to have become too favourable to the recipient of the threat. In particular:

- The law was a trap for the unwary, including unrepresented parties, non-specialist lawyers and overseas lawyers. They might assert their IP rights plainly and straightforwardly, but be deemed by the English courts to have made an actionable threat.
- So-called “cease and desist” letters had to be written in very soft language to mitigate the risk of an actionable threat, to the point where they were written in a kind of code that only the expert could understand: the recipient of such a letter might not realise its true meaning.
- Procedural law in England and Wales generally encourages litigants to communicate, explain their position, and seek to resolve their concerns before commencing legal proceedings. By contrast, the threats legislation had the effect of encouraging parties to commence legal proceedings before engaging in correspondence, as once proceedings had started the threats legislation no longer applied.
- The threats provisions applied to anyone sending a threat, including the IP owner’s representative. It was very common to sue, or threaten to sue, the lawyer acting for an IP owner, who sent the initial, threatening letter. This caused the interests of the IP owner and their lawyer to diverge, and made it difficult for the lawyer to agree to send letters to infringers.

Under the 2017 legislation, the circumstances in which a threats action can be brought are reduced, and an IP owner’s lawyer cannot be sued personally if they can show that they are acting on their client’s instructions. Some of the detailed changes in the law are discussed further in the UK chapter of this report.

The modernisation of UK law in this area has focussed attention on the protection available in other jurisdictions to the recipient of an unjustified threat of IP infringement.

Further contexts for this report

Policy-making to support industry; the need for balance. National governments are increasingly aware of the importance of IP in supporting the growth and success of business, particularly in “new” areas of the economy such as high-tech industries. It is tempting for a governmental policy-maker to view IP as an unqualified good, and unlicensed use of that IP as inherently bad. But, in truth, the IP system needs to maintain a balance between the rights of owners and infringers; there

are good and bad actors among both owners and users of IP, and potentially good and bad economic effects from giving legal remedies to an IP owner.

Policy constraints. There may also be policy constraints on the legal rights of an IP owner. An obvious example, within the European Union, is the set of laws governing free movement of goods within the Single European Market. These laws may prevent an IP owner from asserting national IP rights against an importer of goods, where the goods were bought from the IP owner or his licensee in another country of the EU. The IP rights are said to be “exhausted” once the IP owner has placed the goods on the EU market.

Competition laws. More generally, there is sometimes a tension between IP rights and competition laws. From an IP lawyer’s perspective, competition policy-makers can seem hostile to IP rights, and suspicious of their capacity to reduce competition. Sometimes, these suspicions are justified. But IP rights also have the capacity to increase competition by bringing new products and services to the market.

Example – patented drug

Consider the example of a patented pharmaceutical drug. Ownership of the patent incentivises the drug company to develop a new drug that saves lives and benefits the public. The new drug competes with other drugs on the market. From a competition perspective, that is good.

The patented drug works better than other drugs on the market, and gets a high market share. This enables the patent owner to charge a high price. The patent owner prevents competitors from developing and selling cheaper, generic versions of the drug by enforcing his patent against them. From a competition perspective, these features may raise concerns.

These concerns may be increased or reduced by factors other than the fact of ownership of IP. In the drug example, national regulatory bodies or major purchasers (e.g. the UK National Health Service) may set a price for the drug that mitigates the raw benefits of IP ownership. Or a newer drug may be developed which doesn’t infringe the other drug company’s patent and which has features that make it more attractive to consumers.

The competitive effects of IP rights are also affected by how the parties behave. When engaged in a commercial dispute or competition with competitors, some parties will use any lawful weapons at their disposal, which may include exploiting features of the legal system (e.g. forum shopping to find the most favourable court, or using the procedural rules of a particular legal system to their advantage).

Different ways in which IP rights are constrained

Thus, IP rights and their assertion are not an unqualified good. They form part of a system that should protect both the IP owner and the IP user. The legal constraints on an IP owner vary between jurisdictions, and are to be found in a wide variety of sources, including:

1. *Restrictions under IP laws.* IP rights give the rights holder a privileged position in the market. There are limits to that privilege. Those limits may exist under the IP laws themselves, or in how IP laws are interpreted by the courts. Examples that exist in particular jurisdictions include:

- a. **Preventing registration of the rights.** Otherwise valid patent applications may be refused on the grounds of national security¹ or other public policy grounds.
 - b. **Protecting the innocent party.** The IP rights may have been granted or exist, but there may be restrictions on bringing an action, or remedies for the innocent party, where the IP rights are not valid.²
 - c. **Ensuring use of the rights.** A policy objective behind the existence of IP rights is to encourage the development of new products, services and markets. Where the IP rights are not being used for this purpose, the law may provide remedies, e.g. in the form of compulsory licensing, that may limit the IP owner's rights.³
 - d. **Exhaustion of rights.** Where a product is put on the market by a licensee, the IP owner may be prevented from bringing action against the licensee's customer for infringement of the licensed IP. In national laws this principle has been given various names including exhaustion of rights, implied licence, or non-derogation from grant.⁴
2. *Conflict with competition laws.* The policy objectives behind IP laws may conflict with other policy objectives.
- a. Members of LIDC may be most familiar with the conflict between the exercise of IP rights and competition laws. In the European Union (EU) the exercise of IP rights may be limited by laws governing the free movement of goods, the single market, anti-competitive agreements (e.g. certain IP licence agreements) or abuse of a dominant position.⁵ EU competition law generally respects the rights of parties to bring matters before a Court but accepts that litigation (or similar proceedings) may exceptionally involve abusive conduct where it serves only to harass and has the goal of eliminating competition.⁶
 - b. In many of the countries that provided national reports to the above question, there is no law that is specifically intended to protect an IP user from unjustified threats of IP infringement. Instead, the law of unfair competition may provide a general remedy that can be applied to the fact of IP threats. This is discussed further below.
3. *Conflict with other policy objectives.* Competition law is not the only area of potential conflict with the exercise of IP rights. For example, under TRIPS⁷, national governments may impose compulsory IP licensing on grounds of national health, or to meet the needs of developing countries. In 2006, the EU introduced a Regulation in respect of the latter issue.⁸ These laws have the effect of restricting the enforcement of IP rights by the rights owner.

¹ For information on how the UK government deals with patent applications in light of section 22 of the Patents Act 1977, see <https://www.gov.uk/guidance/national-security-checks-on-patent-applications>

² Eg in the UK see the Intellectual Property (Unjustified Threats) Act 2017.

³ Eg in the UK see sections 48-50, Patents Act 1977.

⁴ On a related issue, the seller of a product may be required to ensure that the buyer is not sued for IP infringement by third parties – at an international level, see section 42 of the UN Convention on Contracts for the International Sale of Goods (1980).

⁵ Some of the key EU cases in this area include: C-403/08 and C-429/08 *FAPL v QC Leisure and Karen Murphy v Media Protection Services*; C-241/91P and C-242/91P *RTE and ITP v Commission*; C-418/01 *IMS Health*; and C-170/13 *Huawei v ZTE*.

⁶ Case T-111/96 *ITT Promedia v Commission*

⁷ Agreement on Trade-Related Aspects of Intellectual Property Rights – see WTO website at https://www.wto.org/english/docs_e/legal_e/legal_e.htm#TRIPs

⁸ Regulation (EC) No 816/2006 of the European Parliament and of the Council of 17 May 2006 on compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems.

4. *Conflict with other obligations of the IP owner.* The IP owner may have entered into a contract or made other commitments that should prevent it from asserting its IP rights. For example, where a patent owner declares to a standard-setting organisation that it has “standards-essential patents” (SEPs), it may be bound by the rules of that organisation to grant licences under those patents on fair, reasonable and non-discriminatory (FRAND) terms. The IP owner becomes bound by contract to comply with those rules.⁹ Another example is where the IP arose from research that received external funding and where the terms of that funding included restrictions on the exercise of IP rights. For example, the terms of some funding by the UK government’s Department of Health allow the government to gain access to IP and technology where needed for a national emergency (e.g. where a drug is needed for an influenza epidemic and the IP owner is not able to meet national needs). It is understood that the terms on which the US government funds research typically include “walk-in rights” which enable the government to use IP that results from such funding. A consequence of these and other contract terms is that there may be circumstances in which an IP owner is not free to exercise its IP rights to prevent competition.
5. *Consumer protection, etc.* There may be an imbalance of economic power between an IP owner and those against whom IP rights are asserted. Laws exist to protect consumers, small and medium sized enterprises (SMEs) and others against the exercise of economic power. Conceivably, in some jurisdictions these laws may provide protection against the action of an IP owner.

Sometimes, an assertion of IP rights may result in tensions with more than one of the above categories. For example, disputes about the licensing of SEPs can raise questions of IP law, competition law and contract law (e.g. the rules of the standards-setting body with which the party declaring an SEP must agree to comply).¹⁰

Practical restrictions and patent trolls

At a more mundane level, there may be features of national legal systems that tend either to facilitate or restrict the bringing of legal proceedings for infringement of IP rights. One aspect of this issue is whether a national legal system makes it easy or difficult to assert IP rights that are not valid.

In this context, it may be relevant to refer to the debates about so-called “patent trolls” who are said to enforce IP rights in an unacceptably aggressive way. Some commentators prefer the term “non-practising entity” (NPEs), as if there is a moral difference between IP owners who make and sell products (good) and those who don’t (bad). But most universities that license their IP do not have manufacturing facilities, and would fall into the NPE category: usually universities are not thought of as morally bad in this debate. In the author’s view, what makes someone a troll is how they seek to enforce their rights, not whether they are a manufacturer.

Commentators have discussed why there seem to be more “patent trolls” in the USA than in some other jurisdictions. Some of the supposed reasons include:

⁹ A comprehensive account of the purpose of the FRAND framework is provided in the well-known judgment of Mr Justice Birss in *Unwired Planet v Huawei* [2017] EWHC 2988 at [83]-[97].

¹⁰ An article by the international reporter, focussing on the contractual issues, “How to draft a licence agreement that is fair, reasonable and non-discriminatory: a ten-point plan” can be found at <https://academic.oup.com/jiplp/advance-article-abstract/doi/10.1093/jiplp/jpx212/4774998?redirectedFrom=fulltext>.

- (a) *Unjustified grant of rights.* The US Patent and TradeMark Office has supposedly granted patents that would not have been granted in certain other major jurisdictions.
- (b) *Unjustified success in claims.* Some courts in the USA are understood to be very pro-patentee. The United States District Court for the Eastern District of Texas is a highly favoured court to start patent actions.
- (c) *Zealous conduct in litigation.* The professional rules of conduct of US attorneys require them to be “zealous” in their representation of clients, which may lead some attorneys to adopt a different standard of conduct than would be considered appropriate in some other jurisdictions.
- (d) *Financial risk in bringing unjustified claims: other party’s costs.* Typically, the losing party is not ordered to pay the winning party’s legal costs.
- (e) *Financial risk in bringing unjustified claims: own party costs.* There is a well-developed market of law firms and others taking on the risk of litigation costs in return for a percentage of any damages that are awarded.

One may speculate that in jurisdictions where the balance of these factors is different, there may be practical restraints on the bringing of “unjustified” proceedings for IP infringement.

Summary of national differences

Thus, a wide variety of substantive and procedural laws may affect an IP owner’s ability to assert their rights. These laws are likely to vary between jurisdictions and provide different remedies to protect the recipient of an unjustified threat. These laws may operate at different stages of an IP dispute, including pre-litigation threats, preliminary remedies in litigation, and the litigation itself. There may also be legal routes to limit an IP owner’s rights that do not presently exist in any, or any major, jurisdiction.¹¹

Most of the jurisdictions from which we obtained national reports are civil law (as distinct from common law) jurisdictions. It seems that civil law jurisdictions tend not to have any direct equivalent to the UK legislation on unjustified threats. Instead, as discussed further below, they rely mainly on the law of unfair competition, which applies to a range of “unfair” activities in commercial trade. Some other common law jurisdictions (e.g. Australia) have laws similar to the UK law on unjustified threats.¹²

The questions we asked national reporters

We asked national reporters to explain the laws in their countries that were relevant to the subject of unjustified threats. We received national reports from individuals and groups in the following countries: Austria, Belgium, Brazil, France, Hungary, Italy, Spain, and United Kingdom.

¹¹ An example of a radical solution appears in the Manchester Manifesto, whose authors propose “remuneration patents” to replace “exclusivity patents”. Remuneration patents would provide compensation but not allow the patent owner to restrict competition. See <http://www.isei.manchester.ac.uk/TheManchesterManifesto.pdf>

¹² See the recent changes to Australian law effected by the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018 (Cth), discussed in an online article by the Australian law firm, Clayton Utz, at <https://www.claytonutz.com/knowledge/2019/march/is-your-threat-of-ip-infringement-proceedings-unjustified-new-additional-damages-now-available>

These reports have provided an interesting insight into the relevant laws of a variety of countries. The countries in question include some, but not all, of the major European jurisdictions for IP litigation as well as some jurisdictions that have smaller quantities of IP litigation.

For the purposes of this report, we asked national reporters to focus mainly on features of IP and competition laws in their jurisdiction that had the effect of constraining an IP owner's ability to make unjustified threats of IP infringement. We also asked national reporters for their views on how their legal system worked in practice to constrain or facilitate such threats, and whether they had any suggestions for improving the law in this area.

A full list of the questions that national reporters were asked appears as Annex 1 to this international report. The next sections of this report will discuss certain themes that emerged from the national reports, but will not seek to provide a comprehensive summary of those reports. The national reports are set out in full later in this publication. This international report concludes with some proposals for harmonising national laws in this field, in light of the very helpful explanations and comments from the national reporters.

Narrowing down the issues

As they were asked to do, national reporters discussed different aspects of law and practice that affect the bringing of IP infringement claims. Given the wide range of issues mentioned above, it is not surprising that some of these aspects seem more directly relevant to IP threats than others.

For example, most reports confirmed that national laws included provisions on compulsory licensing (though it seems that these are not applied much in practice in several of the countries surveyed) and exhaustion of rights. Similarly, some national reports mentioned general competition law remedies, e.g. for abuse of a dominant position. It seems to the international reporter that these remedies, while important, do not get to the heart of the issue that the UK threats legislation is designed to address. Instead, they are in the wider category of constraints on an IP owner's exercise of rights.

Several reports included a discussion of the following issues:

- The availability of interim or summary remedies (e.g. ex-parte injunctions) in IP disputes.
- The opportunity that an IP user has to seek a declaration of invalidity or non-infringement.

In some situations, improving the availability of these remedies may assist the recipient of an unjustified threat. These remedies seem likely to be most relevant to larger organisations that can afford, and are prepared to spend money on, litigation. Some of the well-publicised cases of IP threats in the UK have involved threats against consumers and small businesses that do not fall into this category.¹³

Ultimately, the UK threats legislation is about a fairly narrow issue, namely intimidating users of the IP (and particularly secondary users such as customers) with overly-aggressive assertion of IP rights, in circumstances where the IP may not be valid, or may not be being infringed. An example of such conduct might be sending cease-and-desist letters to customers or distributors of an alleged infringer.

¹³ See, for example, the case of the former English law firm, ACS Law, which brought multiple cases against individuals for downloading copyright materials. A reported court decision about this firm can be found here: [https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWPC/2011/10.html&query=\(acs\)+AND+\(law\)+AND+\(crossley\)](https://www.bailii.org/cgi-bin/format.cgi?doc=/ew/cases/EWPC/2011/10.html&query=(acs)+AND+(law)+AND+(crossley))

This problem may be more acute in jurisdictions where the legal system – its procedures, costs rules, etc – favour the claimant. So, the features of the legal system are relevant to the broader issue of whether the system is in balance between IP owner and IP user. But on the narrower issue of whether there are legal mechanisms to discourage unjustified threats, we need to look elsewhere.

In countries where there are no specific laws on IP threats, it seems from the national reports that the remedies that are available to the recipient of an unjustified threat lie in the field of unfair competition laws. Some of the national reporters also specifically mention the topics of abusive exercise of rights, disparagement of competitors, and bringing false claims. In some jurisdictions, these may be sub-categories within the broad category of unfair competition law, but whether this is true in all jurisdictions that have unfair competition laws is not known to the international reporter.

A potential problem when analysing the laws in this area is the fact that in many jurisdictions there is little case law in which the law has been considered and applied, particularly in the case of pre-litigation conduct. A notable exception is Hungary, where the national reporter mentions a case in which the court decided that a party that wrote letters claiming that customers should not buy a rival product because it infringed that party's IP and instead should buy that party's product, breached Hungarian competition law that forbids "calls to boycott" a company's products.¹⁴

Below are summary tables, prepared by the international reporter, that seek to summarise the responses of the national reporters. Inevitably, in such a condensed form, much of the nuance of the national responses is lost, and readers are invited to read the national reports to obtain more detailed information on the issues identified in the tables. Where a national report does not directly address an issue listed below, the table is left blank.

Table 1: who can sue for IP infringement or unfair competition

(nb following table may not apply for all types of IP, and rights may only apply if IP owner fails to bring action)

| Country | IP owner | Exclusive licensee | Non-exclusive licensee | Compulsory licensee |
|----------------|----------|--------------------|------------------------|---------------------|
| Austria | ✓ | ✓ | | |
| Belgium | ✓ | | | |
| Brazil | ✓ | ✓ | ✓ | ✓ |
| France | ✓ | ✓ | x | ✓ |
| Hungary | ✓ | ✓ | ✓ | ✓ |
| Italy | ✓ | ✓ | x | |
| Spain | ✓ | ✓ | | |
| United Kingdom | ✓ | ✓ | x/✓ | |

Table 2: general restrictions on IP owner

| Country | Compulsory licences | Exhaustion of rights |
|---------|---------------------|----------------------|
| Austria | ✓ | ✓ |
| Belgium | ✓ | ✓ |
| Brazil | ✓ | ✓ |
| France | ✓ | ✓ |
| Hungary | ✓ | ✓ |

¹⁴ BDT2018.3796, referred to at paragraph 3.3 of the Hungarian national report

| | | |
|----------------|---|---|
| Italy | ✓ | ✓ |
| Spain | ✓ | ✓ |
| United Kingdom | ✓ | ✓ |

Table 3: constraints on making unjustified threats of IP infringement

| Country | Specific law on threats | Unfair competition principles | Disparagement or denigration | Abusive or antisocial claims | Claims when IP does not exist or is not registered |
|----------------|-------------------------|-------------------------------|------------------------------|------------------------------|--|
| Austria | x | ✓ | ✓ | | |
| Belgium | x | ✓ | ✓ | ✓ | ✓ |
| Brazil | x | ✓ | ✓ | ✓ | ✓ |
| France | x | ✓ | ✓ | ✓ | ✓ |
| Hungary | x | ✓ | ✓ | | |
| Italy | x | ✓ | ✓ | ✓ | |
| Spain | x | ✓ | | ✓ | |
| United Kingdom | ✓ | x | | | |

General remedies in civil law jurisdictions

All of the countries that provided national reports, other than the United Kingdom (UK), may be described as civil law jurisdictions. The UK is a common law jurisdiction. It is interesting to note (from Table 3 and the national reports) that none of the civil law jurisdictions surveyed has a specific law on IP threats.

Instead, the civil law jurisdictions have a variety of general provisions, often contained in a civil code,¹⁵ that may be used against someone who brings an unjustified claim of IP infringement.

As noted in Table 3, these remedies seem to fall mainly into four categories, namely:

- (i) General principles of unfair competition
- (ii) Denigration or disparagement of a competitor
- (iii) Abusive or antisocial claims
- (iv) False claims (i.e. where the IP does not exist or is not infringed)

General principles of unfair competition

In several jurisdictions, it seems that there are rules that require people in business not to engage in unfair practices. Below are examples taken from three of the jurisdictions that produced national reports, to illustrate the variety of approaches that are taken.

In Austria, the Act against Unfair Competition (“UWG”)¹⁶ includes the following text in Article 1:

§ 1. (1) Anyone who in the course of business

¹⁵ There may also be criminal sanctions in some situations, but these are beyond the scope of this report.

¹⁶ See text at https://www.ris.bka.gv.at/Dokument.wxe?Abfrage=Erw&Dokumentnummer=ERV_1984_448

1. resorts to an unfair commercial practice or another unfair practise which is likely to distort not only insignificantly [=materially] the competition to the detriment of enterprises or
2. uses an unfair commercial practise contrary to the requirements of professional diligence and [which] is with regard to the respective product suitable to materially distort the economic behaviour of the average consumer whom it reaches or to whom it is addressed,

may be sued for a cease-and-desist order and in case of fault for payment of damages.

So far, so good. But when do IP threats amount to an unfair commercial practice? In the case of Austria, it seems that there has to be something more than the mere issue of a threat – is it against “bonus mores” (good morals or good faith?). One might examine, for example, whether “the aim to create damage is put so much in the foreground that other aims of legal claims remain completely in the background”.¹⁷

Under Italian law, the sending of unjustified warning letters to a competitor may amount to unfair competition under the Italian Civil Code, Article 2598 No 3, as an act that is “contrary to the standards of professional integrity and capable of damaging the business of a competitor”. Bad faith must be proved. It seems that several cases before the courts in Milan and Bologna have considered this issue and identified situations in which the sending of warning letters amounts to unfair competition, e.g. where threats were made against customers of a competitor, or where they were made by a multinational against a small enterprise shortly before an important trade fair.¹⁸

Under Hungarian law, it seems that the sending of a warning letter to customers, advising them not to buy a competitor’s product because it infringes the letter writer’s IP, may breach the ban on “calls to boycott” under Hungarian competition law.¹⁹

Finally, in Belgium there is a prohibition on acts contrary to fair market practices that damage or endanger the professional interests of one or more companies.²⁰ Each party must act with prudence with regard to others’ freedom to conduct a business.²¹ It has been held that this prohibition applies where a rights holder sends warning letters to prospective clients of a competitor alleging infringement while an infringement procedure was still pending.²²

Denigration or disparagement of a competitor

Several national reports mention denigration or disparagement of a competitor as a breach of civil law that may be applicable to IP threats. In some jurisdictions, this topic may fall under the general heading of unfair competition.

For example the Austrian report cites section 7(1) of the UWG, which states:

§ 7. (1) Any party who for competitive purposes alleges or disseminates facts about the enterprise of another, about the person of the owner or manager of the enterprise or about the goods or services of another which may be detrimental to the business of the enterprise

¹⁷ See the discussion of the case of Ophthalmoskop (Austrian Supreme Court RS0121544, November 2006)

¹⁸ Article 2598 No 3 – see the discussion of the case law in this field in the Italian national report.

¹⁹ See discussion and reference earlier in this paper.

²⁰ Belgian Code of Economic Law, Article VI.104.CEL – approximate translation.

²¹ See discussion in Belgian national report.

²² See cases cited at footnotes 55 onwards of the Belgian national report.

or the credit standing of its owner shall be liable damages to the injured unless such facts are demonstrably true. The injured may file a claim to cease and desist from alleging or disseminating the facts. The injured may furthermore demand retraction and publication of the retraction.

However, no cases are cited where this provision was held to be breached by making an IP threat, other than the *Ophthalmoskop* case mentioned above.²³

The Brazilian Industrial Property Law (LPI)²⁴, establishes as a crime and civil infringement to publish, by any means, as well as to provide and divulge a false affirmation, in detriment to a competitor, with a view to obtaining advantage, which could be relevant if the false claim of infringement is divulged or published with malicious intent.

The Italian report mentions a case in the Court of Milan where it was held that the sending of a communication to the organiser of a fair that cautions against the admission to the exhibition of a competitor that is allegedly infringing a patent, which was later found not to be infringed, constituted an act of unfair competition for disparagement under Italian law.²⁵

The Belgian report notes that a warning letter alleging that a company is engaged in infringing activities may be considered an act of disparagement, even if it is later found that there is, indeed, an act of infringement. What matters is the disproportionate harm caused by the allegations as a whole on the recipient of the warning letter or the target company.²⁶ On the other hand, a reasonably worded warning letter will be considered permissible.²⁷

Abusive or antisocial claims

In some jurisdictions, abusive claims fall within the general category of unfair competition.

The Italian national report mentions that there is a large body of case law on patent abuse and sham litigation. It has been held that sending a warning letter to a competitor seeking to enforce IP rights that are subsequently declared invalid is considered an act of unfair competition.²⁸

In Belgium, some of the case law has focussed on the need for cease-and-desist letters to make clear which patents are alleged to be breached and what were the alleged acts of infringement. In the *UVP v Telenet* case,²⁹ the President of the Commercial Court of Antwerp held that a US company, known as ROVI, had abusively exercised its IP rights by failing to provide this information, despite repeated requests for it by the alleged infringer, Telenet.

In another Belgian case, the Brussels Court of Appeal held that it was abusive to demand the immediate cessation of acts of infringement that the claimant had known of, and tolerated, for several years.³⁰ Several national reports refer to the principle of acquiescence as limiting an IP owner's rights.

²³ See discussion around footnote 28 of the Austrian report.

²⁴ Federal Law N. 9,279 of May 16, 1996, first published in *Coleção de Leis do Brasil* - 1996, Page 1886, Vol. 5.

²⁵ See discussion around footnote 11 of the Italian report.

²⁶ See discussion around footnote 60, which cites both Article VI.104 and VI.105.2 of the Belgian Code of Economic Law.

²⁷ See discussion around footnote 52 of the Belgian report.

²⁸ See discussion in section 5 of the Italian report.

²⁹ 2012, see citation at footnote 63 of Belgian report.

³⁰ See discussion around footnote 68 of Belgian report.

It seems that, in France, the courts have decided that sending warning letters to customers and distributors of an infringing manufacturer could, in some circumstances, amount to an abusive claim (and therefore an unfair trade practice).³¹

In some jurisdictions, abuse of law is, in theory, a ground for objecting to IP threats, but there is little or no case law to clarify the point. For example, the Spanish national report states that the “antisocial” exercise of IP rights or “abuse of law” is a rarely studied issue in Spanish law.³²

False claims

Some countries have general laws that make a claimant liable if they issue a claim in bad faith, which may apply to someone who alleges IP infringement when the IP is invalid or doesn’t exist. For example, Article 79 of the Brazilian Code of Civil Procedure provides as follows:³³

Art. 79. Whoever litigates in bad faith, as plaintiff, defendant or third party, shall be liable for damages.

As the Brazilian national report notes, this provision (together with Articles 80 and 81) enable a recipient of false claims of infringement of IP rights to claim damages, and enable a court to impose fines on the claimant.

But the above provision (and any similar provisions in other jurisdictions) appear to operate only where litigation has started, and not to apply to pre-litigation correspondence, such as a cease-and-desist letter.

Discussion

As the above examples illustrate, different branches (or sub-branches) of civil law have been used to constrain the issuing of IP threats. Some jurisdictions see more IP infringement cases than others, and therefore there is more case law to clarify when an IP threat gives the recipient of such a threat a remedy.

In the international reporter’s view, there seems to be a lack of consistency between jurisdictions on how they deal with IP threats, even though the underlying principles of unfair competition law seem to share similarities between civil law jurisdictions. Part of the problem seems to be how to apply general principles to the distinct facts of IP threats.

Despite these differences, some common themes emerge from the national reports.

In general, national reporters don’t consider that there is a major commercial problem with IP threats that needs to be addressed through legislation, but several of them suggest that the existing general principles of unfair competition law might usefully be clarified as to the circumstances in which those principles apply to IP threats. For example, it might be useful to clarify and reduce the threshold for succeeding in a claim for abusive exercise of rights; in some jurisdictions (e.g. Belgium) the threshold is thought to be rather high.

In some jurisdictions, it was felt that improving the remedies available at an early stage of litigation (e.g. to allow declarations of non-infringement) would be useful.

³¹ See discussion around footnote 112 of French report.

³² See discussion at sections 3.2 onwards of the Spanish report.

³³ Using the English translation provided at https://www.academia.edu/34625082/Brazilian_Code_of_Civil_Procedure_English_Version_

There was also a recognition that IP litigation is often international, and that there should be some consistency between jurisdictions. It was also noted that disputes over IP threats are increasingly seen in several jurisdictions.

On the subject of cease-and-desist letters, several national reporters referred to legal requirements to notify a potential defendant of one's intentions before starting litigation. There seemed to be a general view that, provided they were expressed in a reasonable manner (and perhaps directed first to the primary infringer rather than their customers), such letters should not be viewed as abusive or in breach of unfair competition laws.

Finally, several national reporters thought that it would be useful to introduce training in IP to judges and regulators (including competition authorities), to improve the quality of decisions where IP rights are involved.

Recommendations for change

The international reporter makes the following recommendations.

Appropriate national bodies, such as legislatures, should:

- 1. *Clarify the law:* Examine existing national laws on IP threats, whether in specific legislation or the application of general principles such as unfair competition law; and consider introducing measures to clarify the circumstances in which, under those laws, the recipient of an IP threat has a legal remedy, with a view to:
 - a. Avoiding uncertainty as to when, how and against whom threats may legitimately be made, and what form the threats may take; and**
 - b. Harmonising the rules on IP threats between jurisdictions.****
- 2. *Education and training:* Ensure that relevant regulators and judges have received training in IP law, or have been selected from practitioners who are already expert in this subject.**

Annex 1

Detailed questions that the international report asked national reporters to consider

Scope of Legal Protection

1. Please provide a brief overview of the main types of IP right in your jurisdiction, including whether these are either harmonised by international treaty or “national” and not widely replicated in other jurisdictions. Where are these rights defined?
2. What are the main infringing acts in respect of these IP types?
3. Who may bring an action for infringement – is it limited to the IP owner or may others bring claims, e.g. a licensee?

Restrictions and remedies under IP laws

4. What are the main restrictions on obtaining or exercising rights in respect of these IP types, that form part of the IP laws themselves (rather than other areas of law such as antitrust law)? For example (but don't feel constrained by these examples if other situations are relevant in your jurisdiction):
 - a. Restrictions on obtaining the right
 - b. Restrictions on asserting the right generally, or against particular categories of person
 - c. Compulsory licensing provisions
 - d. Exhaustion of rights under IP or general property laws, as against a licensee, their customer or others (however the legal principle is described, e.g. it may be called implied licence)
5. What remedies are available under IP laws to someone who is a recipient of unjustified claims – e.g. a right to sue for making unjustified threats? Are these remedies different in the case of:
 - a. A primary infringer such as a manufacturer or importer
 - b. Others in the supply chain, e.g. a retailer or customer
 - c. The lawyer or other adviser of the person making the claim?

Restrictions and remedies under competition laws

6. Do you think that competition law policy-makers understand IP? Are they sympathetic or suspicious toward it? Do they recognise the importance of IP enforcement to national and international economies? Do they consider that IP rights are superior or subordinate to competition policy considerations?
7. Do you think that the law in your jurisdiction strikes the right balance between safeguarding the rights of IP holders (on the one hand) and maintaining free competition (on the other hand)? Please support your answer with reference to relevant case law and decisions if possible.
8. What are the main restrictions on exercising IP rights under applicable competition laws (including antitrust and unfair competition, where relevant)? Is there any difference in the way in which competition laws treat the exercise of rights by an IP holder in a court as compared to when they intervene (e.g. by way of complaint or submission), before a regulatory body?
9. What remedies are available under competition laws for the recipient of an unjustified claim of IP infringement against the maker of the claim? Are these remedies different in the case of:
 - a. A primary infringer such as a manufacturer or importer
 - b. Others in the supply chain, e.g. a retailer or customer

- c. The lawyer or other adviser of the person making the claim?

Restrictions and remedies under other branches of law

10. Are there any legal restrictions on exercising IP rights under other branches of law, not mentioned above (e.g. tort/delict, consumer protection)?
11. What remedies are available under these other branches of law for the recipient of an unjustified claim of IP infringement against the maker of the claim? Are these remedies different in the case of:
 - a. A primary infringer such as a manufacturer or importer
 - b. Others in the supply chain, e.g. a retailer or customer
 - c. The lawyer or other adviser of the person making the claim?

Current and future policy

12. In general, do existing laws and legal procedures in the area of IP claims provide a “level playing field” for, respectively: (a) large claimants with significant market power, (b) SMEs, universities and other claimants who do not have significant market power, (c) large defendants, and (d) SMEs, universities and other defendants who do not have significant market power? Are there any major policy changes that could be made to level the playing field?
13. Is there a significant market problem in your jurisdiction with people making unjustified claims of IP infringement? Alternatively, is there a significant problem that IP owners are inhibited in the legitimate assertion of IP rights? Generally, is there a problem of bullying behaviour by claimants or defendants (which is a separate issue from making unjustified claims)? Are the laws mentioned above a significant factor in such problems? Can you identify any other causes or contributory factors of those problems?
14. In your jurisdiction, are there any areas of existing law, mentioned above, that you think work particularly well or badly, or which should be reformed? Please consider both whether the laws work well or badly from a policy perspective and from a technical perspective in relation to the detailed provisions of those laws. Has the law been applied uniformly or has there been significant divergence in judicial decisions and/or patchy enforcement? In principle, should any of the laws in your jurisdiction be used as a model for other jurisdictions?
15. Should the laws of any other jurisdiction on unjustified IP claims be adopted in your jurisdiction?
16. Given that much IP litigation is international, in the sense of involving actors in different jurisdictions, or claims made in several jurisdictions:
 - a. Do differences between the law in different jurisdictions cause problems in the legitimate enforcement of IP rights?
 - b. Please identify any areas where the law in relation to unjustified IP claims is harmonised between your jurisdiction and other jurisdiction(s). Do these areas of harmonisation work well? Is there scope for extending these areas of law to other types of IP or other jurisdictions, and is such an extension desirable?
 - c. Are there any areas where rulings in other countries have affected, or have the potential to affect, the ability of national authorities to intervene in conduct which is contrary to national public policies (e.g. antitrust, consumer protection, IP)?
17. Are there any other legal or policy initiatives, not mentioned above, that you think would facilitate the legitimate enforcement of IP rights while restricting the unjustified assertion of IP rights?