

Study Guidelines

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2024 – Study Question

Unjustified allegations of infringement of IP rights

Introduction

- 1) Effective protection of intellectual property (IP) rights requires that the holders of such IP rights may commence legal proceedings as part of the mechanisms to enforce their rights against third parties suspected of infringing the IP right in question, and may also police their rights in other ways without resorting to litigation, if possible.
- 2) However, at times, IP rights may be exercised in circumstances in which the infringement allegations made may seem to lack proper legal grounds or be considered to be motivated by improper purposes, but they may be effective regardless because even the mere threat of exercising the IP rights in question may make opponents withdraw from a market or otherwise change their behaviour. Such allegations may be seen as abusive.
- 3) Actions filed or allegations made without sufficient legal grounds, or actions filed repetitively without justified reasons, may cause undesired side effects. Such side effects may include, e.g., increased burden on the court system, unnecessary expenses for the defence, and negative market effects – in particular, the most acute market effect could be the loss of customers when allegations are made to the customers of a manufacturer or importer.
- 4) This Study Question focuses on examining: (i) what kind of activities (if any), and by whom, should be deemed as unjustified allegations of IP infringement that exceed the boundaries of legitimate exercise of IP rights; and (ii) what should be the consequences of making such unjustified allegations of IP infringement.
- 5) In this Study Question references to "unjustified allegations of IP infringement" refer to infringement allegations that are, or may reasonably be considered to be unjustified in



the sense that they are based on an allegation which ultimately proves to have been incorrect (and in hindsight was not justified), or are in any other way abusive of the IP system.

Why AIPPI considers this an important area of study

- 6) The IP system is based on a tradeoff between the creator of the IP and the society: In exchange for the creative or inventive contribution, the creator of the IP is granted with a time-limited monopoly. Therefore, AIPPI has throughout its history on one hand studied extensively the different mechanisms that should be available to ensure that IP right holders can effectively protect and enforce their rights. Furthermore, on the other hand, AIPPI has studied the balance between the interests of the rightsholders and third parties and the means available to ensure that the IP system itself comprises sufficient safeguards.
- 7) The legitimacy of the IP system relies on the IP system itself having the necessary checks and balances to ensure that the exploitation of the monopolies created by the exclusive IP rights are proportional vis-à-vis the justification of the IP system. This also requires assessing whether all allegations of infringement of IP rights (whether those are in the form of legal proceedings or not) are, or should be considered, legitimate from the point of view of the IP system.
- 8) It is particularly common for rightholders to ‘notify’ others of their IP rights. They might do so in the context of a “cease and desist letter” or simply a bare notification with no request to cease doing anything. It is also common for notified parties to cease operations, because not doing so in response to such a letter may result in heavy and expensive litigation. But if the notification was not justified, e.g. because it was based on a patent that is later found to be not infringed or invalid, should the notifier compensate those who suffer loss as a result of the notification?
- 9) Similarly ‘notify and take down’ procedures of online marketplaces, such as those contemplated in Article 14(1)(b) of the E-Commerce Directive¹, could amount to a notification and request to cease trading that might be unjustified. Online marketplaces present especially complex issues since the decision to take down a product is usually made by the marketplace and is outside the control of the seller, and from the seller’s perspective can have the same effect as an interim injunction but without the same safeguards. If such a *de facto* injunction were to be based on a carelessly made, unjustified or even knowingly false allegation of infringement, the seller of the product in question would wish to have relevant relief available. Such relief might include injunctive relief to prevent unjustified allegation from being made, or damages to compensate for the negative economic effects of unjustified allegations.

¹ Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market.

Relevant treaty provisions

- 10) Article 41(1) of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) requires enforcement procedures to be applied in a manner that provides for safeguards against their abuse:

*"1. Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit effective action against any act of infringement of intellectual property rights covered by this Agreement, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements. These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to **provide for safeguards against their abuse.**"*

- 11) In addition, aspects relating to unfair competition are regulated, e.g., in the Paris Convention.² Unfair competition may be a very relevant consideration with respect to unjustified cease and desist letters, and notice and take down procedures.

Scope of this Study Question

- 12) The objective of this Study Question is to focus on the boundaries for the legitimate exercise of an IP rightsholder's rights, including the notification of allegations of infringement for example via cease and desist letters. However, given weight and breadth of the overall theme, it is acknowledged that it is not possible exhaustively study the entire field of possibly abusive exercise of IP rights within one Study Question.
- 13) Therefore, the objective of this Study Question is in particular to study what factors should (or should not) be considered in assessing whether the exercise of the IP right through an allegation of infringement – whether by way of legal proceedings or otherwise - should be considered unjustified so as to constitute abuse of the IP system. Moreover, the objective is to study what are, or should be, the consequences if an IP rightsholder exceeds said boundaries of the legitimate exercise of their rights. This Study Question assesses the question from the point of view of all IP rights (including but not limited to patents, trade marks, designs, copyright, and trade secrets).
- 14) Issues relating to competition law, general good business practices and marketing law, and compulsory licensing are excluded from the scope of this Study Question.
- 15) In addition, for the avoidance of doubt, this Study Question focuses on the unjustified allegations of infringement and, therefore, question relating to abuse of the IP registration system itself (such as potentially abusive utility model and trade mark registrations as well as repetitive divisional patent applications) are out of scope of this Study Question unless expressly stated otherwise.

² See, e.g., Article 10bis of the Paris Convention.



Previous work of AIPPI

- 16) The boundaries of IP rights holders' rights have been discussed as part of AIPPI's previous work. In resolution Q3 (London, 1960), "Restrictions of the rights of the patentee for reasons of public interest", AIPPI concluded that *"[a]ny measure restricting the exclusive rights of a patentee for a cause other than those provided for in article 5A, shall not be taken by a Union country except if an amicalbe [sic] agreement has not been possible. In the event of such a measure compelling the patentee to grant a licence, the latter shall not be exclusive. Restricting measures more rigorous than the granting of a license shall only be imposed if it is shown that the granting of a license is not sufficient. Any such measures shall be subject to an equitable compensation being paid to the patentee and shall include for the patentee the possibility of a appeal to the courts at least in the last resort."* Moreover, in the resolution on Q39 (Tokyo, 1966), "Reasons for which the rights of the patentee can be restricted," AIPPI suggested amendments to Article 5A of the Paris Convention, emphasising that while Article 5A should protect patent holders from unauthorised use of their inventions, it should also allow countries to impose restrictions in certain situations, such as public interest, abuse prevention, or dependent patents.
- 17) In the resolution on Q37, "Incidence on the rights of industrial property of the national or international provisions guaranteeing free competition" (Berlin, 1963; Salzburg, 1964), the appropriate balance between regulations on free competition and the justified exercise of IP rights, as well as their potential abuse, was examined.
- 18) AIPPI has also done further work on border measures, jurisdiction, and enforcement issues, such as on Q174 "Jurisdiction and applicable law in the case of cross-border infringement of intellectual property rights" (Lucerne, 2003), Q147 "The Effectiveness of border measures after TRIPS" (Sorrento, 2000), and Q134B "Enforcement of intellectual property rights – procedure and sanctions" (Vienna, 1997).
- 19) In the resolution on Q208, "Border measures and other means of customs intervention against infringers" (Buenos Aires, 2009) AIPPI stated that *"customs authorities should require the provision of security or an undertaking of indemnification by the IP owner or another interested party prior to invoking border measures, unless those measures are initiated ex officio" ---] "In the event legal proceedings are commenced, but there is a final decision by a court that there is no infringement of an IP right, the owner, consignee or importer of the detained goods shall be entitled to appropriate compensation for the wrongful detention."*
- 20) However, AIPPI has not previously studied the detailed issue of unjustified allegations of infringement in depth.

Discussion

- 21) Actions filed or allegations made without sufficient legal grounds, or actions filed repetitively without justified reasons, potentially increase the burden of the court

system, cause unnecessary expenses for the defence, create negative market effects (and economic loss to those whose products may come off the market due to an unjustified allegation), and consume valuable court resources unnecessarily.

- 22) Traditionally, the establishment of judicial costs as part of court decisions has been seen as a way to reduce the risk of unjust claims: In some jurisdictions the cost risk has been seen as a deterrent as it potentially dissuades those considering bringing forth unfounded allegations from commencing a legal proceeding. However, cost risk may not be a sufficient deterrent in all cases. It is also not a remedy that is available in all jurisdictions nor a direct remedy against allegations made outside the court system, e.g. for simple notice and take down requests in online marketplaces, or for informal cease and desist letters.
- 23) In addition to the limitations of the cost allocation as a means to reduce unjustified allegations, another consideration is the increase in the potential tension between the IP system itself and other parts of the legal system as a result of the increase of potentially unjustified allegations of infringement: the evolution of the IP system and the popularity of using IP rights as tools in managing business strategies has resulted in the increase of IP infringement allegations – both justified and potentially unjustified. Setting compulsory licensing schemes aside, traditionally mechanisms to limit the perceived expansion of legitimate exercise of IP rights has taken place through anti-trust, unfair competition law and other, sector specific, regulations. However, from the perspective of the IP system, defining the boundaries of justified allegations of IP infringement primarily from the outside of the IP system may be argued to be unsatisfactory. Thus, the arising issue is whether it would be possible and desirable to define the criteria for (un)justified IP allegations from within the IP system itself.
- 24) Some jurisdictions have addressed (un)justified allegations of IP infringement from the point of view of unfair business practices, while others have enacted specific provisions in their relevant IP laws to regulate the legitimate boundaries of the exercise of the exclusive rights:

For example, on one hand, in Australia, India, and the UK the issue of unjustified allegations of infringement of IP rights is regulated individually in the specific IP laws applicable to the different IP rights.³

On the other hand, in some jurisdictions across the world (such as in China, Finland, France, Germany, the Netherlands, Sweden, and Switzerland), the potentially abusive use of the allegations of infringement is addressed through regulation concerning marketing laws (commercial slander) and unfair business practices regulations or through general tort laws.

³ In Australia specific provisions concern patents, trade marks, designs, and copyright through the Australian Patents Act 1990, Trade Marks Act 1995, Designs Act 2003, and Copyright Act 1968. In India the provisions address patents, copyright, and trade marks through the Patent Act 1970, Copyright Act 1957, and Trademarks Act 1999. In the UK, updates to the doctrine of unjustified threats applicable to patents, trademarks, and designs have been enacted through the Intellectual Property (Unjustified Threats) Act 2017 through which amendments have been implemented to the UK Patents Act 1977, Trade Marks Act 1994, and Community Trade Mark Regulations 2006, as well as Registered Designs Act 1949, Copyright, Designs and Patents Act 1988, and Community Design Regulations 2005.



It also follows from Article 41(1) of the TRIPS Agreement referred to above that Article 3 of the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights ("Enforcement Directive") requires the member states of the European Union to provide for safeguards against the abuse of the measures, procedures, and remedies necessary to ensure the enforcement of IP rights:

"Article 3

General obligation

1. Member States shall provide for the measures, procedures and remedies necessary to ensure the enforcement of the intellectual property rights covered by this Directive. Those measures, procedures and remedies shall be fair and equitable and shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays.

*2. Those measures, procedures and remedies shall also be effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and **to provide for safeguards against their abuse.**"*

However, it is noteworthy that the Enforcement Directive does not specify the concept, or limits, of such perceived abuse of rights.

- 25) Irrespective of legislative mechanisms, some common threads are evident.
- 26) One of the first questions is what type of communications or other actions should be considered as allegations of IP infringement. In most jurisdictions, commencing formal legal proceedings constitutes undisputedly an allegation of an IP infringement. However, with respect to other types of communications the question has been perceived to be more complex in particular with respect to drawing the line between disseminating appropriate information concerning the existence of an IP right and communicating an unjustified threat. In some jurisdictions questions relating to the IP rightsholder's rights in communicating about their rights (i.e., communications that may or may not be an unjustified allegation) has been seen to link with the IP right holder's right to free speech. To address these complexities, some jurisdictions have specified the types of statements constituting "allegations" or "threats" in detail, while in others the exact scope has been left for the judiciary's discretion. From the perspective of legal certainty, specificity in defining the permitted/unpermitted statements may be argued to be of importance.
- 27) Some jurisdictions go beyond the mere merits of the allegation into assessing the motivation behind the communications: in some contexts, the existence of "bad faith" (or lack of good faith) is emphasized as a criterion in assessing whether an allegation has been unjustified. It has been argued that such bad faith could be deemed to exist, e.g., if the allegation is objectively entirely baseless, i.e., that no reasonable litigant could realistically expect success of such claim. However, this approach also raises some questions, e.g., when and by whom assessment of success should be considered to be made given the often imperfect information available when actions are commenced, what kind of motivations may be considered as "bad faith" given the exclusive nature of IP rights in the first place (e.g., would presenting infringement allegation during settlement discussions or similar proceedings or when knowing that the other party is under distress be considered bad faith), and why subjective

motivational factors should be decisive at all if the IP right has been granted on objective and non-discriminatory bases.

- 28) Further, many of the key questions concerning infringement related communications specifically revolve around warning/cease and desist letters. Sending notifications of the existing IP right may be seen permissible and may be even required under the laws of many jurisdictions for the IP rightsholder to enforce their rights. However, additional contents of the warning letters as well as the addressees of the letters may impact the justifiability of such warning letters. In many jurisdictions sending warning letters, e.g., to the customers or distributors of a competitor may be seen as problematic.⁴ But, prohibiting the sending of warning letters to a competitor's stakeholder's may not be entirely unproblematic either as from the point of view of an IP right holder such stakeholders may also be direct infringers of the IP right in question. Moreover, the justifiability of an infringement allegation may also be argued to depend on when the warning letter is sent: E.g., should the fact that the IP right in question has not yet been granted or the fact that the allegedly infringing product is not yet on the market affect the assessment of the justifiability of the infringement allegation.⁵
- 29) One of the most essential considerations in assessing the justifiability of the infringement allegation has been seen to be the perceived (or objective) validity of the IP right. In some jurisdictions the case law indicates that the fact that an IP right is later found invalid does not necessarily indicate that the allegation of infringement itself was unjustified.⁶ However, at the same time, in some jurisdictions it has been considered whether, e.g., pending or completed opposition proceedings should or should not affect the justifiability of an infringement allegation. Moreover, relevant considerations may include, e.g., whether making infringement allegations while filing multiple divisional applications or vast number of limitation requests could or should impact the justifiability of the infringement allegation and whether or not the actual or constructive knowledge of validity destroying circumstances could or should be of relevance.
- 30) Validity is also an example of a question which is not determined in the same manner with respect to all IP rights. Thus, given the broad spectrum of IP rights and their applications, one question is whether the criteria for assessing unjustified allegations should be the same for all different IP rights or whether there should be variation among different rights.
- 31) Finally, in some jurisdictions the type of activities of the alleged infringer plays a role in assessing whether or not an allegation can be considered as unjustified.

For example, the UK framework differentiates, e.g., the acts of making or importing goods or applying signs to goods (primary infringement) from other acts, such as selling or advertising the goods (secondary infringements). In the UK, only threats concerning secondary infringements form the basis for unjustified allegations.

⁴ E.g., Finnish case law from the Finnish Supreme Court in KKO 2005:105 (Fiskars) and German case law Bundesgerichtshof, Urteil vom. 15 Juli 2005, GSZ 1/04.

⁵ E.g., judgment of the Court of first instance of Paris, 13 January 2017, on pre-grant allegations.

⁶ E.g., Court of Appeal of the Hague 20 September 2011, IER 2001/57 (Koppert/Boekstein);

Another, related, question is whether the doctrine should also apply, e.g., to online notice and take down proceedings.⁷

- 32) Accordingly, this Study Question will focus on unjust allegations of IP rights and related unjustified use of process. In particular, it is intended to study the various factors that should or should not be considered by authorities and legislation.

You are invited to submit a Report addressing the questions below. Please refer to the 'Protocol for the preparation of Reports'.

Questions

I) Current law and practice

Please answer all questions in Part I on the basis of your Group's current law. You may differentiate your answers based on different IP rights if applicable under your Group's current law.

- 1) Does your current law draw a distinction between justified and unjustified allegations of infringement of IP rights? *Please answer YES or NO and add a brief explanation.*

If you answered YES to question 1) above, please continue answering to questions 2)-5) below. If you answered NO to question 1) above, please move to section II below.

- 2) What are the criteria for communications to be considered as an unjustified allegation of infringement under your current law?
- 3) What kind of communications and by whom are considered as allegations of infringements of IP rights under your current law? E.g., *inter partes* correspondence, mass communications, communications by advisers, etc.
- 4) Under your current law, does the doctrine concerning unjustified allegations apply to all kinds of allegedly infringing activities alike? *Please answer YES or NO and add a brief explanation.*
- 5) What kind of remedies are available under your current law to the party who has been subject to such unjustified allegations of infringement:
- a. Damages? *Please answer YES or NO and add a brief explanation.*
 - b. Injunctions against such allegations? *Please answer YES or NO and add a brief explanation.*

⁷ See, e.g., UK case law from the High Court of Justice on Shenzhen Caraku Technology Co., LTD v The Noco Company, appeal pending at the time of writing of these Guidelines.



- c. Declarations that such allegations are unjustified? *Please answer YES or NO and add a brief explanation.*
- d. Fines or punitive damages? *Please answer YES or NO and add a brief explanation.*
- e. Other remedies? *Please answer YES or NO and add a brief explanation.*

II) Policy considerations and proposals for improvements of your Group's current law

Please answer the questions of this Part II below. You may differentiate your answers based on different IP rights if appropriate and/or desirable in your view.

- 6) According to the opinion of your Group, is your current law regarding the boundaries for the legitimate exercise of an IP right holder's rights adequate and/or sufficient? *Please answer YES or NO and please explain your chosen view briefly.*
- 7) According to the opinion of your Group, what is the policy rationale for restricting the making of unjustified allegations of infringement of IP rights?
- 8) Is there a policy conflict between such restrictions and the availability of effective methods of enforcing IP rights, including without the need to resort to costly litigation by issuing cease and desist letters and if so how is such a conflict resolved?
- 9) Is it better, from a policy perspective, to judge whether an allegation was unjustified based on (a) an objective hindsight-based view on whether the IP right in question was valid and being infringed at the time notifications were made, or (b) the reasonable subjective belief of the IP right holder.
- 10) Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?

III) Proposals for harmonisation

Please answer the questions of this Part III below. You may differentiate your answers based on different IP rights if appropriate and/or desirable in your view.

- 11) Do you consider harmonisation regarding unjustified allegations of IP infringement and their consequences as desirable in general? *Please answer YES or NO and add a brief explanation.*

If your answer to question 11) was YES, please respond to the following questions without regard to your Group's current law or practice. Even if you answered NO to question 11),



please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

12) In what kind of circumstances should an allegation of IP infringement be considered as “unjustified” so as to be considered abusive? *Please add a brief explanation.*

13) As continuation to question 12) above, in more specific, should any of the following be categorically considered as unjustified (abusive) allegations:

- a. Making an allegation of infringement which later is proved incorrect, e.g. because a court determines that the IP right in question was not infringed or was invalid, regardless of the knowledge of the parties?
- b. Making an allegation of infringement while having actual knowledge of validity-destroying circumstances? *Please answer YES or NO and add a brief explanation.*
- c. Making an allegation of infringement while the person making the allegation should have known (constructive knowledge) of validity-destroying circumstances? *Please answer YES or NO and add a brief explanation.*
- d. Are there other situations in which alleging IP infringement when having concerns about the validity of the IP right in question should be considered unjustified so as to be abusive? *Please answer YES or NO and add a brief explanation.*
- e. Making an allegation of infringement before the IP right has been granted? *Please answer YES or NO and add a brief explanation.*
- f. Making an allegation of infringement while having actual knowledge of circumstances leading to non-infringement? *Please answer YES or NO and add a brief explanation.*
- g. Making an allegation of infringement when one knew or should have known (actual or constructive knowledge) that the likelihood of the infringement claim succeeding is low? *Please answer YES or NO and add a brief explanation.*
- h. Making an allegation of infringement in public or commencing formal proceedings (e.g., seeking injunctions) when settlement negotiations or other resolution processes (e.g., license fee determinations) are on-going? *Please answer YES or NO and add a brief explanation.*
- i. Are there other specific scenarios or circumstances that in your Group's view should categorically result in an allegation of infringement being considered unjustified? *Please answer YES or NO and add a brief explanation.*



- 14) Should the (a) motivation or (b) knowledge of the alleging party play a role in assessing whether an allegation is unjustified so as to be considered abusive? *Please answer YES or NO and add a brief explanation.*
- 15) What kind of communications should be considered as allegations of IP infringement:
- a. Should *only* proceedings formally commenced before a court or other authority be considered as allegations of infringement? *Please answer YES or NO and add a brief explanation.*
 - b. If you answered NO to (a) above:
 - i. Apart from formal proceedings, should only communications with an express threat of formal proceedings be considered as allegations of infringement? *Please answer YES or NO and add a brief explanation.*
 - ii. If you answered NO to (i) above, what other kinds of communications should be considered as allegations of infringement?
- 16) Should only allegations of infringement by the IP right holder itself be considered? *Please answer YES or NO and add a brief explanation. In particular, if you answered NO, please specify whose allegations should be considered (e.g., allegations by a non-exclusive licensee, an exclusive licensee, group companies, attorneys and other advisors, third parties, etc.).*
- 17) If an allegation of infringement of IP right is determined to have been unjustified so as to be abusive, what should be the consequences of unjustified allegations of infringement of IP rights:
- a. Should damages be available to the party having been alleged to infringe the IP right? *Please answer YES or NO and add a brief explanation.*
 - b. Should declaratory judgements that such allegations are unjustified be available to the party having been alleged to infringe the IP right? *Please answer YES or NO and add a brief explanation.*
 - c. Should injunctions against such unjustified allegations be available to the party having been alleged to infringe the IP right? *Please answer YES or NO and add a brief explanation.*
 - d. Should fines or punitive damages be ordered against the party making the allegation? *Please answer YES or NO and add a brief explanation.*
 - e. Other than the consequences referred to in a-d above, should there be other types of consequences? *Please answer YES or NO and add a brief explanation.*



- 18) Who should bear the burden of proof of the unjustified/justified nature of the allegation of infringement?
- 19) Please comment on any additional issues concerning any aspect of equivalents that you consider relevant to this Study Question.
- 20) Please indicate which industry sector views provided by in-house counsels are included in your Group's answers to Part III.