

BEFORE JUSTICE SIMON BROWN, JUSTICE ROBERT WALKER and MR JUSTICE WILSON : CA
on appeal from the High Court, Chancery Division Patents Court. 28 October 1999

JUDGMENT : ROBERT WALKER LJ:

Introductory :

This is an appeal with the leave of the judge from an order of Laddie J made in the Patents Court on 24 February 1999. His order struck out as an abuse of process an action by Unilever plc (Unilever), the appellant in this court. The defendant, the respondent in this court, is The Procter & Gamble Company (Procter & Gamble) a company based in Cincinnati, Ohio.

The principal issue raised in the appeal is as to the application of the general rule of evidence on 'without prejudice' communications to a form of proceedings peculiar to patent law and some other fields of intellectual property law, that is (as Unilever contends its action was) an action for threats brought under s.70 of the Patents Act 1977 (the 1977 Act). There are subsidiary issues (which arise partly on the notice of appeal and partly on the respondent's notice) as to whether the action was indeed an action under s.70 and as to the granting of declaratory relief under some other head of jurisdiction.

The facts

The facts can be stated quite shortly. Since Procter & Gamble's strike-out application was based on abuse of process, as well as on failure to disclose a cause of action, there was some affidavit evidence, but no significant factual dispute. Procter & Gamble is the proprietor of European Patent (UK) number 0343069 which was granted in 1993 with designations for Germany, Italy, Spain and the United Kingdom. The patent is principally for a process ("for the washing of laundry in a machine") rather than for a product but from Unilever's point of view the essential issue is whether or not the manufacture and sale of a product known as Persil Performance Tablets would constitute an infringement of Procter & Gamble's patent.

Opposition proceedings (initiated by a German company, Henkel) have been taking place in the European Patent Office and in May 1997 Henkel brought an appeal in those proceedings. There have also been proceedings in France brought in May 1998 by Procter & Gamble against a French company which is an indirect subsidiary of Unilever. It is not necessary to give details of the French proceedings, but they led to a high-level meeting in Frankfurt, on 20 May 1998, between representatives of Procter & Gamble and Unilever.

The judge described the meeting, and subsequent events, as follows,

"The meeting took place in the context of ongoing discussions with a view to settling a number of issues between the two organisations. There is no dispute that both parties agreed to those discussions being conducted on a without prejudice basis. It is said that in the course of the meeting P&G made a claim of right and threatened Unilever with proceedings for infringement of the patent in suit.

On 29 May 1998 Henkel informed Unilever that it had come to an arrangement with P&G. One of the conditions of the arrangement was that Henkel would withdraw its opposition to the grant of the patent in the EPO. Unilever immediately issued the writ in the present action. It is common ground that Unilever's motivation in starting the current proceedings was to attempt to give it locus to intervene in the appeal proceedings before the EPO pursuant to Article 105 of the European Patent Convention ("EPC"). That Article permits a third party to intervene if he proves both that the proprietor of the patent has requested that he ceases alleged infringement of the patent and that he has instituted proceedings for a court ruling that he is not infringing the patent. Unilever filed an application to intervene under Article 105 EPC. It has been challenged by P&G and the EPO will have to rule on that issue.

Unilever could have commenced proceedings against P&G in this country had it complied with the provisions of section 71 of the Patents Act 1977 by applying in writing to P&G for a written acknowledgement of non infringement. However that would have taken time. Presumably because Unilever thought that the window of opportunity for it to try to come within Article 105 was narrow, the s.71 route was not taken.

On 5 June 1998 P&G commenced patent infringement proceedings under European Patent UK 0343069 in respect of Persil Performance Tablets in the Patents Court. It is not in dispute that the product is dealt with

in this country by Lever Brothers and not by Unilever PLC. So the infringement proceedings are against Lever Brothers not against Unilever.

On 26 October 1998 P&G launched the Notice of Motion which is now before the Court seeking to strike out Unilever's action for a declaration of noninfringement."

The statement of claim in Unilever's action pleaded that Procter & Gamble had threatened to take proceedings, with the following particulars,

- "(a) In early May, [Procter & Gamble] commenced proceedings in the Tribunal de Grande Instance de Paris, in France against La Societe Lever S.A. for infringement of the French equivalent of the Patent.
- (b) At a meeting held in Frankfurt on 20th May 1998 attended by Mr Stephen Williams, General Counsel and Joint Company Secretary of [Unilever] and Mr James Johnson, Senior Vice-President and General Counsel of [Procter & Gamble], Mr Johnson stated that [Procter & Gamble] would be taking similar action in the United Kingdom in the near future.
- (c) The said statement constituted (i) an assertion that the sale and marketing of Persil Performance Tablets in the United Kingdom infringes the Patent and (ii) a threat to take proceedings in the United Kingdom in respect of such alleged infringement."

The judge proceeded on the basis that he should assume the particulars to be true, and that they amounted to a pleading of an actionable threat even though the prayer for relief sought, not an injunction or damages, but only a declaration (and not a declaration in the terms permitted by s.70(3)(a)). The terms of the declaration sought were,

"that the manufacture, sale and/or marketing of Persil Performance Tablets in the United Kingdom (and any other act of the kind mentioned in section 60 of the Patents Act 1977 done in relation thereto) does not infringe European Patent (UK) number 0343069 and/or such further or other declaration as shall to the court seem fit."

One of the subsidiary issues is whether the judge was right in the way in which he characterised the action.

Actionable threats

An action for threats calls for some explanation for the benefit of those who do not regularly practise in the specialised field of intellectual property law. The power conferred on a patentee by the grant of a statutory monopoly was thought by Parliament to call for special safeguards, and the statutory jurisdiction was first introduced by s.32 of the Patents Designs and Trademarks Act 1883 (the 1883 Act), which was in the following terms,

"Where any person claiming to be the patentee of an invention, by circulars advertisements or otherwise threatens any other person with any legal proceedings or liability in respect of any alleged manufacture use sale or purchase of the invention, any person or persons aggrieved thereby may bring an action against him, and may obtain an injunction against the continuance of such threats, and may recover such damage (if any) as may have been sustained thereby, if the alleged manufacture, use, sale, or purchase to which the threats related was not in fact an infringement of any legal rights of the person making such threats: Provided that this section shall not apply if the person making such threats with due diligence commences and prosecutes an action for infringement of his patent."

Later statutes have contained comparable but by no means identical provisions. Section 70 of the 1977 Act, the provision now in force, is in the following terms,

Where a person (whether or not the proprietor of, or entitled to any right in, a patent) by circulars, advertisements or otherwise threatens another person with proceedings for any infringement of a patent, a person aggrieved by the threats (whether or not he is the person to whom the threats are made) may, subject to subsection (4) below, bring proceedings in the court against the person making the threats, claiming any relief mentioned in subsection (3) below.

- (2) In any such proceedings the plaintiff or pursuer shall, if he proves that the threats were so made and satisfies the court that he is a person aggrieved by them, be entitled to the relief claimed unless -

- (a) the defendant or defender proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of a patent; and
 - (b) the patent alleged to be infringed is not shown by the plaintiff or pursuer to be invalid in a relevant respect.
- (3) The said relief is -
- (a) a declaration or declarator to the effect that the threats are unjustifiable;
 - (b) an injunction or interdict against the continuance of the threats and
 - (c) damages in respect of any loss which the plaintiff or pursuer has sustained by the threats.
- (4) Proceedings may not be brought under this section for a threat to bring proceedings for an infringement alleged to consist of making or importing a product for disposal or of using a process.
- (5) It is hereby declared that a mere notification of the existence of a patent does not constitute a threat of proceedings within the meaning of this section."

It will be apparent that the proviso to s.32 of the 1883 Act permitted the customary courtesy of a letter before action (even one written in threatening terms) provided that it was promptly followed by a writ. Section 70 of the 1977 Act does not contain the same proviso, but subsection (5) enables an unobjectionable warning to be given by a discreetly worded letter, at any rate as between chartered patent agents who understand the need for coded messages. Subsection (4) contains an exception for a threat of infringement proceedings of a certain type, that is "an infringement alleged to consist of making or importing a product for disposal or of using a process."

In order to understand the effect of s.70(4) it is necessary to note that by s.60(1) of the 1977 Act the infringement of a patent in respect of a product consists of any of six acts carried out without the consent of the proprietor of the patent, that is (i) manufacturing it (ii) disposing of it (iii) offering to dispose of it (iv) using it (v) importing it and (vi) keeping it (for disposal or otherwise). Infringement of a patent in respect of a process consists of using the process or offering it for use, or doing any of acts (ii) to (vi) above in relation to a product obtained from the patented process. So the broad effect of the exception is that an aggrieved proprietor (or any other person aggrieved) can threaten a manufacturer or an importer of an allegedly infringing product or the user of an allegedly infringing process, but not persons such as small retailers or customers (the persons most likely to be deterred by threats, whether or not well founded).

However s.70(4) must be construed in accordance with what this court has regarded as its clear terms, so that threats may be made with impunity to a manufacturer or an importer only in respect of acts of manufacture or importation. That was decided in **Cavity Trays v RMC Panel Products** [1996] RPC 361, in which Aldous LJ said (at p.373)

"Section 70 provides relief against abuse of monopoly ... Subsection (4) is an exception added in the 1977 Act to allow warnings to be given in certain circumstances. In my view the subsection defines the acts of alleged infringement that are excluded and not the type of person who may be threatened. The division between the type of acts in respect of which warnings are allowed without risk of suit and those which are not, can be said to be arbitrary but is sufficient to enable a patentee to give the appropriate warning."

Neill LJ and Sir John Balcombe gave concurring judgments. Section 70(4) as interpreted in **Cavity Trays** is of some relevance as explaining the section's legislative purpose; in addition it is relevant to one of the subsidiary issues in the appeal.

The judge referred, in the summary of the facts already cited from his judgment, to Unilever's decision (apparently in the interests of saving time) not to take what the judge called 'the s.71 route'. That is a reference to the statutory jurisdiction conferred by s.71 of the 1977 Act to make a declaration that an act or proposed act by the claimant does not or would not constitute an infringement of a patent, even though the proprietor has not asserted the contrary, if the claimant shows that he has made a written application to the proprietor, with full written particulars, and the proprietor has refused or failed to give the acknowledgement requested. The court's power under s.71 is expressed to be "without prejudice to the court's jurisdiction to make a declaration ... apart from this section." Section 71 replaced section 66 of the Patents Act 1949 but did not have any counterpart in earlier legislation. So when the statutory cause of action for groundless threats was first introduced, and for about 65 years afterwards, there was no particular

statutory jurisdiction to grant a declaration of non-infringement, and for part of this period the general jurisdiction to grant declaratory relief was less fully developed. At all times it has been only by a threats action that a claimant could obtain an injunction or damages.

Without prejudice communications: general

In *Rush & Tompkins v Greater London Council* [1989] AC 1280, 1299, Lord Griffiths said,

"The "without prejudice" rule is a rule governing the admissibility of evidence and is founded upon the public policy of encouraging litigants to settle their differences rather than litigate them to a finish. It is nowhere more clearly expressed than in the judgment of Oliver LJ in *Cutts v Head* [1984] Ch.290, 306:

*"That the rule rests, at least in part, upon public policy is clear from many authorities, and the convenient starting point of the inquiry is the nature of the underlying policy. It is that parties should be encouraged so far as possible to settle their disputes without resort to litigation and should not be discouraged by the knowledge that anything that is said in the course of such negotiations (and that includes, of course, as much the failure to reply to an offer as an actual reply) may be used to their prejudice in the course of the proceedings. They should, as it was expressed by Clauson J in *Scott Paper Co v Drayton Paper Works Ltd* [1927] 44 RPC 151, 156, be encouraged fully and frankly to put their cards on the table ... The public policy justification, in truth, essentially rests on the desirability of preventing statements or offers made in the course of negotiations for settlement being brought before the court of trial as admissions on the question of liability."*

The rule applies to exclude all negotiations genuinely aimed at settlement whether oral or in writing from being given in evidence."

This well-known passage recognises the rule as being based at least in part on public policy. Its other basis or foundation is in the express or implied agreement of the parties themselves that communications in the course of their negotiations should not be admissible in evidence if, despite the negotiations, a contested hearing ensues.

In the course of counsel's clear and well-researched written and oral submissions a general issue arose as to whether the 'without prejudice' rule should be seen as a rule of very wide scope which does however on occasion have to yield to some more powerful principle with which it comes in conflict (such as the need to prevent a litigant deceiving the court with perjured evidence); or whether that wide view represents a failure of proper analysis of the true foundation and purpose of the rule. The most forthright passages in support of the wide view are to be found in *Walker v Wilsher* (1889) 23 QBD 335, in passages from the judgments of Lord Esher MR, Lindley LJ and Bowen LJ conveniently set out in the judgment of Oliver LJ in *Cutts v Head* [1984] Ch 290, 302-4. The clearest statement of the need for analysis is in the judgment of Hoffmann LJ in *Muller v Linsley* (30 November 1994, 139 SJ LB 43) where Hoffmann LJ said,

"Some of the decisions on the without prejudice rule show a fairly mechanistic approach, but the recent cases, most notably the decisions of this court in *Cutts v Head* [1984] Ch 290, [1984] 1 All ER 597 and the House of Lords in *Rush & Tompkins Ltd v Greater London Council* [1989] AC 1280, [1988] 3 All ER 737 are firmly based upon an analysis of the rule's underlying rationale. *Cutts v Head* shows that the rule has two justifications. First, the public policy of encouraging parties to negotiate and settle their disputes out of court and, secondly, an implied agreement arising out of what is commonly understood to be the consequences of offering or agreeing to negotiate without prejudice. In some cases both of these justifications are present; in others, only one or the other. So, in *Cutts v Head* the rule that one could not rely upon a without prejudice offer on the question of costs after judgment was held not to be based upon any public policy. It did not promote the policy of encouraging settlements because as Oliver LJ said:

"As a practical matter, a consciousness of a risk as to costs if reasonable offers are refused can only encourage settlement...."

It followed that the only basis for excluding reference to a without prejudice offer on costs was an implied agreement based on general usage and understanding that the party making the offer would not do so. Such an implication could be excluded by a contrary statement as in a *Calderbank* offer [see *Calderbank v Calderbank* [1976] Fam 93]."

He then considered *Rush & Tompkins* at some length and continued,

"If one analyses the relationship between the without prejudice rule and the other rules of evidence, it seems to me that the privilege operates as an exception to the general rule on admissions (which can itself be regarded as an exception to the rule against hearsay) that the statement or conduct of a party is always admissible against him to prove any fact which is thereby expressly or impliedly asserted or admitted. The public policy aspect of the rule is not in my judgment concerned with the admissibility of statements which are relevant otherwise than as admissions, ie independently of the truth of the facts alleged to have been admitted.

Many of the alleged exceptions to the rule will be found on analysis to be cases in which the relevance of the communication lies not in the truth of any fact which it asserts or admits, but simply in the fact that it was made. Thus, when the issue is whether without prejudice letters have resulted in an agreed settlement, the correspondence is admissible because the relevance of the letters has nothing to do with the truth of any facts which the writers may have expressly or impliedly admitted. They are relevant because they contain the offer and acceptance forming a contract which has replaced the cause of action previously in dispute. Likewise, a without prejudice letter containing a threat is admissible to prove that the threat was made. A without prejudice letter containing a statement which amounted to an act of bankruptcy is admissible to prove that the statement was made; see *Re Daintrey* [1893] 2 QB 116. Without prejudice correspondence is always admissible to explain delay in commencing or prosecuting litigation. Here again, the relevance lies in the fact that the communications took place and not the truth of their contents. Indeed, I think that the only case in which the rule has been held to preclude the use of without prejudice communications, otherwise than as admissions, is in the rule that an offer may not be used on the question of costs; a rule which, as I have said, has been held to rest purely upon convention and not upon public policy.

This is not the case in which to attempt a definitive statement of the scope of the purely convention-based rule, not least because, as Fox LJ pointed out in *Cutts v Head* at p 316, it depends upon customary usage which is not immutable. But the public policy rationale is, in my judgment, directed solely to admissions. In a case such as this, in which the defendants were not parties to the negotiations, there can be no other basis for the privilege."

Leggatt LJ and Swinton Thomas LJ agreed in short concurring judgments.

Without in any way underestimating the need for proper analysis of the rule, I have no doubt that busy practitioners are acting prudently in making the general working assumption that the rule, if not "sacred" (*Hoghton v Hoghton* (1852) 15 Beav. 278, 321), has a wide and compelling effect. That is particularly true where the 'without prejudice' communications in question consist not of letters or other written documents but of wide-ranging unscripted discussions during a meeting which may have lasted several hours.

At a meeting of that sort the discussions between the parties' representatives may contain a mixture of admissions and half-admissions 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. As Simon Brown LJ 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 LJ put it in *Muller*, a concept as implausible as the curate's egg (which was good in parts). As it happens the minutes of the Frankfurt meeting are exhibited in redacted form, in which the redacted parts of the document appear to amount to about 90 per cent of its contents.

Nevertheless 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 of the parties said or wrote. The following are among the most important instances.

- (1) As Hoffmann LJ noted in the first passage set out above, when the issue is whether without prejudice communications have resulted in a concluded compromise agreement, those communications are admissible. *Tomlin v Standard Telephones and Cables* [1969] 1 WLR 1378 is an example.
- (2) Evidence of the negotiations is also admissible to show that an agreement apparently concluded between the parties during the negotiations should be set aside on the ground of misrepresentation, fraud or undue influence. *Underwood v Cox* (1912) 4 DLR 66, a decision from Ontario, is a striking illustration of this.

- (3) Even if there is no concluded compromise, a clear statement which is made by one party to negotiations, and on which the other party is intended to act and does in fact act, may be admissible as giving rise to an estoppel. That was the view of Neuberger J in *Hodgkinson & Corby v Wards Mobility Services* [1997] FSR 178, 191, and his view on that point was not disapproved by this court on appeal.
- (4) 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" (the expression used by Hoffmann LJ in *Foster v Friedland*, 10 November 1992, CAT 1052). Examples (helpfully collected in Foskett's Law & Practice of Compromise, 4th ed, para 9-32) are two first-instances decisions, *Finch v Wilson* (8 May 1987) and *Hawick Jersey International v Caplan* (The Times 11 March 1988). But this court has, in *Foster v Friedland* and *Fazil-Alizadeh v Nikbin*, 1993 CAT 205, warned that the exception should be applied only in the clearest cases of abuse of a privileged occasion.
- (5) Evidence of negotiations may be given (for instance, on an application to strike out proceedings for want of prosecution) in order to explain delay or apparent acquiescence. Lindley LJ in *Walker v Wilsher* (1889) 23 QBD 335, 338, noted this exception but regarded it as limited to "the fact that such letters have been written and the dates at which they were written". But occasionally fuller evidence is needed in order to give the court a fair picture of the rights and wrongs of the delay.
- (6) In *Muller* (which was a decision on discovery, not admissibility) one of the issues between the claimant and the defendants, his former solicitors, was whether the claimant had acted reasonably to mitigate his loss in his conduct and conclusion of negotiations for the compromise of proceedings brought by him against a software company and its other shareholders. Hoffmann LJ treated that issue as one unconnected with the truth or falsity of anything stated in the negotiations, and as therefore falling outside the principle of public policy protecting without prejudice communications. The other members of the court agreed but would also have based their decision on waiver.
- (7) The exception (or apparent exception) for an offer expressly made 'without prejudice except as to costs' was clearly recognised by this court in *Cutts v Head*, and by the House of Lords in *Rush & Tomkins*, as based on an express or implied agreement between the parties. It stands apart from the principle of public policy (a point emphasised by the importance which the new Civil Procedure Rules, Part 44.3(4), attach to the conduct of the parties in deciding questions of costs). There seems to be no reason in principle why parties to without prejudice negotiations should not expressly or impliedly agree to vary the application of the public policy rule in other respects, either by extending or by limiting its reach. In *Cutts v Head* Fox LJ said (at p.316) "what meaning is given to the words 'without prejudice' is a matter of interpretation which is capable of variation according to use in the profession. It seems to me that, no issue of public policy being involved, it would be wrong to say that the words were given a meaning in 1889 which is immutable ever after".
- (8) In matrimonial cases there has developed what is now a distinct privilege extending to communications received in confidence with a view to matrimonial conciliation: see *Re D* [1993] 2 AER 693, 697, where Sir Thomas Bingham MR thought it not "fruitful to debate the relationship of this privilege with the more familiar head of 'without prejudice' privilege. That its underlying rationale is similar, and that it developed by way of analogy with 'without prejudice' privilege, seems clear. But both Lord Hailsham and Lord Simon in *D v National Society for the Prevention of Cruelty to Children* [1977] 1 All ER 589 at 602, 610 [1978] AC 171 at 226, 236 regarded it as having developed into a new category of privilege based on the public interest in the stability of marriage."

That hybrid species of privilege is not in point in this case.

In relation to the older authorities the above summary owes much to a very learned article by Professor David Vaver published as long ago as 1974 in the University of British Columbia Law Review (1974 UBCLR 85). Unlike Professor Vaver's article my summary is far from exhaustive; in particular, it does not touch on the decisions in *Kurtz v Spence* (1888) 5 RPC 161, *Skinner & Co v Shew & Co* [1893] 1 Ch 413 and *Re Daintrey* [1893] 2 QB 116 (decisions which have been heavily relied on by Mr Geoffrey Hobbs QC on

behalf of Unilever and to which I return below). It is apparent that none of the exceptions to the public policy rule involves the disclosure of admissions bearing on the subject-matter in dispute, at any rate unless the expression 'admission' is given a substantially wider meaning than it usually has in the law of evidence. (I disregard the old case of *Waldridge v Kennison* (1794) 1 Esp 142, which Lord Griffiths in *Rush & Tompkins*, at p 1300, regarded as exceptional). Conversely, however, I respectfully doubt whether the large residue of communications which remain protected can all be described as admissions (again, unless that expression is given an unusually wide meaning). One party's advocate should not be able to subject the other party to speculative cross-examination on matters disclosed or discussed in without prejudice negotiations simply because those matters do not amount to admissions.

In the second of the passages already quoted from Hoffmann LJ's judgment in *Muller* he said,

"a without prejudice letter containing a threat is admissible to prove that the threat was made."

As he did not refer to any authority on this point it is not clear whether his remark was addressed to the sort of threats of perjury or blackmail which he had considered two years before in *Forster v Friedland*, or to *Kurtz v Spence*. Whether or not he had the latter case in mind, I must now turn to it and to the other two 19th century cases on which Mr Hobbs has relied.

Without prejudice: the old cases

This court was referred in detail to what seems to be the fullest report of *Kurtz v Spence* (1888) 5 RPC 161 (the case is also reported at 57 LJ Ch 238 and 58 LT 438). It was an action for threats under s.32 of the 1883 Act. The threats relied on were said to have been made in four letters from the defendants sent between 23 January and 28 June 1886, and during the course of a meeting held on 11 February 1886. It was common ground that these communications were made with a view to achieving a settlement and would normally be governed by the without prejudice rule. Kekewich J heard as a preliminary issue the question whether there was a threat within the meaning of s.32. The defendants' counsel is reported as having argued that the alleged threats were mere warnings and that they occurred at a meeting held without prejudice and in letters written without prejudice. It is not clear whether the second point was free-standing or an elaboration of the first point. Kekewich J gave an extempore judgment of some length in which (at p.173) he set out two imaginary statements by a litigant. As was pointed out by Wilson J in the course of argument in this case, there is no perceptible difference of substance between the two, yet Kekewich J apparently regarded the first as protected by the rule, whereas he said of the second,

"It would be far from consonant with justice if I should shut out that threat and say that it is not a threat within section 32, so as to entitle the person against whom the threat is made to bring an action to restrain the continuance of it. I think that would be stretching 'without prejudice' much too far, and in fact giving it a meaning which it was never intended to have."

The judgment as a whole is rather lacking in coherent analysis of the relevant principles. Nevertheless it has for a century appeared in a number of very reputable textbooks as authority for the proposition that an actionable threat may be made in a without prejudice communication.

The other two 19th century cases are relied on Mr Hobbs by way of analogy only.

Skinner & Co v Shew & Co [1893] 1 Ch 413 was an action for threats in connection with a patent for a camera. The defendants (the patentees) argued that letters answering questions posed by the plaintiffs (rival manufacturers) could not be threats, and that letters to a third party (apparently a wholesaler or retailer who did business with both manufacturers) were privileged. Laddie J took that as a reference to legal professional privilege but Mr Hobbs has suggested that it referred to qualified privilege. That seems the more likely view since counsel had cited two cases on the old law of trade libel, to which malice was relevant (see *Halsey v Brotherhood* (1880) 15 Ch D 514, the later of the two cases). Mr Hobbs relied by analogy on passages in the judgment of Lindley LJ at p.422,

"There is nothing in the language of the 32nd section which invites or allows the consideration of such a question as privilege"

that of Bowen LJ at p.426,

"The statute says circulars and advertisements nevertheless may contain threats, and uses those words 'or otherwise' so as to sweep into its net every kind of threat"

and that of A L Smith LJ at p.426, who after noting the exceptions for well-founded threats and for prompt action said,

"If he cannot bring himself within either of those two, what I call saving clauses, then the section absolutely forbids a man threatening legal proceedings with regard to a patent action at all; and in my opinion, it is *nihil ad rem* to say that what he did was *bona fide*, or that what he did was on a privileged occasion, because the section enacts that a man shall not threaten unless he comes within either of the two provisos at the end of the section."

In *Re Daintrey* [1893] 2 QB 116 a creditor had presented a bankruptcy petition based solely on a letter from his debtor (against whom he had taken proceedings but not yet obtained judgment). The letter was headed 'without prejudice' and made an offer to compound for the debt. But it also stated that the debtor could not pay his debts and would suspend payment unless the composition was accepted. The issue for the court was whether this was an act of bankruptcy, and the Brighton County Court accepted the debtor's argument that it was not. On appeal the creditor's counsel argued that the without prejudice rule had no application, and that a debtor could not evade the bankruptcy law by putting a 'without prejudice' label on an act of bankruptcy. The debtor's counsel argued that the rule was very wide, citing *Hoghton v Hoghton* and *Walker v Wilsher*. This court (in a single reserved judgment) allowed the appeal. It said at p.119-20

"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."

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. The obscurity of the last sentence has been commented on by Professor Vaver but it may contain the germ of the notion of abuse of a privileged occasion which has developed in later cases. *Re Daintrey* was not cited below and Mr Hobbs relied on it in this court as an example of the court lifting the 'without prejudice' veil so as to expose wrongdoing. But the real point of the decision was that the veil was never there in the first place.

Kurtz v Spence and *Skinner & Co v Shew & Co*, on the other hand, were cited and very fully discussed before the judge, who devoted separate sections of his judgment (paras 40-42 and paras 43-46) to these cases. As to *Kurtz v Spence* the judge concluded (para 42) that it was essentially a decision on the construction of s.32 of the 1883 Act, and not on the exclusionary effect of the evidential rule. He stated that even had the case been more relevant

"I would not follow it. Kekewich J was considering a very differently worded provision of the [1883 Act]. The more focused target of modern threats legislation ... is not to be found in [the 1883] Act and the jurisprudence on the without prejudice rule and the public policy considerations were less developed in 1888."

As to *Skinner & Co v Shew & Co* the judge concluded (para 46) that it did not throw light, even by analogy, on the issue which he had to decide: what was in issue in that case, he said, was open correspondence sent by one litigant to the other litigant and the latter's customer. In my judgment the judge was right to conclude that neither of these old and rather obscure authorities was decisive, or even particularly helpful, on the issue before him. In *Kurtz v Spence* the obscurity centres on Kekewich J's understanding of principle behind the without prejudice rule. In *Skinner & Co v Shew & Co* the most important issue was whether the words "or otherwise" in s.32 of the 1883 Act should be read *ejusdem*

generis, and the obscurity arose from counsel's submission harking back to the non-statutory law of trade libel. I consider that the judge was also right to give little or no weight to the fact that *Kurtz v Spence* has for so long made a regular appearance in leading textbooks. It has not been suggested that this is a point on which practitioners regularly rely on statements in textbooks in the way that conveyancers sometimes used to in the field of property law.

Without prejudice: conclusions

In those circumstances I consider that this court should, in determining this appeal, give effect to the principles stated in the modern cases, especially *Cutts v Head*, *Rush & Tompkins* and *Muller*. Whatever difficulties there are in a complete reconciliation of those cases, they make clear that the without prejudice rule is founded partly in public policy and partly in the agreement of the parties. They show that the protection of admissions against interest is the most important practical effect of the rule. But to dissect out identifiable admissions and withhold protection from the rest of without prejudice communications (except for a special reason) would not only create huge practical difficulties but would be contrary to the underlying objective of giving protection to the parties (in the words of Lord Griffiths in *Rush & Tompkins* at p.1300) "*to speak freely about all issues in the litigation both factual and legal when seeking compromise and, for the purpose of establishing a basis of compromise, admitting certain facts.*"

Parties cannot speak freely at a without prejudice meeting if they must constantly monitor every sentence, with lawyers or patent agents sitting at their shoulders as minders.

Lord Griffiths in *Rush & Tompkins* noted (at p.1300c), and more recent decisions illustrate, that even in situations to which the without prejudice rule undoubtedly applies, the veil imposed by public policy may have to be pulled aside, even so as to disclose admissions, in cases where the protection afforded by the rule has been unequivocally abused.

With those principles in mind I come back to the facts of this case, bearing in mind (as Mr Hobbs enjoined the court to do) that this is an appeal in a strike-out and that the facts pleaded in Unilever's statement of claim ("a threat to take proceedings in the United Kingdom in respect of such alleged infringement") must be assumed, for strike-out purposes, to be true.

Ultimately Mr Hobbs's submission on this part of the case came down to two attractively simple propositions. The first was that there are some kinds of communication to which Parliament has attached particular consequences (such as a threat under s.70 of the 1977 Act, or a notice to creditors amounting to an act of bankruptcy as in *Re Daintrey*) and that those consequences cannot be avoided by pinning on a 'without prejudice' label. The other was that Procter & Gamble cannot for strike-out purposes deny the threat, which constitutes a statutory tort and so must be assumed to be wrongful and undeserving of protection.

These submissions were skilfully crafted and developed but I find them remote from the realities of the situation as I see them. The circumstances of the Frankfurt meeting were as far removed as it is possible to imagine from the unilateral communication to which the debtor in *Re Daintrey* sought to add the 'without prejudice' label. It was a high-level meeting between highly-skilled professionals representing the interests of multinational groups which are household names. The meeting was in the judge's words held "in the context of ongoing discussions with a view to settling a number of issues between the two organisations". It was an occasion for both sides to speak freely. There is nothing (beyond the bare and unembroidered pleading of a threat) to suggest that Procter & Gamble's representatives at the meeting acted in any way that was oppressive, or dishonest, or dishonourable.

In my judgment the judge was right to conclude that it would be an abuse of process for Unilever to be allowed to plead anything that was said at the meeting either as a threat or as a claim of right. The circumstances were such that each side was entitled to expect to be able to speak freely, and their agreement to the meeting being arranged evinces that common intention. I would if necessary base my conclusion on the parties' agreement to extend the normal ambit of the rule based on public policy. But I do not think it is necessary to go that far. The Frankfurt meeting was undoubtedly an occasion covered by the normal rule based on public policy, and the pleading of the threat (or claim of right) has not been shown to come within any recognised exception. The expansion of exceptions should not be encouraged when an important

ingredient of Lord Woolf's reforms of civil justice is to encourage those who are in dispute to engage in frank discussions before they resort to litigation. The decision in *Kurtz v Spence* should no longer be regarded as good law.

Subsidiary issues : general

That conclusion is not sufficient to dispose of the appeal because Unilever had a fallback argument that its action could succeed as a general claim for a declaration (that is, a claim not based on either s.70 or s.71 of the 1977 Act) and that in order to succeed in obtaining a declaration under the general jurisdiction it was not necessary for Unilever to plead a claim of right (that is, Procter & Gamble's assertion of adverse rights against it).

There were in fact four subsidiary issues canvassed before the judge. The other three were grounds on which Procter & Gamble sought to strike out Unilever's action even if Procter & Gamble did not succeed on the without prejudice issue. The tactical marching and countermarching during the interlocutory skirmishes may, I suspect, have caused even the expert advisers to the parties to have lost sight, from time to time, of the flags under which they were trying to rally. I will identify briefly Procter & Gamble's three would-be preemptive points and comment on them briefly. Then I will return to Unilever's fall-back argument.

Procter & Gamble's first subsidiary point was that Unilever's action could not be a threats action because a declaration of non-infringement (as opposed to a declaration of unjustifiable threats) cannot be obtained under s.70. The judge did not accept this argument (see paragraph 11 of the judgment). He does not seem to have noticed (or if he did notice, to have thought it worth mentioning) that quite apart from the without prejudice point Unilever seemed to be faced with the dilemma of choosing between a threats action in which it could not claim the precise relief apparently required to give it standing in the European Patent Office, and an action under the general jurisdiction which would give standing in Munich but might raise other problems. I do not think it is necessary to pursue this point further, because if it had been crucial there might have been an application for permission to amend.

Procter & Gamble's second point was that the pleaded particulars of a threat to sue for an infringement consisting of "sale and marketing" were not supported by the minutes of the Frankfurt meeting, which did not specify sale or marketing (nor did they specify manufacture or importation). This point comes back to the *Cavity Trays* case mentioned much earlier in this judgment. The judge declined to express a view on it (para 48). I do not regard it as a proper basis for a strike-out.

Procter & Gamble's third point shades into Unilever's fall-back point, in that it concerns Unilever's right to claim declaratory relief when the allegedly infringing acts would be carried out in the United Kingdom by Lever Brothers Ltd (a wholly-owned subsidiary of Unilever's wholly-owned subsidiary). If that were all there was in the challenge to Unilever's standing I would not regard it as a strike-out point, especially in view of the factual matters deposed to in Mr Williams's second affidavit.

Subsidiary issues : claim of right

That is not however the only difficulty in the way of Unilever claiming a declaration under the general jurisdiction regulated by order 15, rule 16 as incorporated into the Civil Procedure Rules:

"No claim or other proceeding shall be open to objection on the ground that a merely declaratory judgment or order is sought thereby, and the court may make binding declarations of right whether or not any consequential relief is or could be claimed."

The judge seems to have been satisfied (although he did not discuss the point at length, perhaps because he regarded it as clear) that Unilever could not obtain a declaration of non-infringement under the general jurisdiction unless Procter & Gamble (or, presumably, an exclusive licensee of Procter & Gamble) had asserted a relevant claim of right against it (see para 24, where the judge referred to *Barclays Bank v Homan* [1993] BCLC 680, 693, and para 34).

Barclays Bank v Homan was a case concerned with problems of cross-border insolvency but in it (at p. 693) Hoffmann J stated the principle, not challenged on appeal, that "a party against whom no claim has been formulated cannot sue for a declaration of non-liability" and he referred to *Re Clay* [1919] 1 Ch 66 as authority. Mr Hobbs has submitted that the authority of *Re Clay* has been cast into doubt by the decision of this court in *Re S* [1995] 3 AER 290. But that case was concerned with a very different and very unusual

question as to whether an elderly and disabled man should be cared for in Norway by his separated wife and son, or in England by his long-term companion. Millett LJ referred (at p.305) to "something approaching an advisory declaration". *Re Clay* was not cited. *Re S* has not in my judgment changed the law where only property rights are in play. In patent cases the court should be particularly wary of granting declarations of non-infringement under the general jurisdiction, because of the existence of the special jurisdiction under s.71 of the 1977 Act and the detailed requirements which it imposes.

For these reasons (which are largely the same as those given by the judge) I would dismiss this appeal.

MR JUSTICE WILSON: I agree

LORD JUSTICE SIMON BROWN: I agree with all that Robert Walker LJ has said and add a short judgment of my own only because of the interest of the central point at issue and the excellence of the arguments upon it.

Coming as a stranger to this arcane world of patent infringement threats actions, I struck by the initial difficulty in understanding just what is the policy underlying s.70 of the Patents Act 1977. It seems to me that it is only when this is discovered that one can confidently pronounce on whether "the protection afforded by the [without prejudice] rule has been unequivocally abused" so that "the veil imposed by public policy may have to be pulled aside" (to use my Lord's language).

In 1893, just ten years after provision for these threats actions was first introduced by s.32 of the Patents Designs and Trade Marks Act 1883, the policy of the legislation was, I think, clear. As described by Bowen LJ in *Skinner & Co v Shew & Co* (1893) 1 Chancery 413 at 426, it related to:

"... every kind of threat, the result of which might be to paralyse a man in his trade by having an action on a patent suspended before his eyes, without the opportunity of determining the suspense at once and bringing the question raised by his antagonist to a speedy and immediate issue."

But it is important to note (a) that the legislation at that time applied equally to manufacturers, importers and process users as to others, (b) that there was then no equivalent of the present s.71 (or, indeed, wide common law) scope for seeking declaratory relief, and (c) that the patentee was perfectly entitled to write threatening letters before action provided only that he thereafter commenced an action for infringement with due diligence.

Essentially, therefore, in its earliest manifestation this provision was designed to stop those patentees who were willing to wound but afraid to strike from hanging a Damocletian sword above any trader's head.

The true purpose of the legislation in its present form seems to me more difficult to discern. Limited clues are to be found in two of the subsections. As my Lord has explained, s.70(4) as interpreted in *Cavity Trays, v RMC, Panel Products*, (1996) RPC 361 is of some relevance in explaining the section's legislative purpose. I would refer to one further passage from Aldous LJ's judgment at page 378:

"The right of a patentee to make certain specified threats, but not others, without risk of proceedings being brought, may seem to provide an arbitrary division, but does not lead to absurdity. The subsection allows the main primary infringers (manufacturers and importers for disposal and users of processes), to be warned that they will be sued. That gives them an opportunity to stop manufacturing importing or using the process or alternatively to explain their position so as to persuade the patentee to drop his threatened position. It is not necessary for the warning to go further and allege that proceedings will be started for such acts as sale."

S.70(5) perhaps provides another clue. It establishes, submits Mr Hobbs QC, a Rubicon between, on the one bank, the patentee reserving rights (which is permissible) and, on the other, him saying that he will assert them (which is forbidden).

I must say that I find the position today most curious and unsatisfactory. Although, essentially, I take the policy to be as contended for by Mr Thorley QC - namely that rival manufacturers may threaten each other but should not threaten each other's customers with the objective of inducing them to cease dealing with their rivals - it cannot be pretended that the legislation is this narrowly confined: the decision in *Cavity Tray* and, indeed, the assumption that has to be made in the present action show otherwise. But the Judge below must surely have been right in referring in paragraph 36 of his judgment to "a stronger public interest

in discouraging patentees from writing virulent threatening letters to their competitors' customers" than in suppressing threats of the sort assumed to have been made here.

The reality is that a threat of the present kind does no damage whatever to the rival manufacturer. It is not one made publicly or to customers. That, of course, explains the absence of any damages claim in the present proceedings. Indeed there would have been no conceivable occasion for the present proceedings but for the possible standing they may give Unilever in the proceedings before the E.P.O. In reality it is preferable that those engaged in without prejudice negotiations should be entirely candid in stating their future intentions than that they should have to tread so warily as not to cross Mr Hobbs' Rubicon.

I assume, as for strike out purposes I must, that in the course of the without prejudice negotiations here the respondents committed what Mr Hobbs calls "a statutory tort" under s.70. I nevertheless unhesitatingly conclude that they did not thereby unequivocally abuse the protection afforded by the without prejudice rule.

I too would dismiss this appeal.

Order: Appeal dismissed with costs. Permission to appeal to the House of Lords refused. Stay of order of Laddie J, pending petition to House of Lords.