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Unfair marketing restrictions on warning letters

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Introduction

In this case,⁽¹⁾ the Patent and Market Court of Appeal (PMCA) dealt with a central issue for all rightsholders and IP litigators, namely restrictions on using warning letters from an unfair marketing perspective. In short, the PMCA held that objectively drafted and nuanced warning letters generally are to be considered as legal correspondence preceding a potential dispute rather than marketing in the sense of the Swedish Marketing Act. The Court's reasoning accounts for relevant case law and includes important take-aways for anyone involved in enforcement of IP rights.

Background

In 2013, the proprietor of two patents concerning a seed revitalisation method entered into a patent licence agreement to allow for the commercialisation of the patented methods. In turn, the licensee contracted a third party to manufacture a machine that could perform the methods claimed by the patents.

Due to a failure of timely royalty payments, the licensor terminated the licence agreement. The termination was followed by correspondence between the licensor and the third party. In summary, three letters from the licensor included assertions that:

- the licensee's right to use the patented invention had ceased;
- the termination of the license agreement was merited even though the termination had been disputed; and
- any use of the machine would constitute patent infringement which could lead to legal action being taken.

The licensee brought an action before the Patent and Market Court (PMC) under the Swedish Marketing Act against the licensor. Among other things, the licensee argued that the three letters constituted misleading marketing and violated good business practices.

In short, the PMC dismissed the claim that concerned the warning letters. It found that, while the letters were indeed to be considered as marketing in the sense of the Swedish Marketing Act, the language therein was not misleading, and did not violate good business practices. The case was appealed to the PMCA.

Decision

The PMCA's reasoning pedagogically clarified that the assessment of warning letters – from an unfair marketing perspective – involves a two-step test: assessing whether the warning letter(s) qualifies as marketing, and if so, whether that marketing is misleading.

As regards the first step, the Court recollected that only acts of distinct commercial nature qualify as marketing in the sense of the Swedish Marketing Act. Further, the PMCA noted that, in Swedish case law, there is a general acceptance of warning letters in civil disputes, although unnuanced and excessive language used in correspondence can be considered as unfair marketing. The PMCA also referenced the requirement under the ethical rules of the Swedish Bar Association which require that a counterparty is allowed reasonable time to consider a claim before legal remedies are used, and that the absence of such contacts could entail a cost liability under the Swedish Code of Judicial procedure. Considering these aspects and in the words of the PMCA, objectively drafted and nuanced warning letters will typically not be considered as marketing in the sense of the Swedish Marketing Act.

As regards the second step (ie, if a warning letter indeed qualifies as marketing), the PMCA held that, for letters intended for a sole recipient, an individualised assessment of the content should be carried out, as opposed to the assessment of the average recipient within a certain target group which applies for ordinary marketing communications. Moreover, the PMCA stressed that the assessment of whether the marketing is misleading or not does not turn on whether an IP infringement can be conclusively established, since warning letters are usually sent before a court has had the opportunity to decide on the issue. The same applies for other civil law issues that trigger warning letters in unfair marketing cases.

Turning to the facts of the case, the PMCA noted that the licensor had provided an objective and balanced description of the dispute, including the fact that the licensee had disputed the termination of the licence agreement. In the absence of indications that the letters had been sent for the purpose of promoting sales, the PMCA held that the letters were nothing but legal correspondence between the parties, and that the Marketing Act did not apply. The action was thus dismissed in this part.

Comment

The appellate court's judgment and the annexed letters in this case should be studied with care by all IP litigators acting on the Swedish market, and the action itself should serve as an important reminder to be mindful of the tone and language in all legal correspondence concerning IP infringements. In this regard, the PMCA's reasoning includes a useful take-away in that the assessment of warning letters sent to a sole recipient should be based on the reasonable understanding of the letter of that party alone. To mitigate unnecessary risk exposure, that perspective is useful to keep in mind for anyone that considers sending communication which hints at IP infringements.

Considering the tone and language in the warning letters at issue, which were arguably in line with the standard in IP disputes in Sweden, the PMCA's ruling in this case is sensible. Indeed, an opposite outcome would likely have caused turmoil in the Swedish IP community, and significantly harmed the possibilities for effective enforcement of IP rights.

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Endnotes

(1) PMT 13795-21, Patent and Market Court of Appeal.