BL O/134/06

30 May 2006

PATENTS ACT 1977

BETWEEN

Leisure Pleasure Products Ltd Claimant

and

Raymond Robert Britner Defendant

PROCEEDINGS

Reference under section 37 of the Patents Act 1977 in respect of patent application number GB2370525

HEARING OFFICER P Marchant

PRELIMINARY DECISION

1. This is a preliminary decision concerning whether certain evidence should be admitted into these entitlement proceedings.

Background

2. Patent number GB2370525, in the name of Raymond Robert Britner, is the subject of a reference under section 37 of the Patents Act 1977, filed by Leisure Pleasure Products Ltd., (which I shall abbreviate to "LPP").

3. Pleadings have been filed in the substantive action and the evidence rounds are in progress. Mr Britner seeks, in a letter of 30 March 2006, to introduce as evidence three letters from LPP marked "Without Prejudice". LPP in their letter of 7 April 2006 say that they do not agree to these letters being introduced into the proceedings.

4. The Case Officer in the Patent Office discussed this matter with both sides on 26 April 2006 and it was agreed that the admissibility or otherwise of the "without prejudice" evidence would be decided on the papers. The parties were invited to file submissions and letters were received from Mr Hebden and

Mr Latham for LPP and from Mr Britner. This matter has come before me, a different hearing officer from the one taking the substantive hearing, so that in the event it is decided not to admit the evidence, the substantive hearing officer's view of the main issues will not be coloured by it.

"Without prejudice" communications

5. Without prejudice communications are a type of privileged information, which as a result of their privileged status can be protected from being brought into evidence. They arise during negotiations between parties in an attempt to settle an issue in dispute and may contain, for example, speculative proposals as to how the dispute might be settled, suggestions as to how compromise could be reached, admissions by a party against its own interest, indications as to how a party intends to proceed in different circumstances, and other information which passes between the parties in an attempt to settle the dispute.

6. There are a number of prior cases concerning the law in relation to without prejudice communications, among which the following are relevant to the present case: *Unilever plc v The Proctor & Gamble Co [2000] FSR 344, Chocoladefabriken Lindt & Sprungli AG v Nestlé Co Ltd [1978] RPC 287, Kooltrade Ltd v XTS Ltd [2001] FSR 13 and Schering Corporation v Cipla Ltd [2004] EWCH 2587 (Ch), [2005] FSR 25.* These cases are mentioned in the Patent Office's Patent Hearings Manual. Copies of the relevant section of the Manual were sent to the present parties in letters dated 5 April 2006.

7. In the *Unilever* case at pages 350-351, Walker LJ approved Oliver LJ's approach in the earlier case of *Cutts v Head [1984] Ch. 290 at 306* and said:

> "That the rule rests, at least in part, upon public policy is clear from many authorities, and the convenient starting point of the enquiry 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 … may be used to their prejudice in the course of the proceedings. They should … 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 or 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."

8. In *Chocoladefabriken*, at page 288 line 39, The Vice-Chancellor Sir Robert Megarry said:

> "From the authorities put before me by Mr Prescott, it seems plain that

> the courts favour the protection of discussions which take place between actual or prospective litigants with a view to avoiding the expense and burden of litigation, and are very ready to hold that discussions made with this purpose are inadmissible in evidence. Men ought to be able to attempt to "buy their peace" without prejudicing their positions if the attempt fails and hostilities break out or continue."

9. In the *Kooltrade* case, Pumfrey J quoted the Court of Appeal judgment in *Re Daintry [1893]2 QB 116* which said:

> "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. … 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."

10. It is clear from these references that the purpose of the "without prejudice" exemption is to allow the parties, or potential parties, to a dispute, to enter into genuine negotiations concerning the issues between them in order to settle the dispute without resorting to litigation. The rule in these precedents is said to derive from the public policy consideration that parties should be able to make assertions, proposals and admissions during negotiations in good faith, in the expectation that it will not be possible for their opponent to invoke these against them if the negotiations fail and the dispute is litigated. It has alternatively been stated in *Muller v Linsley & Mortimer [1996] 1 PNLR 74* that the rule arises not from the public policy consideration but from what is commonly understood to be the consequences of parties offering or agreeing to negotiate without prejudice.

Is a "Without prejudice" marking sufficient to confer protection?

11. The mere fact that a communication is marked "without prejudice" does not afford it protection from being introduced in evidence. The real criterion is whether a communication is in fact of the sort that should be given protection under the "without prejudice" rule. The marking may reinforce the inference that a communication should be afforded privilege, but it does not confer protection of itself. This point was explained by Laddie J at paragraphs 14 and 15 of the *Schering v Cipla* case.

> 14 Behind this, it seems to me, is the following principle. The court has to determine whether or not a communication is bona fide intended to be part of or to promote negotiations. To determine that, the court has to work out what, on a reasonable basis, the intention of the author was and how it would be understood by a reasonable recipient. If a document is marked "without prejudice", that is some indication that the author intended the document to be so treated a part of a negotiation process, and in many cases a recipient would receive it understanding

that that marking indicated that that was the author's intention.

15 As Parker L.J. said, the heading "Without prejudice" is not conclusive, but it may be one of the factors which indicate how one should assess the document itself.

12. This is also clear from discussions in relation to the forms of communication that are to be treated as privileged and those that are excluded. For example in the *Unilever* case Walker LJ sets out the underlying principles on page 353:

> "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 parties said or wrote."

13. He goes on to discuss eight situations which he says are "among the most important" exceptions. Later in the discussion, on page 356, he says in relation to the *Daintry* judgment mentioned above: "… 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 letters

14. The letters are all from LPP. The first is to Mr Britner and states that LPP intends to sue Mr Britner for infringement in the Patents County Court. There is no suggestion of any negotiation or offer of compromise.

15. The second letter is to a Mr Andrew Richards. It records events at Mr Richards' premises, alleges Mr Richards has infringed the present patent, indicates that LPP will also be investigating copyright infringement, and states that LPP are stopping a cheque paid to Mr Richards. Again there is no suggestion that LPP are considering negotiation and no offer is made.

16. The third letter is to Mr Rahat Ahmad, a director of LPP. It states that copies of the letters to Messrs Britner and Richards are being copied to him. It asks Mr Ahmad to inform them if he has set up a company to deal in equipment within the scope of the present patent, and asks him in that case to provide details of the company. It is not clear from this letter whether LPP have a dispute at this stage with Mr Ahmad, but it appears possible they have or that they may have in future. There is no indication here that LPP wish to negotiate with Mr Ahmad. If they do have a dispute with him, they have made no offer of compromise.

17. It is clear to me that these letters do not involve any element of negotiation. Rather, they state LPP's intention to take legal action, they set out a record of certain events, make assertions about infringements and issue requests for information. There is no suggestion in any of the letters that LPP is seeking a discussion with the parties addressed, or that it wishes to negotiate, or that it

has or might have any compromise to offer. This being the case, it appears that these letters lack the fundamental requirement for them to be afforded without prejudice protection, namely that the parties are in negotiation about the dispute with the intention of avoiding litigation. It appears to me therefore that there is nothing in the letters themselves that should preclude them from being admitted in evidence.

"Opening shot" communications

18. It is possible however, that these letters might be part of wider discussions and communications which taken together amount to negotiations in the sense required by the without prejudice rule. In that case, the fact that I had only been able to consider part of the correspondence should not prevent these documents being afforded privilege. I therefore need to consider that possibility.

19. It seems apparent from the date and content of the letters that these are initial letters from LPP following events that persuaded them to bring an action against Mr Britner. They are all dated 21st December 2004 and appear to have been triggered by events on 10th December that are related in the letter to Mr Richards. The content of each of the letters indicates that this is the first or one of the first substantive communications from LPP on the subject to each of the recipients. There may or may not have been ensuing communications between the parties, and if there were, the communications may or may not have included offers of negotiation, but the letters under consideration are clearly initial steps by LPP notifying the recipients for the first time of matters they wish to address by legal action.

20. The case of *Schering Corp v Cipla* is relevant to this point as it also involved the question of privilege in relation to an initial letter. In that case, Cipla wrote a letter marked "Without prejudice" to Schering, stating that they had received advice that a patent of Schering's was invalid. They intended to launch a product within the scope of the patent, but had no wish to embark "on the confrontational path of revocation if there is an alternative commercial solution acceptable to both parties." They stated that in the absence of objection they would feel at liberty to go ahead. In his judgment, Laddie J said that the crucial question was whether the document could be regarded as a negotiating document. If it was, and it was intended by the author to be protected by privilege, then even though the letter was an opening shot, it could amount to bona fide without prejudice correspondence and be privileged accordingly. In the judge's view, the offer to discuss a commercial solution acceptable to both parties carried with it the expectation that Schering would get something out of the discussions, and the overall message was one of wishing to negotiate. The heading "without prejudice" reinforced that message and the document was therefore covered by the without prejudice privilege.

21. The judgment in that case is that an opening shot communication can be privileged, but only if it involves a bona fide intention to negotiate. The inference relevant to the present case is that an opening shot communication

which does not involve negotiation should not be treated as privileged even if negotiations ensue subsequently. I therefore consider that no danger arises in admitting these letters in evidence, that I may inadvertently, and incorrectly, admit part of a sequence of properly privileged communications into the proceedings.

22. Mr Hebden in his submissions for LPP say that the letters under consideration were in fact responses to previous letters from solicitors acting for Mr Britner and Mr Ahmad, which were sent to them, and which he characterises as "threatening letters". I do not consider that the fact that there may have been earlier correspondence of this sort affects my finding. There is no suggestion, either in LPP's submissions or on the face of the letters, that any previous communication involved any negotiation, or that the sequence of letters between them amounted to negotiation.

Conclusion

23. I have found that the three letters under consideration are not part of any negotiation or offer of compromise and as such are not entitled to privilege. As discussed above, the fact that they have been marked "without prejudice" does not affect that. I consequently find that Mr Britner is not precluded from introducing them in evidence in the present action and I order that they be admitted.

Appeal

24. Under the Practice Direction to Part 52 of the Civil Procedure Rules, any appeal must be lodged within 28 days.

P Marchant

Deputy Director acting for the Comptroller