

JUDGEMENT : Mr. Justice Laddie: High Court of Justice, Ch. Div, Patents Court : 24th February, 1999

1. This is the judgment in an application by the defendant, the Procter & Gamble Company ("P&G"), to strike out the writ and statement of claim in an action brought against it by Unilever Plc. The action is for a declaration that the sale or manufacture of a product known as Persil Performance Tablets would not constitute an infringement of any of the claims of P&G's European Patent (UK) 0343069.

History of the proceedings and the discussions between the parties.

2. The patent in suit was granted to P&G with designations for Germany, Italy, Spain and the UK. On 18 August 1994 Henkel GmbH lodged an Opposition to the grant of the patent in the European Patent Office ("EPO"). The Opposition was dismissed by the Opposition Division on 2 May 1995 and the patent was maintained in a slightly amended form. Henkel GmbH appealed.
3. On 20 May 1998 there was a meeting between representatives of P&G and Unilever. 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.
4. 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 GmbH 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 Art 105 EPC. It has been challenged by P&G and the EPO will have to rule on that issue.
5. Unilever could have commenced proceeding 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.
6. On 5 June 1998 P&G commenced patent infringement proceedings under European Patent UK 034069 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.
7. 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 non-infringement.

P&G's application to strike out

8. P&G submits that this action is an abuse of the process. It does so on two grounds. First it says that the action, not having been brought under s. 71, is a response to a claim of right made by P&G during the meeting between the parties on 20 May 1998. It is therefore based on inadmissible statements made during without prejudice negotiations. Accordingly it is an abuse of process and should be struck out. Secondly it argues that the statement of claim is demurrable on its face since it does not plead matters sufficient to give rise to a cause of action capable of invoking the Court's inherent jurisdiction to grant the type of declaratory relief Unilever is seeking.
9. Although the skeleton arguments supplied by Mr. Thorley on behalf of P&G and by Mr. Hobbs on behalf of Unilever refer to the fact that both sides are manoeuvring in this country so as to advance their respective positions before the EPO, neither counsel bases any argument on this fact. They are right not to do so. If Unilever has a right to commence an action for a declaration of non-infringement here, that right can not be taken away because it is being used to advance its position in other

proceedings elsewhere. Similarly, if it has no such right, the right can not be created because to do so would help it in other proceedings.

(A) WITHOUT PREJUDICE

The allegations made by Unilever.

10. The relevant paragraphs of the Statement of Claim allege as follows:

"Prior to the issue of the Writ herein, the Defendant asserted that the sale and marketing of Persil Performance Tablets, inter alia, in the United Kingdom, constituted infringement of the Patent and threatened to take proceedings in the United Kingdom in respect of the same.

PARTICULARS

(a) *In early May, the Defendant 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 the Plaintiff and Mr. James Johnson, Senior Vice-President and General Counsel of the Defendant, Mr. Johnson stated that the Defendant 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 Tables in the United Kingdom infringes the Patent and (ii) a threat to take proceedings in the United Kingdom in respect of such alleged infringement."*

As Mr. Hobbs points out, the accuracy of these averments has not been denied. For present purposes it is to be assumed that they are true.

11. Mr. Thorley says that the only claim made by Unilever is for a declaration based upon a claim of right. This is consistent with the fact that the only relief sought is a declaration of non-infringement. This is disputed by Mr. Hobbs who says that this includes a plea of an actionable threat contrary to s. 70 of the Act. If there is any doubt about the matter, he reserves the right to apply to the court to amend. In my view Mr. Hobbs is right. This pleading includes an allegation that P & G has issued an actionable threat. Although it is true that under s. 70(3) the injured party can seek not only declaratory relief but also injunctive relief and damages, there is no obligation on him to do so. Here it may well be that if a threat has been made, Unilever takes the view that no damage has been suffered and that an injunction will not be necessary once a declaration of non-infringement has been made in its favour. So I will proceed on the basis that during the discussions between the parties on 20 May an actionable threat was made by P&G against Unilever and that P&G made a claim of right.

12. Two issues arise for consideration on this part of P&G's application. First, what types of documents or information arising in the course of without prejudice discussions are, prima facie, protected from subsequent disclosure and use in litigation. Secondly, in what circumstances can that protection be removed.

(i) The types of information covered by the without prejudice rule.

13. The starting point for P&G's submissions is that the without prejudice rule is of very wide application. The function of the privilege is to encourage parties to resolve their disputes themselves rather than to let them be determined by the courts. To this end, they are to be encouraged to try to reach a compromise and they are reassured that what passes between them will not be disclosed and used in court if their negotiations fail. So anything which is said or disclosed, whether it is favourable or damaging to a party, cannot be used in subsequent litigation. P & G asserts that the privilege goes further than that. If the negotiations are successful, the dispute between the parties will come to an end, but the statements made and the material disclosed for the purpose of the negotiations cannot be used in proceedings between one of the parties and someone else.

14. This wide approach is consistent with the judgment of Esher M.R. in *Walker v. Wilsher* (1889) 23 QBD 335: *"It is, I think, a good rule to say that nothing which is written or said without prejudice should be looked at without the consent of both parties, otherwise the whole object of the limitation would be destroyed."*

15. Furthermore it is consistent with the following extract from the judgment of Oliver LJ. in *Cutts v. Head* [1984] Ch. 290, 306 which was cited with approval by Lord Griffiths in the House of Lords in

Rush & Tompkins v. Greater London Council [1989] A.C. 1280, 1299WLR 939: "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 an admission on the question of liability."

16. Mr. Hobbs says that the privilege is much narrower than suggested by Mr. Thorley. The cornerstone of his argument is an unreported decision of the Court of Appeal, *Muller v. Linsley & Mortimer* (30 November, 1994, Court of Appeal, Civil Division, Transcript No. 1461, p.8) in which Hoffmann LJ said that the purpose of the rule is

"to prevent anything said in without prejudice negotiations being relied on as an admission."

and

"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, i.e. independently of the truth of the facts alleged to have been admitted."

Based on this, Mr. Hobbs argues that the assertion by P&G that it has valid patent rights and that it is minded to enforce them in England against goods in which Unilever has an interest is not an admission of anything and can be relied upon by Unilever to found the present action. That is so whether this action is regarded as one seeking only a declaration following a claim of right or whether it is to restrain threats within s. 70 of the Act.

17. There is a tendency to treat the judgments and speeches of judges, particularly judges of great eminence, as if they are statutes, applying to them the same meticulous verbal analysis which is frequently deployed in construing statutes. It appears to me that that is the approach which Mr. Hobbs has adopted in relation to the *Muller* case. I think that the decision should be looked at rather differently. There is no record of the arguments advanced by counsel and the authorities cited in support. The judgments themselves make reference to *Rush & Tompkins* and *Cutts v. Head* and Hoffmann LJ said that his analysis of the without prejudice doctrine was consistent with those two cases. He did not suggest that he was seeking to distinguish or refine let alone overturn any previous decision of the Court of Appeal. Yet if Mr. Hobbs' interpretation is correct, it would seem that a number of earlier decisions of the Court of Appeal will have to be reconsidered.
18. This can be illustrated by reference to *Cutts v. Head* itself, a case concerning the use which could be made a *Calderbank* letter on the issue of costs at the end of a trial. A *Calderbank* letter involves one party making an offer to the other "without prejudice save as to costs". In analysing the effect of such an offer Oliver and Fox LLJ both considered what the effect would be if the offer is made without prejudice but without any qualification, that is to say without the words "save as to costs". So, assume a case in which A sues B for ?100,000. In the course of unqualified without prejudice correspondence B offers to pay ?20,000 simply to get rid of the action and expressly without any admission of liability. The offer is not accepted and, at the trial, A only recovers ?18,000. B's offer is not an admission of anything other than that the action is a nuisance which B would prefer to be rid of. Since it is not an admission, on Mr. Hobbs' argument it should be discoverable and admissible on the trial as to liability. Neither it nor its rejection is an admission of anything by A either. It should follow that if Mr. Hobbs' view of the effect of *Muller* is correct, B is entitled to rely on the correspondence in relation to costs. Yet in *Cutts v. Head* both Oliver and Fox LLJ held that such an offer could not be relied on when the issue of costs is considered. Oliver LJ pointed out that this was the effect of the decision in the

Court of Appeal in *Walker v. Wilsher* (1889) 23 QBD 335. The same approach is also inherent in the judgment of Cairns LJ in *Calderbank v. Calderbank* [1976] Fam 93: "Before Heilbron J the wife's application for costs was based on a letter which had been written by the wife's solicitors to the husband's solicitors offering something substantially more than ?10,000. Heilbron J, despite that letter being drawn to her attention, made no order as to costs. Immediately after the hearing before her it was discovered that that was a "without prejudice" letter and very properly at the opening of this part of the appeal counsel for the wife asked for the court's guidance whether in those circumstances he was entitled to rely on that letter. We formed the opinion that he was not. The letter was written without prejudice. The without prejudice bar had not been withdrawn and therefore we took the view that it was a letter which could not be relied on either before the judge at first instance or before this court."

19. If the rule relating to without prejudice correspondence is as narrowly defined as Mr. Hobbs suggests, then it would be particularly ineffective where offers in relation to costs are concerned. The issue of what offer has been made only arises after the plaintiff has been successful on liability. If the policy behind the rule is strictly limited to preventing the defendant's admissions from being used against him then, even if his offer to pay is treated as an admission, there is no reason for excluding it from consideration by the court at the costs stage because liability then is no longer in issue. This would be inconsistent with *Calderbank v. Calderbank* and make it unnecessary for parties to send qualified without prejudice letters of the *Calderbank* variety. An unqualified without prejudice letter could be referred to.
20. It seems to me that other problems would arise if Mr. Hobbs' interpretation of Hoffmann LJ's judgment is correct. Mr. Hobbs says that an assertion of right is not an admission and so can be relied upon in subsequent litigation. But frequently that would be quite unfair. An assertion of right by one party may be dependent upon an admission by the other, yet Mr. Hobbs says that only the former can be referred to in the subsequent litigation. I do not see how it is possible to divide up the settlement discussions in this way and even if it is possible, the resulting picture will be unbalanced. As Leggatt LJ said in *Muller*, although in relation to waiver, partial disclosure of privileged documents is a concept as implausible as the curate's egg. I think the same criticism would apply if admissions, narrowly construed, are made admissible but not the other party's claims which are the context in which the admissions were given and may affect their meaning or scope. Indeed, in many cases an offer to settle by one party is made in terms which both admits part of the other side's case and also asserts the strength of parts of the offeror's case. As I understand Mr. Hobbs' submissions, only the parts which are admissions are protected from subsequent disclosure and use in the litigation.
21. This is more than a theoretical consideration. On this application the parties have filed evidence setting out the circumstances in which the P&G statement came to be made. The Frankfurt meeting was part of a long-standing negotiating process between P&G and Unilever. The discussions were held with a view to settling a number of issues between the companies. The issue of what each company might do to protect its own rights was raised a number of times during the settlement process by Mr. Williams on behalf of Unilever. The relevant statement made on behalf of P&G was only a part of the discussions. This is well illustrated by exhibit "SGW 1" which is Mr. Williams' attendance note of the Frankfurt meeting. It is three pages long. All of it has been blanked out as confidential except for the bottom one third of page two which records Mr. Williams' understanding of what P&G were saying about its future intentions in respect of its UK patent. Mr. Williams says that this redaction is legitimate because "the parts of the meeting directed toward settlement have been removed" from the attendance note. But Mr. Hobbs did not dispute the evidence put in by Mr. Johnson on behalf of P&G that the meeting was an attempt by the two companies to settle differences and that the "issue in question (i.e. possible infringement of P&G's patent) was part of those overall discussions." Johnson Second Affidavit, para. 4. It is not suggested by Mr. Hobbs that P&G's statements were discrete and capable of being isolated from the rest of the discussions. It is not suggested that they were intended to fall outside the without prejudice umbrella.
22. I do not accept that the restrictive view put forward by Mr. Hobbs is what was intended in *Muller*. First, Hoffmann LJ appeared to treat assertions and admissions equally: "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." (my emphasis)

Similarly, in the passage from the judgment from *Cutts v. Head* quoted above, Oliver LJ said that failure to reply to an offer is itself covered by the without prejudice rule, yet in many cases such a silence could not be called an admission.

23. Secondly in *Muller*, Hoffmann LJ was not trying to produce an all-embracing analysis of the circumstances where the privilege would apply: "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."
24. As Oliver LJ said in *Cutts v. Head*, the starting point in deciding the scope of the rule is the public policy behind it, namely the desire to encourage settlements, a policy confirmed by Hoffmann LJ in *Muller*. In any negotiation to avoid future proceedings, an early step will be for each party to lay its cards on the table. The rights holder will say what rights he has and why he thinks they are being breached by the defendant. He will almost always say that he is prepared to protect and enforce his rights. In many cases those statements could be construed as a claim of right. Absent protection by the without prejudice rule, the addressee of these statements would be able to commence declaratory proceedings. So the very negotiations designed to avoid litigation will become the triggering event for their commencement. I can hardly think of something more calculated to deter a rights holder from entering into discussions for a compromise. Absent a claim of right and subject to limitation periods and laches, a prospective plaintiff is entitled to decide for himself when he will bring his action (*Barclays Bank plc v. Homan* [1993] BCLC 680 at p. 693). If entering into without prejudice discussions with a possible infringer will give the infringer the right to commence proceedings for declaratory relief, there is no point in negotiating. The only safe course will be to sue first and negotiate second. The alternative would be for a rights holder to enter into negotiations but not to disclose what rights he believes he has and not to indicate what, absent a settlement, he intends to do with them. Such deceptive negotiations might well undermine the validity of any settlement reached, again undermining the policy in favour of parties compromising their differences. Furthermore in most pre-emptive settlement negotiations the putative defendant will have to disclose what his commercial intentions are. If they include an intention to commence an activity which the rights holder believes will infringe his rights, then the rights holder might well be able to sue for quia timet relief assuming, of course, that Mr. Hobbs is right that any such threat, not being an admission, falls outside the scope of the without prejudice rule. Once again, the discussions designed to head off litigation would in very many cases trigger the litigation. In my view this would undermine the public policy principle of the privilege.
25. It seems to me that the rule against the subsequent use of without prejudice discussions is wide enough to cover all statements made by each party touching upon the strength or weakness of its own and its opponent's case and any valuation, for whatever reason, it places on its or its opponent's rights. These are the issues which go to the heart of any attempt to compromise litigation. Parties should be free to discuss them without fear of their words coming back to haunt them in court proceedings. For these reasons, I have come to the conclusion that the without prejudice rule covers not only admissions but assertions also, that P&G's statement is covered by it and that Muller does not require me to hold otherwise.
26. However, even if *Muller* has the restrictive effect advanced by Mr. Hobbs, I would still hold that the statements here are *prima facie* protected from subsequent use by Unilever. As Hoffmann LJ stated, the scope of the privilege is not immutable. It must be open to the courts to apply the underlying public policy considerations to meet the needs of the time. Although the courts have always been prepared to encourage settlement of proceedings, in the past that encouragement was of a hands-off variety. The current climate is very different. It is no longer sufficient to hope that the parties have the sense to resolve their disputes without litigation. Now parties are to be penalised if they commence proceedings without first trying to resolve their differences. This policy pervades the new Civil Procedure Rules. For example, in exercising its power to award costs, the court is to have regard,

amongst other things, to the conduct of the parties both before the commencement of the proceedings and during it (Part 44.3(4)(a) and 44.3(5)(a)). In particular the court must have regard to efforts, if any, made before the proceedings were commenced in order to try to resolve the dispute (Part 44.5(3)) and encourages both the defendant and the claimant to make settlement offers before the litigation has commenced (Part 36). Further, even where a pre-action protocol does not exist (i.e. in all cases other than Personal Injury and Clinical Negligence actions) "the court will expect the parties, in accordance with the overriding objective and the matters referred to in CPR 1.1(2)(a), (b) and (c), to act reasonably in exchanging information and documents relevant to the claim and generally in trying to avoid the necessity for the start of proceedings." (Practice Direction; Protocols, paragraph 4).

27. Although the Civil Procedure Rules are not yet in force, they represent the current policy aimed at making litigation a last resort. It appears to me that the policy in favour of encouraging pre-litigation settlement is now much stronger than it has been. Even if it was not so before, now the spread of the without prejudice umbrella should be wide enough to cover all statements made bona fide without prejudice by each party touching upon the strength or weakness of its own and its opponent's case and any valuation, for whatever reason, it places on its or its opponent's rights.
28. On both grounds and subject to the issue of whether or not there is some special reason for excluding them from the ambit of the without prejudice rule, I would hold that statements made on behalf of P&G can not be made use of by Unilever in or for the purpose of these proceedings.

(ii) Lifting the veil

29. The parties to without prejudice negotiations can choose to treat them as open and sometimes, as in *Muller*, it has been held that the entitlement to rely on the privilege may be treated as waived. It is not suggested that either of these considerations apply in this case. There are also at least two other groups of cases in which the privilege may be lifted by the court. First, the court may come to the conclusion that the claim to without prejudice status is not bona fide. This was considered by Hoffmann LJ in another unreported decision *Forster v. Friedland* (10 November, 1992, Court of Appeal, Civil Division, Transcript No. 1052, p.5): "A party cannot bring within the rule a statement which is not within its public policy merely by his stated or implied intention that it should be protected. Thus, whatever the parties may stipulate, the rule covers only those communications which are genuinely aimed at a settlement to avoid litigation. On the other hand, parties are free to make open offers or negotiate openly to settle their differences. The fact that a communication was aimed at settlement may be an indication - even a strong indication - of an intention that it should be without prejudice but the rule will not apply if the court concludes that the communication as in fact intended to be open."

A good example of this is *Kitcat v. Sharp* (1882) 48 LT 64, a case I will consider below. Once again, it is not suggested that an argument of lack of bona fides can be levelled at P&G in this case.

30. Secondly there are occasions where, even though the parties treated the negotiations as being without prejudice, the court refuses to allow the claim to privilege. In all such cases there are public policy considerations favouring disclosure which override those encouraging the settlement of disputes. They are mainly cases in which the without prejudice nature of the discussions is being used to cover some form of reprehensible behaviour of one or both of the parties. Just as it has been held that the law of confidence can not be used to restrain the disclosure of iniquitous behaviour and legal professional privilege cannot be used to avoid disclosure of documents showing the commission of a crime or fraud, so too the parties cannot use the without prejudice shield to protect statements or documents from view or subsequent use where there is a sufficient public interest in their disclosure. In each case it is necessary to balance the conflicting public interests (see, in relation to legal professional privilege, *Derby v. Weldon (No. 7)* [1990] 1 WLR 1156). In the case of legal professional privilege the evidence of iniquity has to be strong before the privilege is removed. In the law of confidence it is probably easier to lift the veil. This issue was touched upon by Lord Griffiths in relation to without prejudice negotiations in *Rush & Tompkins v. Greater London Council* [1989] A.C. 1280, 1300D: "The court will not permit the phrase to be used to exclude an act of bankruptcy: see *In re Daintrey, Ex parte Holt* [1893] 2 Q.B. 116 nor to suppress a threat if an offer is not accepted: *Kitcat v. Sharp* (1882) 48 LT 64." (p. 943)

31. Mr. Hobbs relies on this passage because of its reference to threats. However the use of the word "threat" in Lord Griffiths' speech should be read in the light of what happened in *Kitcat v. Sharp*. There the plaintiff was a clerk in holy orders and the defendant was his stockbroker. The plaintiff sought rescission of a completed contract to take shares in a particular company, repayment of the money paid and damages. A statement of claim was served. The defendant sent a copy of it back to the plaintiff bearing marginal comments and denials and other comments of a "very virulent" nature. The defendant also sent a letter to the plaintiff saying that he would print thousands of copies of the pleading with his remarks on them and send the to members of the clergy and the plaintiff's bishop. The defendant said he wanted vast publicity. The letters were marked "private and confidential". The plaintiff applied for an injunction to restrain publication on the ground that it would amount to a contempt of court. The application was successful. The case appears to have little to do with without prejudice correspondence. There was no question of the defendant's letter being a part of private settlement discussions. On the contrary, the defendant was not offering peace, he was declaring a very public war on all fronts. In any event it is a case where the court was dealing with what it considered was a flagrant contempt of court. It throws no light on the issues I have to decide. There is no reason to believe that in *Rush & Tompkins* Lord Griffiths had patent threats in mind.
32. The issue of a party's misbehaviour was also considered in relation to without prejudice negotiations in *Forster v. Friedland*. There, having dealt with two earlier cases, Hoffmann LJ said: "*These are clear cases of improper threats, but the value of the without prejudice rule would be seriously impaired if its protection could be removed (for) anything less than unambiguous impropriety. The rule is designed to encourage parties to express themselves freely and without inhibition.*"
33. This topic is reviewed in "*The Law and Practice of Compromise*" by Foskett and Hodge (4th Edition, 199, Sweet & Maxwell) at p. 152. There the authors quote the following from an article of Professor David Vaver, now of Oxford University: "*Compromises are regularly induced by such considerations as the desire to preserve good relations between the parties (especially if they are commercial men), the supposed weaknesses of a party's case, the supposed strength of the opponent's case, the costs and risks of litigation, etc. They are part and parcel of settlements in everyday life. On the other hand, misrepresentations, libels, threats of insolvency or bankruptcy in the event of non-acceptance, blackmail, threats of perjury, suborning or flight from the jurisdiction must all amount to the sort of improper pressure which ought to be admitted in evidence if relevant to some matter in issue - this notwithstanding they occur during "without prejudice" negotiations.*" *University of British Columbia Law Review* (1974) pp 152-3.

Both of these passages were relied on by Mr. Thorley. He said that there was no question of his client having done anything which could be considered to be unambiguous impropriety.
34. Subject to two cases considered below, it appears to me that where a party wishes to rely on without prejudice correspondence or statements outside the settlement discussions, the onus is on him to show that there is a public interest in favour of such use which outweighs the public interest in fostering the non-litigious compromise of disputes. Where one party is relying on some alleged wrongdoing by the other, as Unilever does here, it must show that it is substantial. A party who does no more than put forward his case strongly but honestly and fairly in the course of discussions does not thereby destroy the without prejudice privilege. Asserting a right and its infringement by a competitor does not, without more, pierce the veil. So here Unilever's case, in so far as it relies on nothing more than a claim of right made by P&G in the discussions, cannot be used as the basis of declaratory proceedings.
35. The position in relation to threats under s. 70 may be somewhat more complicated. A threat is made if a statement or statements are uttered to another which would convey to a reasonable recipient that proceedings for patent infringement will be commenced against a particular person or in respect of a particular product. There is no requirement that expressly threatening words be used. Further, *Skinner v. Shew* [1893] 1 Ch 413 shows that the threat can be made in response to a question from another. So, if a potential infringer were to say to a patentee "*your patent is hopelessly invalid and next week I intend to flood the market with cheap copies which will drive you out of the business. What will you do about it?*" the response "*You leave me no alternative, I will sue*" would be an actionable threat. On the other hand a threat may also be initiated by the rights holder and be designed to inflict damage on the

competitor. A circular letter sent to all the customers of a competitor threatening to sue each of them for patent infringement unless they immediately de-stocked the competitor's products would also be actionable as a threat. These examples serve to illustrate the breadth of activities which fall within the scope of the section. There is no reason why they should all be treated in the same way as far as the without prejudice rule is concerned.

36. In the absence of binding authority, it seems to me that, at the least, a threat which consists of no more than a statement of the patentee's rights and his intention to sue on them and which is made in the course of without prejudice negotiations with the source of allegedly infringing goods is protected from being used as the basis of subsequent proceedings. Were it otherwise, the owners of patents (and registered designs and registered trade marks) could never take part in pre-emptive discussions to prevent litigation and the threats provisions in s. 70 of the Act (and its equivalent in the Registered Designs Act, 1949 and the Trade Marks Act, 1994) would have had the effect of making litigation more likely. In this type of case the public interest in suppressing threats is weaker than the public interest in encouraging compromise. But different considerations might apply where the threats are made in a deliberately damaging way and beyond what is fair and appropriate. For example there is a stronger public interest in discouraging patentees from writing virulent threatening letters to their competitor's customers. It may be - it is not necessary to decide the issue in this application - that if one trader were to send threatening letters to his competitor's customers each bearing a without prejudice label, he would be prevented from taking advantage of the privilege. The court might not accept that the claim to privilege was made bona fide or it may say that such an exercise was primarily designed to inflict damage on the competitor and for that reason is to be treated as sufficiently improper to justify lifting the veil.
37. The distinction between threats directed at the source of infringing goods and those directed at customers is consistent with the policy underlying s. 70 of the Act. Whereas in the past all threats of patent infringement proceedings were proscribed, the modern legislation is more discerning. Although the policy is not worked out perfectly, the purpose of s. 70(4) is to allow threats to be made against the source of allegedly infringing goods. If this analysis is correct, there is little doubt on which side of the line this case lies.
38. In any event, the statements complained of here were made in response to the issue of infringement being raised at a very senior group level - General Counsel and Joint Company Secretary of Unilever to Senior Vice-President and General Counsel of P&G. The Unilever company which is the plaintiff in this action is not the company which trades in the allegedly infringing products in the United Kingdom. It is the indirect parent of the company which does. No suggestion has been made that P&G were trying to interfere with the day to day marketing of Persil Performance Tablets or that their statements had that effect. It is not suggested that Unilever has suffered or will suffer any damage as a result of what was said at the Frankfurt meeting. It is not surprising therefore that Unilever has not sought either damages or an injunction in these proceedings.
39. In my view there is nothing to suggest that P&G was anything other than reasonable during the without prejudice discussions. These were negotiations genuinely aimed at a settlement. Further, if I am allowed to balance competing public interests, Unilever has not persuaded me that P & G's behaviour was improper at all, let alone sufficiently improper to override the without prejudice rule and I would hold that the action here should be struck out as an abuse. However Mr. Hobbs says that there are two cases which bind me and which show that the current proceedings should be allowed to continue. They are *Kurtz v. Spence* (1888) 5 RPC 161 and *Skinner v. Shew* (supra).

Kurtz v. Spence

40. This is a decision of Kekewich J. under s. 32 of the Patents Act, 1883. The plaintiff and the defendant had overlapping patent rights. In the course of without prejudice correspondence, the defendant intimated that it would enforce its patent against the plaintiff. The plaintiff sued to restrain threats. Mr. Hobbs relies on the following paragraph from the judgment to support the proposition that a threat is actionable even if made in the course of without prejudice negotiations: "*But if, when these parties meet, one of them says to the other, "now we are going to meet and discuss this with a view to an*

amicable settlement, but I tell you fairly, and with a view to induce an amicable settlement, that I do mean to take legal proceedings if we cannot settle; I mean to insist upon my rights if unfortunately we cannot agree to terms" - 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." (p. 173)

41. To understand this passage, it is necessary to have in mind the issues which were before Kekewich J. for consideration. Besides suing for relief from threats, the plaintiff also pleaded that the defendant's patent was invalid. The defendant almost immediately moved to strike out that part of the statement of claim which challenged validity of its patent, saying that that was not an issue which was open to the plaintiff in a threats action. That application was initially successful but was reversed on appeal. In its statement of defence, the defendant alleged that the plaintiff had infringed and was continuing to infringe its patent, did not admit that it had threatened the plaintiff and pleaded that, even if it had, the plaintiff was an infringer. There was no application to strike out the threats plea on the basis that it had been made in the course of without prejudice negotiations, nor was a plea of inadmissibility on this ground raised in the defence. The action came on for trial. Evidence was given. A major argument advanced by Mr. Aston for the defendant was that the correspondence relied on did not contain a threat within the meaning of that word in s. 32 of the 1883 Act. In support he relied on *Challender v. Royle* (1887) 4 RPC 363, a decision of the Court of Appeal which was said to decide that mere warnings were not within the scope of the section. Mr. Aston's argument is reported as follows: "*The alleged threats were mere warnings within the dicta of Bowen L.J., in Challender v. Royle and not threats. They occurred at a meeting held without prejudice, pursuant to letters written without prejudice.*" (p. 169)

It does not appear from the report that Mr. Aston relied on any case dealing with the meaning or effect of the words "*without prejudice*". His argument was that defendant's statements to which objection were taken were to be treated as mere warnings because of the without prejudice nature of the correspondence which contained them.

42. Kekewich J. then decided to determine as a preliminary point a single issue, namely the proper construction of s. 32. The passage relied on by Mr. Hobbs and set out above is to be found towards the end of an extempore judgment dealing with that issue alone. When he declined to hold that a statement made in without prejudice correspondence "*is not a threat within Section 32*", he was only construing the words of the statute. It does not appear that he was determining the issue with which I am concerned namely, if it was a threat, was the plaintiff precluded from relying on it. That was not an issue argued before him. In the circumstances, I do not think that *Kurtz* helps me to decide this application. Even had the case been more relevant to the issues I have to decide here, 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, referred to in paragraph 37 above, is not to be found in that Act and the jurisprudence on the without prejudice rule and the public policy considerations were less developed in 1888.

Skinner v. Shew

43. Mr. Hobbs also relies particularly on extracts from two of the judgments in the Court of Appeal in this case. Lindley LJ said: "*Then we are urged to say that a letter which is in answer to a question is privileged. It appears to me that the question of privilege is far away from the subject of this inquiry. There is nothing in the nature of privilege in this matter, either at common law or under the statute, and certainly not under the statute. There is nothing in the language of the 32nd section which invites or allows the consideration of such a question as privilege.*" (p. 422)

and A L Smith LJ said : "*My reading of the section is that a man shall not threaten legal proceedings unless the manufacture to which the threat applies infringes the legal right of the threatener, or unless the threatener is about to forthwith bring an action to shew the validity of his threats. 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.” (p. 426).

Mr. Hobbs argues that these passages show that the privilege against use of without prejudice negotiations does not override the threats provisions of the Act. I do not accept that submission.

44. Once again, the passages relied on by Mr. Hobbs have to be set in the context of the issues before the court. In *Skinner* the plaintiffs and the defendants were rival manufacturers of cameras. The defendants owned a patent. A trade customer, wishing to avoid infringement, sent one of the plaintiffs' products which had been offered to them to the defendants asking whether they, the defendants, thought it infringed. The defendants wrote back saying that the product undoubtedly infringed. A further letter was sent by the defendants to the trade customer firmly stating that the plaintiffs' product was an infringement and that they were prepared to stop sales of the product if it was introduced onto the market. The trade customer then wrote to the plaintiffs saying that it did not wish to take up the product in view of the possibility of patent litigation. Progressively more aggressive correspondence then passed between the parties, with the defendants making clear threats to bring infringement proceedings. Some of the correspondence was written by solicitors on instructions from their lay clients. This included some of the correspondence from the defendants to the trade customer. None of the correspondence was marked as being without prejudice nor was it asserted to be impliedly so. Counsel for the defendants argued that some of the correspondence was privileged. That is clearly a reference to legal professional privilege.
45. As a consequence of the facts of the case and the way in which it was argued, none of the lord justices in *Skinner* needed to consider the effect of without prejudice correspondence. Mr. Hobbs argues that the references to "privilege" in the passages from the judgments quoted above encompass the privilege arising in respect of such material. I disagree. It is likely that the meaning of that word has changed with time. In the 19th century it was used to refer to legal professional privilege only (see for example *Warrick v. Queen's College, Oxford* (1867) 4 Eq. 254). It is how it was used in *Skinner*. Furthermore by the end of the 19th century, it appears that the area of law concerned with without prejudice discussions was in a much less refined state than it is now. There is no reference to without prejudice as a privilege in *Bray on Discovery* (published in 1885) and that book treated without prejudice correspondence as one of the very special circumstances in which the right to discovery may be lost by contract between the parties (see p. 308).
46. I do not accept that *Skinner* can be used to throw light, as it were by analogy, on the issue which arises on this application. As Lindley LJ pointed out, even legal professional privilege did not arise in that case. What was in issue was open correspondence sent by one litigant to the other litigant and the latter's customer. Any expression of views on the impact of that privilege had it existed are, strictly, obiter. In any event the balance to be struck between maintenance of the sanctity of legal privilege and the entitlement to seek relief against public threats made against customers, is a very different balance to the one I have to strike here.
47. In the result, neither of these cases deters me from finding that the proceedings here are an abuse of process and should be struck out.

(B) INSUFFICIENT PLEADING

48. Mr. Thorley argues that the plaintiff's pleadings are defective because they seek a declaration as against P&G in respect of acts to be performed by another. In view of the conclusion reached in relation to the without prejudice issue, it is not necessary to express a view on this.

Mr. G. Hobbs QC and Mr. D. Alexander instructed by for the Plaintiff

Mr. S. Thorley QC and Mr. C. Birss instructed by Simmons & Simmons for the Defendant