

LETTERS OF DEMAND IN IP – AN EXERCISE IN LEGAL CRAFTSMANSHIP OR A TOSS OF THE DICE?

Background

It is distinctive of intellectual property (IP), that correspondence threatening litigation based on an allegation of infringement of one or more intellectual property rights, is treated differently from the usual letters of demand.

The logic behind the inclusion in the various IP Actsⁱ of relief against groundless or unjustified threats, is no doubt that the statutory monopoly created by these enactments, should not be falsely claimed and used to impede potential competitors.

In many cases, the respondent may gain a strategic advantage by initiating an action for injunctive relief restraining the threats and claiming damages resulting from the threats.

Channel 9 v Ice – TV guides

Recently, the Federal Court considered matters which have given further clarification of some pitfalls which exist in this area. In the case of *Nine Network Australia Pty Ltd v IceTV Pty Ltd*,ⁱⁱ the respondent (Ice) applied at the hearing of the action for leave to cross-claim against the applicant (Nine) under s 202 of the *Copyright Act 1968* (Cth) for unjustified threats.¹

The case involved a claim by Nine that Ice had infringed copyright in a weekly schedule compiled by Nine, by Ice's circulation to subscribers of an electronic television guide. The Nine weekly schedule showed times, program names, classifications and a synopsis of the program. Nine alleged that the weekly schedule, which was not available to the public, was sent to aggregators, who together with scheduling details from other free to air stations, compiled publications such as the TV Guide. Nine claimed that Ice, by copying the aggregators' publications in creating its own electronic TV Guide, necessarily infringed Nine's copyright in the weekly schedules.

The question which arose by the making of an application for leaveⁱⁱⁱ to cross claim for unjustified threats, was whether this could be done after the person who had threatened (Nine), had commenced proceedings for infringement.

Bennett J considered that s 202 of the *Copyright Act* did not specifically provide that a claim for relief from unjustified threats could be applied for as a cross claim against the commencement of proceedings for infringement. Upon considering O 5 r1 (1) of the *Federal Court Rules*, her Honour could not see any reason why it could not be the subject of a cross claim.

After considering the terminology of s 202 however, her Honour was of the view that the provision was concerned with threats: the *threat* was of an action; the *threat* must be unjustified; the present tense used in the terms *threatens* and *making the threats*. Further, the term itself imported an intention to bring about an action. Accordingly, her Honour concluded, that the unjustified threats provision s 202, gave no right to claim a remedy that was not based upon

threats. It followed that, save for a claim for damages resulting from the threats, Ice could not claim for damages resulting from the commencement of the proceedings.

In essence, the threats ceased to be threats upon the commencement of the action. In the infringement aspect of the case, Nine failed to prove infringement on the basis that Ice's evidence of independent creation was accepted. Fortifying the decision to refuse leave to Ice to cross claim, Bennett J noted the failure by Ice to demonstrate any utility in granting declaratory or injunctive relief for unjustified threats in circumstances where Nine's infringement action was dismissed.

Racing and Wagering v Software

The recent case of *Racing and Wagering WA v Software AG (Australia) Pty Ltd*,^{iv} adds a further dimension to the claims for relief against unjustified threats.

Briefly, the applicant (Racing and Wagering) and the respondent (Software) were the licensee and licensor respectively, of certain software owned by Software. The applicant is the regulatory body and betting totalisator for the racing and wagering industry in Western Australia and Software is in the business of selling and installing proprietary software systems.

Two issues were not in dispute. Firstly, that Software owned the software which was the subject of a non-transferrable and non-exclusive license to Racing and Wagering. Secondly, that the respondent had copied the software.

The central issue of the case was whether a term of the license agreement entitled Racing and Wagering to make copies of the software in suit. Before the court was a motion by Software to strike out a part of the statement of claim on the basis that it did not disclose a cause of action.

The proceeding was commenced by Racing and Wagering on the basis that certain correspondences emanating from Software to Racing and Wagering amounted to unjustifiable threats under s 202 of the *Copyright Act* (the letters). Racing and Wagering argued the threats were unjustified as it was entitled under the license agreement to make a copy of the software and particularised the threats by reference to the letters.

The letters had been sent by Software to Racing and Wagering on a 'without prejudice' basis and inter alia, proposed to extend the licence to permit the conduct Software complained of for an additional fee.

Before the court was a motion brought by Software, seeking to strike out a particular paragraph of the Statement of Claim which pleaded that the three correspondences in question constituted jointly and/or severally unjustifiable threats under s 202 of the *Copyright Act*.

There was of course a preliminary issue as to the admissibility of the letters, being written on a 'without prejudice' basis. This was overcome by the agreement of the parties for the court to be able to consider the contents of the letters for the purpose of the motion which was before the court. Gilmour J of the Federal Court considered in terms of a threat, the highest point was a passage which read as follows:

“I feel compelled to reiterate that Software AG takes all breaches of its licenses very seriously and will pursue this matter further if an amicable settlement cannot be reached.”

His Honour determined that the phrase ‘...and will pursue *this matter* further...’, when considered in the context of the statements made in the correspondences, ‘*this matter*’ referred to Software’s claim for a breach of the terms of the license, rather than a threat of copyright infringement, which is a requirement of s 202 i.e. that the threats of an action or proceeding be in respect of an infringement of copyright.

His Honour referred to the decision of Mansfield J in *Australian Consulting and Training Pty Ltd v Tiltform Pty Ltd*¹ where Mansfield J highlighted the need to consider the substance of the correspondences rather than the form. His Honour identified that there was no need to have specific reference to enforcement under the *Copyright Act*. However in this case his Honour found that the contractual dispute concerning the license agreement amounted to a “...very clear, express and unambiguous reference to asserted breaches of license.”

The case is a very clear statement that letters of ‘demand’ claiming infringement of certain intellectual property rights are liable to suffer undesirable consequences if there has been a intended or unintended attempt to be unclear or vague as to the exact nature of the rights which the letters of demand are seeking to protect.

Letters of demand in IP are usually the subject of specific provisions entitling the recipient to challenge the basis upon which the letter of demand had been written, namely the integrity of the IP right. As can be seen from this case, in order to succeed in establishing unjustified threats, one must first begin with the preliminary question as to whether there is a *threat* followed by the next question if answered in the affirmative, whether that threat is in respect of an infringement of the IP right in question.

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i *Copyright Act 1968, s 202; Patents Act 1990–132; Trade Marks Act 1995, s 129; Designs Act 2003, ss 77-81; Circuit Layouts Act 1989, s 46.*

ii *Nine Network Australia Pty Ltd v IceTV Pty Ltd [2007] FCA 1172.*

iii Leave was required under O 5 r 9(2) of the *Federal Court Rules*.

iv *Racing and Wagering WA v Software AG (Australia) Pty Ltd(2007) FCA 1345.*

