

Title: Simplifying the law of groundless threats of patent, trade mark and design right infringement IA No: BISIPO010 Lead department or agency: Intellectual Property Office Other departments or agencies:	Impact Assessment (IA)		
	Date: 13/07/2015		
	Stage: Implementation		
	Source of intervention: Domestic		
	Type of measure: Primary legislation		
Contact for enquiries: Lia Moses, Law Commission, 02033345491 Tamara Goriely, Law Commission 02033343064			
Summary: Intervention and Options			RPC Opinion: GREEN

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out? Measure qualifies as
£13.64m	£13.64m	-£1.19m	Yes Out

What is the problem under consideration? Why is government intervention necessary?
 At present the law allows those aggrieved by groundless threats of patent, trade mark and design right infringement to bring a court action - but the law is overly complex; adds unnecessary court costs; and tends to increase litigation. It fails to achieve the necessary balance, which is to allow rights holders to protect highly valuable assets, but not to misuse threats of infringement to distort competition.

What are the policy objectives and the intended effects?
 The objective is to provide a clear, consistent and equitable law of groundless threats. In particular, the law should: (1) strike an appropriate balance; (2) distinguish clearly between threats made legitimately, and those used to damage a commercial rival; and (3) reduce legal costs and complexity, and encourage disputing parties to reach a negotiated settlement rather than issue litigation.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
 Option 0: Do nothing
 Option 1: A reformed law of groundless threats

Will the policy be reviewed? It will be reviewed. If applicable, set review date: Five years from implementation.					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded:		Non-traded:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: _____ *Lucy Neville-Rolfe* _____ Date: _____ 09/09/2015 _____

Summary: Analysis & Evidence

Policy Option 1

Description: A reformed law of groundless threats

FULL ECONOMIC ASSESSMENT

Price Base Year 2015	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV))		
			Low: N/A	High: N/A	Best Estimate: 13.67

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.12	0	Optional
High	0.14	0	Optional
Best Estimate	£0.13 million	0	£0.13 million

Description and scale of key monetised costs by 'main affected groups'

Transitional one-off costs in year 0. This will be in the form of training costs of £131,427. This will account for the cost of familiarising lawyers with the changes to the law. A 10% sensitivity analysis has been carried out to provide low and high estimates.

There will be no ongoing costs.

Other key non-monetised costs by 'main affected groups'

There are no further non-monetised costs.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	£0.7m	£6m
High	Optional	£2.5m	£21.5m
Best Estimate	0	£1.66 million	£13.80 million

Description and scale of key monetised benefits by 'main affected groups'

There will be ongoing benefits which will result in total savings to businesses of around £1.66 million per annum. This will be due to a reduction in the number of cases in which this area of the law will be engaged (best estimate of savings around £1 million per year), as well as a reduction in the level of advice required even in cases in which it is engaged (savings of £659,500 per year).

Other key non-monetised benefits by 'main affected groups'

The reforms will add to a more conciliatory culture of disputes, based on "talk first".
The will also allow a smoother transition to the Unitary Patent, scheduled for introduction in 2016.

Key assumptions/sensitivities/risks	3.5%
In the absence of robust data on the extent of infringement disputes in the UK, it has been necessary to extrapolate from small scale studies.	
The costs of infringement disputes varies considerably, with some extremely expensive outliers distorting average figures. Therefore this impact assessment looks at a broad range of figures.	

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs:	Benefits:	Net:	Yes	Out

Evidence Base

Simplifying the law of groundless threats of patent, trade mark and design right infringement

Introduction

Background

The importance of intellectual property (IP) rights

- 1.1 Many studies have highlighted the importance of IP rights to economic growth.¹ In particular, the law must allow rights to be enforced. As noted in the Hargreaves Report:

A theme which connects all areas of IP is enforcement. IPRs cannot succeed in their core economic function of incentivising innovation if rights are disregarded.²

- 1.2 On the other hand, the law must achieve a balance. Enforcement must not be misused to stifle competition, by allowing a trader to threaten a rival's customers without justification.
- 1.3 The law of groundless threats plays an important part in achieving this balance, but it is no longer fit for purpose. It has become overly complex and technical and results in unnecessary costs.

What is the law of groundless threats?

- 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 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, as is illustrated by the 2006 case below. However, the law is overly complex. In its current form it adds unnecessary legal costs and exacerbates disputes, driving cases to litigation.

An example: Quads 4 Kids v Thomas Campbell³

¹ See in particular, Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth* (May 2011) at para 1.12. This was emphasised in 2012 by the All-Party Parliamentary Intellectual Property Group, *The Role of Government in Promoting and Protecting Intellectual Property* (29 October 2012) at p 3.

² Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth* (May 2011), para 8.1.

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.

Problem under consideration

- 1.7 Following complaints from stakeholders, the Law Commission reviewed the current law of groundless threats from 2012 to 2014. The consultation showed the following defects:
- a) The law is overly complex, with inconsistencies between the provisions for patents, trade marks and design rights. This was exacerbated in 2004 when changes were made for patents but not for other rights.
 - b) The law attempts to distinguish between "primary actors" who can legitimately be threatened and "secondary actors" who cannot. In broad terms, "primary actors" are manufacturers and importers, while secondary actors are others, such as wholesalers and retailers. However, defects in drafting mean that a primary actor may sometimes sue for groundless threats, if (for example) the letter asks them to stop selling the product. This defect was addressed for patents in 2004, but remains a problem for other rights. It creates a trap for the unwary.
 - c) The law allows rights holders to notify others of their right – but there is great uncertainty over where "mere notification" ends and threats begin. A poorly worded letter, which is deemed to be a threat, can provoke unnecessary litigation.
 - d) Professional advisers face personal liability for making a groundless threat. This is sometimes exploited by opponents to drive a wedge between adviser and client. As a consequence, the adviser may be reluctant to act and in some cases they demand indemnities from their clients.
 - e) There are particular complexities over how far threats provisions cover threats to sue in foreign courts. Without reform, groundless threats protection would not apply to the Unitary Patent, scheduled for introduction in 2016.
- 1.8 These defects, taken together, add to legal costs particularly for small business.

Cost of legal advice

- 1.9 Under the current law, advisers are required to spend time devising complex strategies for how to draft correspondence and discussing them with their clients. This increases the cost of pre-action legal advice.

Driving cases to court

- 1.10 The current law also drives cases to court. Although the Civil Procedure Rules are designed to encourage disputing parties to resolve their differences between themselves, groundless threats law encourages the parties to "sue first, talk later". This happens in two ways. First, the rights holder may decide to issue a "defensive writ" to avoid a potential groundless threats action. Alternatively the recipient may issue an action for groundless threats rather than attempting to resolve the dispute.

Rationale for Government intervention

- 1.11 Statutory reform is necessary to remove the inconsistencies and defects in the current law and to ensure that it is fit for purpose.

³ [2006] EWHC 2482 (Ch).

- 1.12 The current defects and inconsistencies in the law on groundless threats impact disproportionately on small and medium sized firms and reduce their potential for economic gain. There are economy-wide benefits to be gained from a competitive environment for these groups. In particular small and medium sized firms are widely acknowledged to be significant contributors to employment and innovation.

Policy objectives

- 1.13 The objective is to provide a clear, consistent and equitable law of groundless threats. In particular, the law should:
- a) Harmonise the law in relation to all IP rights.
 - b) Strike an appropriate balance that ensures rights holders are entitled to protect highly valuable assets, but not to misuse threats of infringement to distort competition.
 - c) Distinguish clearly between threats made legitimately to primary actors, and those used to damage a commercial rival by targeting secondary actors, such as retailers.
 - d) Remove uncertainty and unnecessary complexity, which will reduce legal costs and encourage disputing parties to reach a negotiated settlement rather than issue litigation.

Scope and scale of the problem

- 1.14 Issues of groundless threats arise whenever a rights holder or licensee writes to a business alleging an infringement of a patent, trade mark or design right. Those who use experienced advisers will usually agree a strategy about what the letter should say and who should write it, designed to circumvent a possible threats action. Those who use less experienced advisers, or who do not use advisers at all, risk making mistakes which could provoke a threats action.

The effect on small and medium enterprises (SMEs)

- 1.15 In response to the Law Commission's consultation in 2013, stakeholders commented that the problems fell disproportionately on small businesses. A joint response from several groups of IP lawyers commented:

“While the threats provisions are present in part to prevent SMEs and smaller parties being bullied by big rights owners threatening their market, the provisions also adversely affect SMEs and smaller parties who are themselves rights owners, forcing them to either issue proceedings in cases where a settlement ought to be possible, or end up not attempting to enforce their rights at all.⁴”

- 1.16 The Chartered Institute of Patent Attorneys also thought that the current law “distorts the field for smaller players”. A solicitor's firm commented that groundless threats actions could be used as a tool by aggressive litigators to “rack up expense and deter small rights holders from pursuing infringement of their rights”.
- 1.17 A 2010 study Intellectual Property Enforcement in Smaller UK Firms looked at the experiences of small businesses engaged in IP disputes.⁵ The study found that most disputes are resolved by solicitors' letters.⁶ The authors comment:

⁴ Response from the IP Working party, CLLS and IPLA.

⁵ Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, Intellectual Property Enforcement in Smaller UK Firms (October 2010).

⁶ It is likely that this also includes letters from patent and trade mark attorneys.

“IP disputes rarely end up in court, yet IP disputes are relatively common. Some smaller firms interviewed found that they could protect their IP simply and at low cost. At the other extreme, some firms faced a whirlpool of litigation costs when enforcing their rights, in addition to the risk of losing the IPRs and even the company itself. What was surprising was that there was little evidence of a middle way. IP enforcement appears to be either a small scale, easily resolved dispute, or an expensive, time-consuming minefield.⁷”

- 1.18 The 2010 study did not look at the law of groundless threats specifically, but the problems with the law of groundless threats are to be understood against this background. Deficiencies in the law of groundless threats can catapult businesses from low cost resolution through solicitors into the “whirlpool of litigation”, described by the study. The risk that an initial letter may be met with an action for groundless threats casts a shadow whenever a solicitor or attorney writes a letter to a potential infringer.
- 1.19 SME rights holders often spend time with their professional advisers discussing strategy over what letter should be sent and by whom.⁸ This time must be paid for. SMEs are also particularly disadvantaged where professional advisers asked for indemnities should they face liability before issuing letters concerning infringement. Small businesses that are unable to provide those indemnities may end up writing letters in their own name, which are less likely to be taken seriously by opponents.

The number of infringement disputes

- 1.20 It is difficult to estimate how many allegations of infringement of patent, trade mark and design right are made each year. A 2009 literature review of IP enforcement in the UK commented:

“We still know relatively little about the extent of infringement and use of enforcement procedures.... Statistically sound studies ... that attempt to quantify the amount and seriousness of infringement ... have not been performed in the UK.⁹”

- 1.21 This lack of information was addressed in the 2010 study cited earlier.¹⁰ The study identified 46 infringement disputes; an exchange of letters between professional advisers had taken place in 37, and had resolved the dispute in 15 (40%). There had been very little use of high-level dispute resolution or mediation, but six cases led to High Court litigation. In other words out of 37 cases involving solicitors letters, 16% resulted in High Court litigation while 84% did not. Although this is based on a small sample of infringement disputes, the proportions appear to be broadly in line with the ratio of disputes to litigation in other areas of law.¹¹ For example, an analysis of non-disclosure insurance disputes prepared for the impact assessment on updating the Marine Insurance Act suggested that out of around 4,000 disputes, 600-700 claims were issued (15% -17%).¹²

⁷ Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, Intellectual Property Enforcement in Smaller UK Firms (October 2010) at page 2.

⁸ This includes lawyers, patent attorneys and trade mark attorneys.

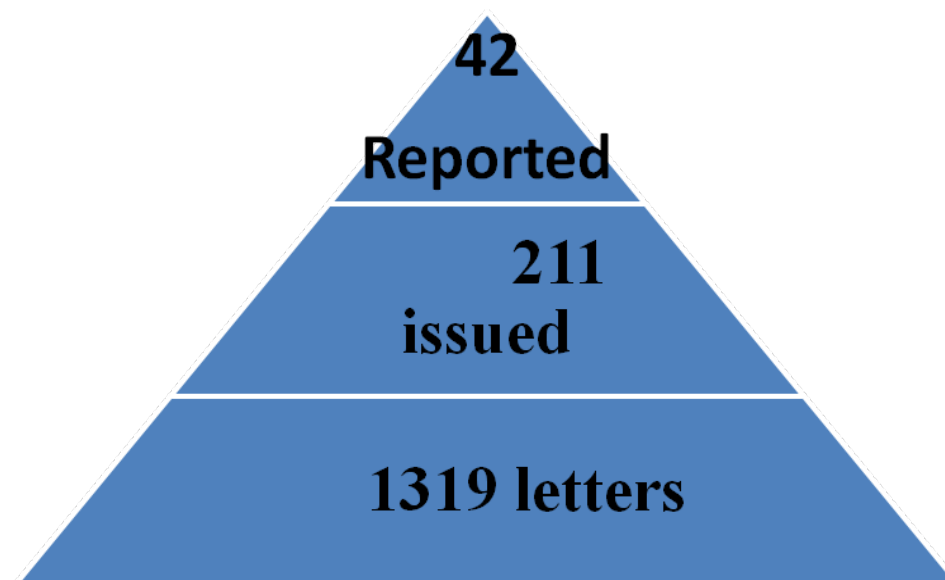
⁹ Weatherall, Webster, and Bently IP Enforcement in the UK and Beyond: A Literature Review (May 2009).

¹⁰ Greenhalgh, Phillips, Pitkethly, Rogers and Tomalin, Intellectual Property Enforcement in Smaller UK Firms (October 2010).

¹¹ For personal injury disputes, an analysis of personal injury statistics in 2006, identified 755,875 claims to insurers in 2004/2005 which compares with 146,000 county court claims and 914 High Court claims (a proportion of 19%). See R Lewis, A Morris and K Oliphant, Tort personal injury claim statistics: Is there a compensation culture in the United Kingdom? (2006) 14 Torts Law Journal; and Judicial and Court Statistics (2006).

¹² Impact Assessment, Insurance Contract Law: updating the Marine Insurance Act 1906, LAWCOM0031 (26 August 2014) Appendix B.

- 1.22 There is no reliable information on the number of infringement disputes in the UK each year. Some indication, however, is provided by data on the number of cases issued in the High Court. Judicial statistics for 2010 show that 562 IP claims were issued in the High Court in London.¹³ Of those, it is estimated that 211 cases are affected by the law on groundless threats. This includes the 65 cases concerning patents and registered designs together with 146 cases concerning trade marks and passing off.¹⁴
- 1.23 Applying the finding that only 16% of cases result in litigation, this would suggest a total pool of 1319 cases where professional advisers wrote a letter to a potential infringer.¹⁵ This gives a broad estimate of the number of cases negotiated in the shadow of groundless threats law.
- 1.24 This resulted in 211 cases in which infringement proceedings were issued in the High Court, but only a small proportion of cases issued result in a court judgment. Research suggests that 80% of patent litigation settles before a first instance judgment is obtained.¹⁶
- 1.25 On this basis, 1,319 cases involving an initial letter from a professional adviser alleging infringement would result in 211 issued cases and 42 reported judgments.



- 1.26 There will a small number of cases in the Scottish courts. However, this figure is estimated to be so small that it will not be worth quantifying.

Main stakeholders

- 1.27 The main stakeholders are:
- a) rights holders and licensees;
 - b) businesses who receive infringement threats;
 - c) businesses who are damaged when their customers receive infringement threats;
 - d) lawyers, patent attorneys and trade mark attorneys;
 - e) judges.

¹³ Ministry of Justice, Judicial and Court Statistics (July 2011) page 123.

¹⁴ Unfortunately no breakdown is provided between passing off and registered trade marks cases. Practitioners suggest that most cases involved both as it was common for the validity of the registered trade mark to be challenged. Cases brought solely for passing off would not involve groundless threats as the provisions do not apply. The estimate does not include cases of unregistered designs, as these cannot be separated from copyright disputes.

¹⁵ Of this pool, 16% led to litigation (211) and 84% (1108) did not.

¹⁶ CJA Consultants Ltd, Patent Litigation Insurance: A Study for the European Commission on the feasibility of possible insurance schemes against patent litigation risks: Final Report (June 2006) para 8.4.1. As a check on this figure, we looked at the total number of IP cases issued in the High Court in 2010 (517) compared with the total number of IP cases reported on Westlaw in 2014. This also gives a ratio of 80:20.

Consultation with stakeholders

- 1.28 The Law Commission consulted on the issue from April to June 2013. It received 21 responses from rights holders, professional advisers, judges, and individuals. Consultees were unanimous that the law required reform.
- 1.29 The responses were detailed and closely argued, showing substantial involvement with the project. Many were from representative groups, including the British Brands Group, Law Society, Intellectual Property Lawyers Association, Chartered Institute of Patent Attorneys, Institute of Trade Mark Attorneys, IP Federation and judges of the Court of Session.
- 1.30 Since 2013, the Law Commission has worked closely with a working group with membership drawn from practitioners, the judiciary, academia, rights holders, lawyers and representatives of small businesses. The working group has commented on details of the policy and on draft clauses and has helped provide estimates of costs and benefits.

Options considered

- 1.31 This impact assessment compares two options:
- (1) Option 0: do nothing. This has been rejected as it would leave the law of groundless threats unfit for purpose.
 - (2) Option 1: introduce reforms to reduce the complexity and cost of the current law.

Option 1 – A reformed law of groundless threats

- 1.32 The preferred option is based on the recommendations made by the Law Commission in their final report published in April 2014. These recommendations were accepted by Government in February 2015. The main changes are:
- (1) Consistent provisions across all rights, including the new Unitary Patent.
 - (2) A new clearer distinction between primary actors (who may be threatened with impunity) and secondary actors (who may not). Primary actors will be defined as those who have or intend to carry out a primary act, such as the importation of goods or the application of a mark to packaging. As is currently the case for patent infringement (but not for trade mark and design infringement) all communications with primary actors will be exempt from groundless threats actions.¹⁷
 - (3) A new concept of permitted communications, which allows communication with secondary actors for a legitimate commercial purpose. The statute will set out examples of what may be said (such as notifying the recipient that a right exists), and what may not be said (such as a request for an undertaking).
 - (4) A lawyer, patent attorney and trade mark attorney will no longer be personally liable for making threats if they have acted in their professional capacity and on instructions from their client.

¹⁷ For all of the rights, the measure would extend the category of primary actor to include those who threaten (as well as carry out) primary acts.

- 1.33 On consultation, these reforms were widely welcomed and had majority support across all categories of stakeholder.

Other options considered but not taken forward

- 1.34 During consultation two other options were considered but rejected. The first was to abolish groundless threats actions completely. The second was to replace the existing law with a new tort which addressed threats as a form of unfair competition.
- 1.35 The overwhelming majority of consultees agreed with the Law Commission that the law of groundless threats should not be abolished as this would allow threats of infringement actions to be used to stifle competition.¹⁸ Although there was some support for a new tort based on unfair competition, most consultees thought that this would add to uncertainty and costs, at least in the short to medium terms.¹⁹

Cost/benefit analysis

- 1.36 We have spoken to stakeholders to inform our view of the likely impact of our proposals and have used this as the basis for our calculations. Where it has not been possible to obtain a rough indication of numbers in this way, we have had to make a realistic estimate. In such cases, we have taken a conservative approach and have tended to use figures that we consider likely to under-estimate benefits and over-estimate costs.

Option 0 – Do nothing

- 1.37 Option 0 is the base case against which our other options are measured. Because the “do nothing” option is compared against itself, its costs and benefits are, of course, zero, as is its NPV. While there would not be any additional costs, current costs would continue to be incurred. These are discussed below to provide context for the assessment of the other options.

Costs

- 1.38 The “do nothing” option would leave the existing system unchanged. It is not a cost-free option. Unnecessary and inefficient costs associated with the current unsatisfactory state of the law would persist.

Benefits

- 1.39 Doing nothing would avoid the costs of reform.

Option 1 – A reformed law of groundless threats

- 1.40 The main costs of the preferred option are the initial one-off costs of familiarisation, as lawyers, patent attorneys and trade mark attorneys receive training in the new law. The benefits include cost savings for rights holders, who would no longer have to pay for such complex advice from their lawyers and attorneys.
- 1.41 There will also be benefits for all those involved in infringement disputes, because cases will be more likely to be resolved informally rather than through litigation.

Costs - Familiarisation

¹⁸ See Law Commission, Patents, Trade Marks and Design Rights: Groundless Threats (Law Com Nu 346), Chapter 3.

¹⁹ Law Commission, Patents, Trade Marks and Design Rights: Groundless Threats (Law Com Nu 346), Chapter 4.

- 1.42 IP lawyers, patent attorneys and trade mark attorneys will need training in the new provisions. This is likely to occur shortly before the new law is brought into force, that is in Year 0. It is anticipated that the cost of training will be relatively small, for three reasons:
- (1) Keeping up with developments in IP law is a core element of the job of an IP lawyer or attorney. All specialist firms have efficient systems for training.
 - (2) The reforms are evolutionary, and build on the provisions already in place for patent law.
 - (3) Discussions with stakeholders indicate that the changes will be taught using electronic media such as webinars. In addition, only a proportion of practitioners will undertake this training. The information attained will then be cascaded within an organisation to others through internal training sessions.
- 1.43 Costs have been calculated on the basis of the number of IP practitioners and the cost of training. Data provided by the Intellectual Property Regulation Board shows that there are roughly 2525 patent and trade mark attorneys in England, Wales, Scotland and Northern Ireland. In addition it is estimated that there are 900 specialist IP solicitors in England and Wales.²⁰ It is estimated that there are roughly 90 specialist IP solicitors in Scotland.²¹ Therefore we calculate that 3,515 practitioners will be in need of some form of training.
- 1.44 Based on consultation with various members of the Law Society IP Law Committee and the equivalent bodies for patent and trade mark attorneys, it is estimated that 30% of practitioners will undertake formal training for around one hour. The most common method will be to attend an online seminar or “webinar”, at a cost of £35.
- 1.45 Those who attend the training will be mainly mid-level practitioners, employed at an average salary of £70,000.²² An hourly rate has been calculated as £50 per hour, assuming 30% uplift for pension provision, 225 working days a year and 8 working hours per day.²³ On the basis that 30% of practitioners (1,054) attend a one hour training session at a cost of £50 in salary and £35 in training fee the cost of this element of training is $1,054 \times £85 = £89,590$.
- 1.46 Consultees suggest that the remaining 70% of practitioners will be able to familiarise themselves with the reforms in-house. Some will receive cascaded training from colleagues; others will read an article or note on the subject. This will take an estimated 20 minutes. On the basis that 2,461 practitioners spend 20 minutes to familiarise themselves with the changes at a cost of £17 per practitioner, this will add an additional £41,837 to the cost of training.
- 1.47 The total transitional one-off training costs are calculated at $£89,590 + £41,837 =$ **£131,427**.

²⁰ This is on the basis that there are 60 specialist IP firms employing an average of 15 specialist lawyers. It is difficult to provide an exact figure because there are a number of solicitors practising IP law as a small part of a varied practice. These practitioners have been discounted because lawyers with a mixed practice are required to refresh their knowledge of the law applicable to each case as and when these cases arise. Therefore, such research is not attributable to these reforms – it would have been necessary even without them. Only specialist IP lawyers will be forced, as a result of the reforms, to update themselves on an area of the law with which they are already familiar.

²¹ This is on the basis that there are 6 specialist firms employing an average of 15 specialist lawyers.

²² The figure of £70,000 is based on the assumption that a mid-level associate would attend the training. Based on guidelines given by the National Careers Service, £70,000 appears to be the average salary for mid-level patent and trademark attorneys (<https://nationalcareersservice.direct.gov.uk/advice/planning/jobprofiles/Pages/patentattorney.aspx>). A search of job advertisements on The Lawyer, and Law Society Gazette websites reveals that the salary position is similar for mid-level IP solicitors.

²³ $(£70,000 + 30\%) / 225 / 8 = £50.55$. The 30% uplift reflects the reasonably generous pension provision in this sector: see also the use of 30% cited in the Green Book at p59. The figure of 225 has been used to reflect the number of productive days the firm would normally expect to receive from their employees, assuming a 5 day working week, less 25 days holiday and 10 days public holidays/sick leave. The figure of 8 has been used to reflect the number of working hours in a day.

- 1.48 A 10% sensitivity analysis has been carried out to provide a low estimate of £118,284 and a high estimate of £144,569.
- 1.49 There will be no on-going costs. This is because the changes reduce the impact of groundless threats law (by excluding all threats made to primary actors, preventing actions from being brought against professional advisers; and clarifying the scope of permitted communications),

Benefits

Savings in cost of pre-action legal advice

- 1.50 The current law adds to the costs of advice to rights holders before letters can be written to potential infringers. On consultation, a frequent complaint was that the present complexities of the law required complex strategies about what the letter could say and who it should be written by. The IP Working Party, the City of London Law Society (CLLS) and the Intellectual Property Lawyers Association (IPLA) wrote a combined response which described the problem in the following terms:

“Legal advice is not limited to infringement/validity prospects, but has to also cover a potentially complicated strategy decision about whether to write pre-action correspondence at all and how to frame any such letter, on whose headed notepaper, or whether to simply issue proceedings and thereby risk not complying with the “talk first” policy of the [Civil Procedure Rules].”

- 1.51 An element which adds to costs at this stage is that professional advisers are concerned about being sued personally. They may therefore seek indemnities from clients, which not only involve costs but take time to explain and arrange. One practitioner put it in the following terms:

“The risk of liability on the part of legal representatives who merely act for clients has the potential to create conflicts of interest and to cause clients increased expense where they have provided indemnities to their advisors or where they consider it necessary to instruct new advisors because their existing advisors have become parties to the proceedings.”

- 1.52 In recent discussions, some members of the Law Society Intellectual Property Law Committee estimated that the additional cost of advising on complex strategy and indemnity will “vary from £250 to £750”. They went on to state that it may be in the region of £1000 in relation to very complex matters or clients who have no previous experience of IP litigation.

- 1.53 The current estimates are based on the more conservative figure of £250 (low estimate) and £750 (high estimate). Spread over 1,319 cases, this would give annual savings of £329,750 and £989,250.

- 1.54 A best estimate of the mid way point has been taken that savings in legal costs to rights holders will be **£659,500 per year**.

- 1.55 These benefits will be spread across small, medium and large businesses. However, the impact will be greater for small businesses, who are particularly sensitive to the cost of enforcing IP rights.

Cases are less likely to be driven to litigation

1.56 The current law tends to drive cases towards litigation. It does so in two ways:

(1) Rights holders may issue “defensive writs”

- (a) A rights holder may be concerned that if they write to an alleged infringer, the recipient may respond by bringing an action for groundless threats. In practice, an action for groundless threats tends to consider many of the same issues as an infringement action, but with claimant and defendant reversed. Instead of a claimant rights holder alleging that the defendant has infringed, the claimant alleges the threat is groundless, while the defendant rights holder alleges that an infringement has taken place.
- (b) A groundless threats action allows the recipient to take control of the litigation, for example deciding where and when the action is brought. For example, Scottish rights holders were concerned that an allegation which the rights holder had intended to resolve through the Scottish courts might result in a writ in the London High Court.
- (c) In order to stop the recipient of the letter taking control of the litigation, some rights holders issue what are known as “defensive writs”. Rather than contacting the recipient to discuss the issues, the rights holder proceeds directly to litigation.

(2) Recipients may respond with actions for groundless threats

- (a) The recipient of the letter may respond by issuing an action for a groundless threat, rather than negotiating directly with the rights holder.
- (b) This is a particular problem when a small and relatively poorly resourced rights holder contacts a much larger, better resourced opponent. The opponent may use a groundless threats action to prevent further discussion of the issue.

1.57 The preferred option would allow groundless threats to continue to be used by trade rivals who are genuinely disadvantaged by threats made to their customers. However, it reduces the scope for the recipient to bring an action itself, by extending and clarifying the effect of the “primary actor” and “permitted communications” exclusions.

1.58 To quantify the effect of these changes an internal search has been made of all reported judgments about groundless threats in the last 10 years. This identified 20 reported judgments on groundless threats since 2005, of which 5 would no longer be permissible following the recommended statutory reform.

1.59 These 5 reported judgments represent a greater number of writs issued. On the basis of the 80:20 ratio between writs and judgments given earlier,²⁴ it is estimated that these 5 reported judgments represent 20 cases in which the recipient of a letter responded by issuing a writ for groundless threats. As discussed earlier, this has the effect of plunging a case which could have been settled relatively cheaply into a “whirlpool of litigation”.

²⁴ CJA Consultants Ltd, Patent Litigation Insurance: A Study for the European Commission on the feasibility of possible insurance schemes against patent litigation risks: Final Report (June 2006) para 8.4.1. As a check on this figure, we looked at the total number of IP cases issued in the High Court in 2010 (517) compared with the total number of IP cases reported on Westlaw in 2014. This also gives a ratio of 80:20.

- 1.60 Once IP litigation has started, the costs are notoriously high. The 2012 working paper, Patent Litigation in the UK, reviewed the available empirical data about the cost of patent litigation in England and Wales.²⁵ The paper cited a 2011 guide to litigation that suggested that if a patent case went to full hearing, the average total costs (to both parties) were in the order of £3 million.²⁶ A 2010 study found that it was common for costs in straightforward cases to be “in the region of £200,000 to £500,000”, and up to £1 million for more complex cases.²⁷ The working paper data for cases that went to full trial showed total costs (both parties) of between £1 million and £6 million. The costs of trade mark litigation are less, but still substantial.
- 1.61 On this basis, an estimate has been made of the likely additional legal costs incurred when a case which could have been resolved between professional advisers is pushed to court. On the basis of the available data, it appears that a case which could have been resolved between advisers for less than £100,000 to both sides is likely to cost between £200,000 and £500,000 to the parties if taken to court. In other words, it adds between £100,000 and £400,000 to the cost of each case.
- 1.62 An estimate has been made that the reforms to groundless threats actions will reduce the number of cases in which writs are used, by 40 cases over a 10 year period. This is based on a reduction of 20 groundless threats actions and a similar reduction in the number of defensive writs.
- 1.63 On this basis, the savings of resolving cases informally rather than formally are between 40 x £100,000 over ten years (low estimate) and 40 x £400,000 over 10 years (high estimate), that is between £4 million and £16 million over 10 years, or £400,000 to £1.6 million a year.
- 1.64 A best estimate has been taken at the midpoint that **£1 million** a year will be saved in legal costs where cases are not taken to court unnecessarily but are resolved informally between the parties.
- 1.65 These benefits will be spread across a range of businesses, including small, medium and large business. They will be felt both by businesses who hold rights and by those accused of infringement.

Summary of costs and benefits for option 1

	Relevant years	Low estimate	High estimate	Best estimate
COSTS				
Familiarisation	Year 0	£0.12m	£0.14m	£0.13m
BENEFITS				
Pre-action legal advice	Years 0-9	£0.3m pa	£0.9m pa	£0.6m
Less litigation	Years 0-9	£0.4m pa	£1.6m pa	£1m

Wider effects

²⁵ Helmers and McDonagh, Patent Litigation in the UK (LSE Law, Society and Economy Working Papers 12/2012).

²⁶ Freshfields Bruckhaus Deringer, A guide to patent litigation in Europe – England and Wales (September 2011).

²⁷ Duncan, Challenging Competitors' Patents in the UK – Patent Revocation (2010, D Young & Co Intellectual Property Articles & Updates).

- 1.66 Consideration has been given to whether a reduction in legal fees would amount to a cost to lawyers in reduced business. However, consultees did not think this would occur. Specialist IP advisers thought that other lucrative IP work would be available.
- 1.67 An added advantage of the measure is that that it would allow a smoother transition to the Unitary Patent, which is likely to be introduced in 2016. The measure would remove current complexities about how the law of groundless threats applies to threats to sue in non-UK courts. Instead UK law would apply whenever a threat relates to an alleged infringement which took place (or would have taken place) in the UK.

One-in-two-out

- 1.68 This measure is not deregulatory in the sense that it reduces the scope of Government regulation. The law on groundless threats will continue to affect all those involved in enforcing patents, trade marks and design rights.
- 1.69 The Better Regulation Framework manual explains that a measure may also be deregulatory if it recasts regulation. This includes “the consolidation or reformulation of existing legislation or guidance to improve clarity and reduce the administrative cost of compliance”,²⁸ even where there is no change in the scope of the regulation. This measure is deregulatory in this sense, as it is expected to improve clarity and reduce the cost of compliance. It is therefore classified as a deregulatory measure which will bring **£13.80 million** of savings to businesses over ten years. This is therefore an “out”.

Risks and assumptions

- 1.70 The main costs will be familiarisation. This impact assessment assumes that the costs of familiarisation will be small as the reform builds on concepts that are already familiar and that specialist IP practitioners have efficient training systems in place.
- 1.71 In order to estimate the number of infringement disputes, it has been necessary to rely on the available evidence – namely a small survey of 46 cases. To provide a reality check on this figure, consideration has been given to other areas of law. However, the true figure may be more or less than the estimate made.
- 1.72 The main benefits derive from the legal costs saved if cases are resolved between advisers and do not proceed to court. It is difficult to quantify this effect, as the cost of IP litigation varies substantially. Large but one-off outlier cases (of up to £8 million) may distort average figures. In response to this, it has been necessary to take a broad estimate of the potential savings in each case (from £100,000 to £400,000).

Implementation plan

- 1.73 Direct commencement of the provisions is expected at the most appropriate Common Commencement Date (CCD). In line with best practice, we aim to provide business guidance 12 weeks before the CCD. The relevant legal practice manuals on Intellectual property will also be updated (Manual of Patent Practice, Manual of Trade Mark Practice, and the appropriate equivalent for design rights). Raising awareness of the changes would be undertaken with stakeholder and interest groups e.g. on regular IPO customer visits and in stakeholder focus groups.

Specific impacts

- 1.74 Consideration has been given to statutory equality duties, competition, small firms and the justice system.

²⁸ See the definition of recast in the glossary, p 87

Statutory equality duties

- 1.75 Having regard to the guidance on this specific impact test, it is considered that this proposal will have no equality impact. Completion of the screening questions indicated no need for a full equality impact assessment. There will be no impact (adverse or otherwise) on any of the protected characteristics.

Competition

- 1.76 Having regard to the filter questions on this specific impact test, it is considered that this proposal will have no negative effect on competition and that a full impact assessment is not required. There will be no direct or indirect restriction on the number or range of suppliers.
- 1.77 The option of abolishing groundless threats protection was rejected, because that would have permitted anti-competitive behaviour by rights holders and those claiming to be rights holders. Research of the current law disclosed that there would be no equivalent protection available were the provisions removed. However, the preferred option would retain appropriate sanctions against anti-competitive behaviour.

Small Businesses

- 1.78 Having regard to the filter questions on this specific impact test, it is considered that this proposal will have no negative effect on small businesses and that a full impact assessment is not required.
- 1.79 As discussed earlier, it is thought that the measure will aid small business rights holders, who will benefit from being able to enforce rights at lower costs.

Justice

- 1.80 The main impact on the court system would be a possible reduction in High Court litigation of up to 4 cases a year. This would not be a significant impact.

Other specific impacts

- 1.81 It is not considered that there will be any impacts on rural proofing, the environment, sustainable development or health.