

Judgment : Mr Justice Pumfrey. Chancery Division. 11th July 2001.

- 1 By a claim issued in the Manchester District Registry, the Registry, the claimants, Kooltrade Ltd, complain of actionable threats of proceedings for infringement of patent made by the defendants, XTS Ltd in the form of two letters.
- 2 The matter first came before me on 13 June this year on an application by the claimants for summary judgment on their particulars of claim. On that occasion, I observed that the letters in question were headed "without prejudice". Moreover, it was the defendants' case that the claimant had already said that they had no intention further to import the product the subject of the threat. Accordingly, I gave directions for a trial on witness statements only without cross-examination of two issues: first of all, whether the letter were entitled to the benefit of the without prejudice privilege and, if not, whether on the evidence available, the claimants had sustained loss and damage by reason of those letter, and I gave further directions for the filing of evidence. I also indicated to the parties that this was a matter which I considered to be suitable for mediation, but most unfortunately, the matter had not been taken to mediation and I must now decide the two issues which I considered to be suitable for decision.
- 3 The defendants are the importers, among other things, of three-wheel buggies for children. These buggies have lately become fashionable and the defendants entered into a distribution agreement with an entity called The American Import Company, which appears to be a German limited partnership, for the exclusive distribution in the United Kingdom of a buggy know as the "Boogie". It appears that this exclusive distribution agreement came, for one reason or another, to an end, and on 9 November 1999 the defendants entered into a further agreement, which appears to be an exclusive distribution agreement, although I should indicate that its terms are exceedingly obscure, with the Taiwanese distributor of the "Boogie" buggy, there described as "the baby trolley SL 2800".
- 4 The claimants decided that they would wish to import a similar buggy, and they entered into some sort of arrangement with a company called Avalon Products Incorporated, and they exhibited their first three wheel buggy at the mother and baby exhibition at Earl's Court on 7 October 1999.
- 5 On the same day, the defendants' solicitors wrote a letter, which is the first letter of which complaint is made, to the claimants. It is in the following terms: *"We are instructed by XTS Ltd. in connection with your purported infringement of our clients' exclusive distribution rights to their all terrain pushchairs, which are marketed in the United Kingdom under the "Boogie" brand name. It came to our clients' notice that your company was displaying an identical push-chair at the recent International Baby and Child Fair at Earls Court. Upon being confronted, your Mr. Chris Taylor marked that the model on display was merely a prototype and not offered for sale, notwithstanding we understand you supply these very same models to Tesco Direct catalogue, which are sold under the name of "Three wheel buggy". With respect, your activities are clearly undermining our clients' position and we request such should cease forthwith. Accordingly, may we have your definitive response by 29th October 1999. This letter is headed 'without prejudice'."*
- 6 It is copied to the Director of Legal Services of Tesco Direct Home Shopping Ltd.
- 7 The letter seems to have gone adrift in the post and appears to have been received by the claimants about 26 October 1999. The claimants wrote a temporising reply, saying that they would properly respond in the week beginning Monday, 1 November 1999. On Tuesday 2 November 1999, the claimants wrote again as follows: *"Further to your letter dated Thursday 7 October 1999, for me to be in a position to fully answer your letter, it would be necessary for you to precisely state what you are claiming and what you are asking for in relation to my company. I have taken advice and I am informed that without such clarification it would be inappropriate to take any action."*
- 8 At that point, the correspondence came to a complete halt for a period of some three months. There were no discussions with Tesco at all so far as the defendants were concerned, and the ball now being firmly in their court, the defendants did not see fit to respond to the claimants, indication what rights they said they had.
- 9 On 29 February 2000, the defendants' solicitors wrote again, this time to Tesco Home Shopping, the letter being addressed to the Managing Director, with a copy to the claimants. The letter is again

headed "*without prejudice*". It is as follows: "We act for XTS Ltd., and refer to our letter dated 7 October 1999, addressed to Kooltrade of Manchester, with a copy to yourselves. We understand you are offering for sale a baby stroller, being marketed as '*three wheel buggy*'. This appears to be an unauthorised copy of the product which our clients have exclusive distribution rights for in the United Kingdom. Our clients further contend your marketing of the three wheeled *150 buggy amounts to an infringement of patent. Accordingly, our client reserves the right to pursue a claim for compensation for loss incurred as a result of your activities. In the meantime, may we have your assurance that all such activities will cease forthwith."

- 10 This letter drew from the claimants a solicitor's letter on 9 March 2000, stating that the letter contained an obvious actionable threat, contrary to section 70 of the Patents Act 1977 and also a threat in relation to unregistered design right under section 253 of the Copyright Designs and Patents Act 1988, and asking for suitable undertakings.
- 11 Shortly after the letter asking for undertakings but before the issue of proceedings, Mr Finegold, the Managing Director of the claimants, wrote as follows, so far as relevant, to the defendants: "As you are aware, it is our contention that your company has no UK rights which could prevent our continued sale of the three wheel buggy of the type we have been selling to date. Furthermore, the correspondence between your solicitors and our client, Tesco Home Shopping Ltd., would give rise to a cause of action on our part to sue for unjustified threats of patent and design infringement. However, we are both commercial businesses and there seems to be little point in pursuing litigation when we have, as a matter of fact, reached the commercial decision that once our existing stocks of some five hundred or so of the three wheel buggy, we have no current plans to import more of that product into the United Kingdom as at this time. Provided, therefore, you will confirm to us that you withdraw the allegations which you have made, and also confirm to us the names of persons to whom your statements regarding alleged patent or design right infringement have been made in respect of our three wheeled buggy, so that we may circulate to them confirmation that Kooltrade is not at fault in this regard, we will agree to take no further action in respect of the above" and it annexes a proposed form of apology as follows: "We confirm that we have written to Kooltrade Ltd. or caused our Legal Advisers to write to Kooltrade Ltd., making allegations that the above products marketed by Kooltrade infringes patent and or design right in relation to a buggy marketed by us under the trade mark "Boogie" or "XTS Sport". We now acknowledge that those claims are unsubstantiated and we therefore withdraw our objection to the marketing and sale within the United Kingdom of the Kooltrade three wheel buggy, and apologise for any distress and damage which may have been caused by our statements in this regard."
- 12 There was no response to that invitation, with the result that the proceedings were issued and served. On 31 March, the solicitors for the defendants wrote as follows: "We do not accept that any letters from ourselves headed '*without prejudice*' are not protected by privilege and we reserve our position on that in the event of proceedings. For the avoidance of doubt, that privilege attaches to previous letter and to this where reference is made to those previous letters and the contents. Subject to that, even if you were right in saying that you can treat the letter of 29 February 2000 as open, that letter merely states our clients' position, namely in terms that there had been breach of exclusive distribution rights and that your clients' product was a unauthorised copy, that is, breach of design rights, there being an existing patent applicable in the country of manufacture. What it was saying in terms, without the exactitude of a pleading, was that there was claim to passing off, apart from other claims, which has been injurious to our clients' business. It is conceded that reference to an infringement of patent in the UK, while honestly made, was probably an incorrect assertion. That is, however, nothing to the point, as that was not the only assertion made in the objection made by our clients to your clients' activities."
- 13 The letter concludes with a counter offer to settle the proceedings, involving an undertaking by the claimants not to sell any further three wheel buggies.
- 14 There are no relevant design rights in relation to this article, which was manufactured and sold and designed for the first time in Taiwan, which is not a country to which the provisions of the Copyright Designs and Patents Act 1988 extend in relation to design right. Furthermore, there was no patent right and is no patent right in relation to the buggy. While various forms of protection have been applied for in relation to the buggy in other countries, in particular a utility model in the Federal Republic of Germany, and I believe a patent in the Republic of China, that is to say Taiwan, and

perhaps also some protection of some description in the Netherlands and in France, there has not been, up until very recently, any attempt to protect the buggy in the United Kingdom.

- 15 On 30 March, the day before the solicitors' letter which I have last quoted was written, an application was made to the Patent Office for a patent in relation to the buggy which was by then freely on sale in the United Kingdom, in the name of one Wang Sing Lin, this being an unpublished application until Miss Brimecombe published it in the exhibits to her witness statement in the present case. It is incapable to giving rise to any rights of any description and is, in any event, plainly going to result, if granted, in an invalid patent, since the article depicted as the preferred embodiment has been on free sale in the United Kingdom prior to the date.
- 16 So far as passing off is concerned, although there is a counterclaim made for passing off, it is based wholly upon the appearance of the articles since the claimants have not used and do not use the word "Boogie" or the words "XTS" as marks in relation to their three wheel buggy. It follows that the defendants have no relevant rights on the evidence before me in relation to the buggy at all so far as the claimants are concerned. I say this, because the allegation of passing off is so thin, and was scarcely seriously maintained before me in the evidence or in submissions.
- 17 The first question for decision is whether the fact that the two letters to which I have referred were headed "*without prejudice*" and in the light of the other letters which I have quoted above, it is open to the claimants to rely upon one or other of them. It seems to me that the first of the letter does not contain an actionable threat of proceedings for an infringement of patent. It seems to me equally clear that the second one does. In the recent case of **Unilever plc v. The Procter & Gamble Company** [2000] F.S.R. 344, the Court of Appeal has considered the law in relation to threats of proceedings for infringement of patent made in the course of without prejudice negotiations. The particular facts of that case were that in the context of a number of ongoing discussion concerning a number of issues between Unilever and Procter & Gamble, there was a meeting which was agreed to be conducted on a without prejudice basis. The complaint that was made was that in the course of that meeting, Procter & Gamble made a claim of right and threatened Unilever with proceedings for infringement of a particular patent.
- 18 Laddie J. held that in the context of the negotiations between the parties in that case the threat was made without prejudice and could not be relied on a subsequent proceedings as a threat to found relief under section 70 of the Patents Act 1977. The Court of Appeal regarded the question which arose as being a question of the application of the ordinary rules relating to without prejudice discussions and correspondence. As Robert Walker L.J. said, giving the judgment of the Court of Appeal: "*At a meeting of that sort, the discussions between the parties' representatives may contain a mixture of admissions and half admission against a party's interest more or less confident assertions of a party's case, offers, counter offers and statements, which might be characterised as threats or as thinking aloud about future plans and possibilities.*"
- 19 As Simon Brown L.J. put it in the course of argument, a threat of infringement proceedings may be deeply embedded in negotiations for a compromise solution. Partial disclosure of the minutes of such a meeting may be, as Leggatt L.J. put it, a concept as implausible as the curate's egg, which was good in parts. Nevertheless, Robert Walker L.J. continued, "*there are numerous occasions on which, despite the existence of without prejudice negotiations, the without prejudice rule does not prevent the admission into evidence of what one or both parties said or wrote*", and he provides a list of eight classes of communication in which the without prejudice privilege does not prevent admission into evidence.
- 20 Of these, Mr Lambert, who appeared on behalf of the claimants, relied upon the fourth exception, which Robert Walker L.J. expresses as follows: "*Apart from any concluded contract or estoppel, one party may be allowed to give evidence of what the other said or wrote in without prejudice negotiations if the exclusion of the evidence would act as a cloak for perjury, blackmail or other unambiguous impropriety.*" "*This court has warned*", says Robert Walker L.J., "*that the exception should be applied only in the clearest cases of abuse of a privileged occasion*".
- 21 Mr Lambert said that while a bona fide threat can be made in the course of without prejudice negotiations, where there is not patent, no design right and no other relevant right, it cannot be said

that the threat is made bona fide, and he says indeed this is an unambiguous impropriety to be compared with perjury or blackmail. He reinforces his submission by reference to section 110 of the Patents Act 1977, which provides that an unjustified claim to patent protection is a criminal offence incurring a fine of, I believe, £200.

- 22 I do not accept this submission. Whatever else a claim of this description is or is not, it is not so grave and unambiguous and impropriety as would justify invasion of the without prejudice privilege if otherwise the privilege were available.
- 23 In the present case, however, I am satisfied that the privilege is not available. There were, in my judgment, at no material time any relevant negotiations taking place between the parties, and in so far as there were, in response to the claimants' second letter asking for further particulars of the defendants' claim against it, the answer to be given was to be given by the defendants to the claimants. That is not what happened. The defendants did not provide their answer to the claimants but the defendants provided a letter, which was not an answer to the claimants' letter, to Tesco, the claimants' principal customer.
- 24 Moreover, when it became clear to the defendants that their claim was unfounded, they did not withdraw the representations which they had made to Tesco, and when the claimants suggested that the defendants might care to tell the claimants the names of the people that they had made this representation to the claimants so that the claimants could write saying that the allegation was now withdrawn, that suggestion received no response at all.
- 25 I draw the inference from this that the letter to Tesco had nothing whatever to do with negotiation and everything to do with making the claimants' position with Tesco as difficult as possible. In her evidence sworn on behalf of the defendants in relation to this letter, Miss Brimacombe says this: *"The letter dated 7 October 1999 was written by solicitors on my instructions. It was neither intended to nor, I believe, did contain a threat of proceedings. The first requirement was to ascertain the true position of Tesco Direct and Kooltrade. Therefore, I authorised the defendants' solicitor to write to the claimants and to Tesco on a without prejudice as follows",* and she sets out the basis of the letter. She continues: *"The letter accurately sets out that XTS had the benefit and exclusive distribution contract for the chair. Had it turned out that Midway Pacific, whom I should add are the distributors in Taiwan, had supplied Kooltrade with chairs for onward sale then I should have continued the dispute with Midway Pacific. In the event, Tesco Direct did not reply to or acknowledge the letter at all and the claimants did not respond in any substantive way. I then attempted to progress the matter by obtaining the sample requested by Midway Pacific. I can only assume that the claimant had not made proper provision to keep adequate stock, because Tesco Direct was not able to supply me with a sample until February 2000."*
- 26 She then sets out the circumstances in which the second letter was written and says this: *"As a result, I formed the view that the allegation made by my Chinese supplier that the Tesco Direct chair was a direct copy of his chair was probably true. It was still my intention to resolve the matter without resort to litigation, and so I instructed my solicitor to write the letter dated 29 February 2000 on a without prejudice basis. I intended to attempt to strike up a dialogue with the claimant and/or Tesco Direct so that the matter might be settled."*
- 27 I am bound to say that I find this affidavit fits strangely with a letter which reserves all rights in relation to a claim for damage, but more importantly, it ignores entirely the fact that a serious request had been made for the basis of the complaint by the claimants which had never been answered. In my judgment, therefore, the second letter, which contains the clear threat of proceedings for infringement of patent, was a threat made to a third party and not in the context of an attempt to settle a dispute between the claimants and the defendants.
- 28 In **Unilever v. Procter & Gamble**, Robert Walker L.J. refers to the well-known decision **Re Daintrey** [1893] 2 Q.B. 116 and quotes the judgment of the Court of Appeal, who said this: *"In our opinion the rule which excludes documents marked "without prejudice" has no application unless some person is in dispute or negotiation with another, and terms are offered for the settlement of the dispute or negotiation, and it seems to us that the judge must necessarily be entitled to look at the document in order to determine whether the conditions, under which alone the rule applies, exist. The rule is a rule adopted to enable disputants without prejudice to engage in discussion for the purpose of arriving at terms of peace, and unless there is a dispute or*

negotiations and an offer the rule has no application. It seems to us that the judge must be entitled to look at the document to determine whether the document does contain an offer of terms. Moreover, we think that the rule has no application to a document which, in its nature, may prejudice the person to whom it is addressed."

- 29 Robert Walker L.J. says that apart from the last sentence, this passage spells out the uncontroversial point that "*without prejudice*" is not a label which can be used indiscriminately so as to immunise an act from its normal legal consequences where there is no genuine dispute or negotiation. Here, although there was a dispute, it was a dispute with the claimants, it was a dispute without any legal basis and there was no element of negotiation with Tesco. I have formed the view, therefore, that the letter to Tesco was not entitled to the benefit of a without prejudice privilege. It follows that it is an actionable threat contrary to section 70 of the Patents Act 1977, which cannot be justified, since the only available ground for justification is infringement and there is no question of infringement of the patent application, or indeed of any patent which may be granted upon it.
- 30 I turn now to the second question, which is whether, in those circumstances, it is shown that the claimants have sustained loss or damage by reason of the letters. The evidence in support of the claimants' claim on this point is set out by Mr Finegold in paragraphs 11 to 14, 16 and 17 of his first witness statement. While no evidence has been forthcoming from Tesco directly, there are two faxes from the buyer, Mrs Froud, who makes it clear that the reason that the claimants' three wheel buggy no longer appears in the Tesco catalogue is because of the communication received from the defendants.
- 31 Mr Challenger, who appears on behalf of the defendants, makes a sustained attack on the cogency of the evidence of loss in the present case. He says that if one examines Mr Finegold's evidence closely, it becomes apparent that there are in fact, three classes of product in relation to which loss is alleged to be suffered. The first is the original buggy, which Mr Finegold said in the letter I have quoted that he no longer intends to import when the current stocks are exhausted. The second is a replacement buggy, which Mr Finegold has put in his own catalogue, but is now unable to sell in the Tesco catalogue, but is now unable to sell in the Tesco catalogue, and finally, there are the mattresses and other miscellaneous items, as to which there is no evidence at all. I accept Mr Challenger's submission in relation to the mattresses and other items. The evidence in relation to them is so slight that I do not think I would be justified in acting upon it.
- 32 The position on the buggies is as follows: Mr Finegold says he wanted to clear out the existing model and to introduce an improved model. For this purpose, he wished to keep his entry in the Tesco catalogue. The result of his being de-listed, he says, is that he is not in a position to sell his new product, his improved buggy, to Tesco's. He produces a picture of the improved buggy and there seems to be little doubt that it exists as a product. The real question, it seems to me, is whether this is sufficient evidence of loss and damage for me to be justified in saying that the claimants have suffered loss and damage and are therefore entitled to an enquiry.
- 33 Looked at quite generally, it seems to me that the correspondence which I have quoted, together with the responses of the defendants to the various letter which were written to them, makes it quite clear that the defendants wished, if at all possible, to damage the claimants' relationship with Tesco and, if at all possible, to prevent the claimants from selling three wheel buggies at all. I should therefore be, I think, cautious in saying that there was no evidence of loss which could justify me in saying that there was sufficient loss to entitle the claimants to an enquiry.
- 34 The law can be taken from **Brain v. Ingledeu Brown Bennison & Garrett** [1997] F.S.R. 511, at page 527 in the judgment of Laddie J., where he says in a threats case if a claim to damages can properly be called bona fide and arguable, even if on the current evidence it is weak, that justifies the ordering of an inquiry. He bases himself upon the judgment of the Court of Appeal in **McDonald's Hamburgers Ltd v. Burgerking (UK) Ltd** [1987] F.S.R 112, where Fox L.J. said this: "*If the plaintiffs have an arguable case for claiming damages, the court would (as a matter of ordinary justice) make an order for an enquiry to enable them to pursue it. I do not think that (the plaintiffs' explanation of how it would seek to prove damage) can be brushed aside as being so flimsy that the plaintiffs should not be allowed to litigate the matter at an enquiry. In my view it can properly be called a bona fide and arguable case. As to quantum, the position is of*

course speculative, but we are dealing with advertisements to a very large number of persons.” He goes on to deal with the facts of the particular case and then concludes by saying this: “These admissions (by counsel for the plaintiff) are not a reason for preventing him from trying to persuade the court, on an enquiry, that the result is established by other means. There is no need to prove damage at the trial; the statement of claim made it quite clear what was being asked for was an enquiry; the risk of damage justified the granting of an injunction and it was not necessary, according to normal practice, to establish the precise damage relied upon at the trial.”

- 35 In the present case, the issue requires me to decide whether loss and damage have been shown, without quantifying that loss and damage. Mr Challenger submits that when one looks at such financial information as had been made available by the claimants, it provides no sort of support for the claim which is advanced by Mr Finegold. Furthermore, he submits that there is a plain lack of any supporting documentation at all relating to the loss of the listing in the Tesco catalogue and he says, relying on what Miss Brimecombe says, that if, in truth, the listing had been lost by reason of the threat, there would have been more discussion, more paper and more background information available from Tesco.
- 36 I am satisfied that there is here evidence of loss and damage to the claimants. I rely, first of all, upon the inference which I draw from the correspondence to which I have already referred. I rely secondly upon what seems to me a clear prima facie case that the listing was withdrawn because of the threat which was made, and I rely thirdly upon the evidence of Mr Finegold, which if uncontroverted would, I believe, entitle him to have his damages quantified.
- 37 At this stage of the proceedings, it seems to me that I cannot say that Mr Finegold's evidence is not advanced bona fide and I can certainly say that there is prima facie evidence of loss. Had the matter stopped with the five hundred buggies, together with the absence of desire on behalf of the claimants to import any more, the position would have been quite different, but that is not the case. The claim for damages is principally made in relation to the loss of listing, together with the loss of the prospect of further sales, and it is well established that a claim for a loss of a possibility is a claim for which damages will be awarded in a proper case. (See *e.g.*, **Allied Maples v. Simmons & Simmons** [1995] 1 W.L.R. 1602.)
- 38 In those circumstances, therefore, I will say no more on the second issue than what I will grant an enquiry as to the damages caused by the threat contained in the second letter, that is the letter dated 29 February, and limited to the sales of three wheel buggies but without restriction as to their type.
- 39 The enquiry will be at the claimants' risk as to costs. That must be clearly understood. I will grant the declaration that the threat contained in that letter was unjustified and I will grant an injunction against the continuation of those threats. I grant the injunction because of the refusal of the claimants to respond to the invitation to themselves withdraw the suggestion which they made.

For the claimant: John Lambert (instructed by Cobbetts, Manchester)

For the defendant: Colin Challenger (instructed by Foster, Savage & Gordon, Farnborough)