

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

**Department for Business, Innovation and Skills**

**RPC rating: fit for purpose**

## **Description of proposal**

Intellectual property (IP) litigation can be complex and expensive, both for those accused of infringing rights and for those seeking to protect their own intellectual property. The risks associated with IP litigation mean the threat of legal action can act as a powerful incentive to change behaviours, and can be used inappropriately, for example, to stop retailers stocking a product even if no infringement has occurred.

The existing defence against groundless threats (i.e. those where no infringement has taken place but the threat of legal action is being used to harm a competitor) is complex and potentially drives some cases to litigation that could be resolved at a lower cost. The proposal will simplify the practical operation of groundless threats law, including changes to the way it operates in order to avoid unnecessary litigation. The proposal will also clarify liabilities for legal professionals, reducing the cost to business of securing indemnities, and hence the expected cost of IP litigation.

## **Impacts of proposal**

The complexity of the existing law confronts businesses seeking to protect their IP with potentially significant upfront costs to develop appropriate strategies. Simplifying the law and clarifying the circumstances in which defendants can respond with a groundless threats action will reduce the complexity of upfront legal advice required. The proposal will also clarify that lawyers acting under instructions will not personally be liable for damages arising from the action to protect IP. As a result, this will reduce the need for businesses to secure indemnities. Based on engagement with industry, these changes are estimated to save businesses seeking to protect their IP between £250 and £750 per case, with an average annual case load of around 1,300 cases. Using a mid-way point best estimate this will save businesses around £0.65 million each year.

Clarifying the groundless threats law will also reduce incentives to move straight to litigation. There will be less incentive for rights holders to issue 'defensive writs' as the proposal will limit the circumstances in which the defendant can respond with a groundless threats action to communications about rights infringements. Non-litigious communications, such as letters informing businesses about who holds rights to IP, will have less risk attached, and as such the department expects that there will be less incentive to use litigation as a first resort. Based on the number of judgments on groundless threat actions that would not have been brought had the proposed changes been in force during the last ten years and the ratio

between writs served and subsequent judgments, the department estimates that in around 40 cases significant legal costs will be avoided during the 10 year appraisal period as a result of the proposal. Using information on the cost of court cases, the department estimates that these cases could have been resolved between advisers for less than £0.1 million in total, but instead resulted in legal costs of between £0.2 and £0.5 million. The department estimates that the avoided legal costs will save business, on average, £1 million each year.

The IA provides detailed information on the expected familiarisation costs and confirms that these have been tested with industry. On the basis that around 3,500 practitioners will familiarise themselves through a mixture of online and in-house training, the department estimates that there will be a one-off familiarisation cost of around £0.13 million.

The RPC is able to validate the department's estimated equivalent annual net cost to business (EANCB) of - £1.19 million.

## Quality of submission

The IA sets out how consultation and industry engagement has been used to develop the proposal and the estimated impacts. Where assumptions have been used, for example in calculating the expected volume of cases to be affected by the proposal, the department sets out how these have been developed and why the Department believes they should be considered sufficiently robust. While the evidence presented is sufficient to support the estimated impacts, the IA would have been improved through using a wider range of sources.

The IA could also be improved by clearer explanation of the practical changes introduced by the proposal. For example, the description of the preferred option (paragraph 1.32) sets out the main changes, but the IA could provide more information on what businesses will be required to do differently as a result of the changes to the primary/secondary actor distinctions and to permitted communications. The section explaining the other options that were considered but not taken forward would benefit from further discussion or narrative on why the options were discarded.

The IA explains that, while a small and micro-business assessment is not required, the proposal is expected to benefit smaller businesses as it will reduce both the cost of protecting IP rights and the risk of being required to respond to groundless threats.

## Initial departmental assessment

Classification	OUT
Equivalent annual net cost to business (EANCB)	- £1.19 million
Business net present value	£13.64 million

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Societal net present value	£13.64 million
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**RPC assessment**

Classification	OUT
EANCB – RPC validated	- £1.19 million
Small and micro business assessment	Not required (deregulatory)



**Michael Gibbons CBE**, Chairman