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When informing distributors of a potential patent infringement issue, make sure you do not engage in disparagement!

A patent owner who sends to distributors of a patented product a letter warning them that they may be liable for patent infringement if they continue marketing such product is guilty of unfair competition by disparagement.
These are the findings of a recent decision issued by the Cour de Cassation (French Supreme Court) in a case where the company that owned the patents and sent the letter claimed that it did so to enforce its intellectual property rights.
This decision provides the opportunity to recall the concept of disparagement and the conditions in which disparagement can be established.

Disparagement is an act of unfair competition that consists in discrediting a competitor by spreading malicious information on such competitor, its products or its work.

Punishable by Article 1382 of the French Civil Code that deals with tort liability, disparagement is primarily a court-developed concept.

For disparagement to be established, the following is required: the public dissemination of the information and the identification of the victim. Disparagement can be direct or indirect[1]. On the other hand, the existence of an intentional element is not required[2]. Lastly, contrary to defamation, it does not matter whether the disseminated information is true or not[3].

Disparagement is often invoked in infringement proceedings.

As such, in the past, French courts have already held that making known by email and publishing on a website

an accusation of a patent infringement against a competitor whereas a court has not admitted the existence of an infringement is to be considered as disparagement[4].

In addition, publicly reporting the existence of legal proceedings against a competitor may also constitute disparagement.

For instance, in another case concerning a dispute between former employees who had formed a company that competed with their former employer, judges have ruled that informing customers that an action for unfair competition had been initiated by reporting the existence of a mandate given to a lawyer to initiate appropriate proceedings – whereas no decision had yet been rendered by a court – constituted an act of disparagement[5].

In the case commented herein, a company had developed audio and video technologies used in analogical and digital TV sets and decoders for which it had been granted eight European patents. The company claimed the digital TV sets and decoders designed, manufactured and marketed by one of its former licensees implemented the inventions protected under the aforementioned patents. It thus alerted the former licensee of this illegal use, a fact that the latter disputed. While the parties were in discussions, the company that owned the patents sent to the clients of the former licensee a letter warning them that digital TV sets could require a license on eight patents and that some suppliers had elected not to take part in the licensing program, which resulted in the fact that the marketing of their products in the countries covered by the patents was giving rise to "legal problems". The company that owned the patents thus invited the addressees of the letter to stop marketing these products or to take a license directly from it, should they be unable to obtain the proof that their supplier had been duly granted a license.

The former licensee initiated summary proceedings and requested the Court to order the discontinuation of these actions that he claimed to be unfair competition by disparagement and constitutive of a patently unlawful practice within the meaning of Article 873 § 1 of the French Code of Civil Procedure.

To justify its actions, the company that wrote the letter referred to Article L. 615-1 §3 of the French Intellectual Property Code that provides as follows: "*The offer, placement on the market, use, or retention with a view to use or place on the market a product infringing third party rights, in the event these acts are committed by any persons other than the manufacturer of the infringing product, only make such persons liable if the acts are committed with full knowledge of the facts*".

As such, the owner of the patents considered that sending the warning letter was a way to ensure that the distributors were actually informed of the contentious actions, within a view to potentially bringing a patent infringement action against them.

Appellate judges, ruling in summary proceedings, considered that this letter characterized an act of an unfair competition by disparagement and was constitutive of a patently unlawful practice. Accordingly, they prohibited the owner of the patents from making any comments whatsoever, in any means whatsoever and in any forms whatsoever, to any resellers or distributors established in France or in any other countries of the

European Union, about the TV sets marketed by the former licensee, subject to a penalty of 10,000 euros per established infringement and per day, effective as from the service of the appellate judgment, until the rights claimed by the owner of the patents be recognized by a final court decision not subject to appeal[6].

The *Cour de Cassation* upheld this judgment[7].

To establish disparagement, the *Cour de Cassation* took the following elements into account:

- in its letter, the owner of the patents asserted what it believed was its right, without mentioning the objections raised by the former licensee;
- the dispatch of the letter could not be legitimized by the existence of exhibits attached to such letter *(i.e. a CD-ROM that contained a selection of significant patents owned by the company, a chart of patent claims and documentation showing the relevance of the patents with respect to the standards used in TV sets)* as the owner of the patents could not leave to the distributors the tasks of verifying whether the owner's claims were well-founded since such distributors, even assuming that they had the technical means to do so, were not even aware of the objections raised by the former licensee;
- the letter, which focused exclusively on the licensing programs implemented by the owner of the patents, contained threatening terms but did not include any explanation on the elements that were supposedly constitutive of the alleged patent infringement;
- the letter was not, therefore, limited to informing distributors about a risk of patent infringement, within the meaning of the aforementioned Article L. 615-1 §3 of the French Intellectual Property Code, should they continue to market their products;
- consequently, the letter questioned, without any justification, the loyalty of the former licensee and characterized an act of unfair competition by disparagement which was constitutive of a patently unlawful practice.

This decision is consistent with the line of decisions issued in relation to disparagement. Transmitting to distributors incomplete and twisted information in order to make the former licensee appear as the perpetrator of acts of infringement, and suggesting that their own liability could be sought in this respect – whereas the former licensee strongly disputed this fact and no court decision acknowledging the existence of an act of infringement had been issued – went beyond a simple information and characterized disparagement.

This decision provides a good opportunity to recall that one should be very cautious when informing third parties, partners, suppliers, etc. about disputes with current or former commercial partners, especially if no final court decision has been rendered, as seeking to protect intellectual and industrial rights can in no way legitimize any kinds of actions by the owners of such rights.

[1] Commercial Chamber of the *Cour de Cassation*, March 6, 1978, n°76-13306

[2] Commercial Chamber of the *Cour de Cassation*, May 12, 2004, n°02-19199

[3] Commercial Chamber of the *Cour de Cassation*, September 24, 2013, n°12-19790

[4] Court of Appeals of Paris, May 16, 2003, n°2001/21706

[5] Commercial Chamber of the *Cour de Cassation*, May 12, 2004, n°02-19199

[6] Court of Appeals of Versailles, November 6, 2013, n°12/08367

[7] Commercial Chamber of the *Cour de Cassation*, May 27, 2015, n°14-10800