

Comments on Patents County Court reform proposals

Response of the Intellectual Property Lawyers Association to the Working Group's Consultation on proposals for reform of the Patents County Court ("PCC")

The Intellectual Property Lawyers' Association ("IPLA") acts as a representative body for law firms in England and Wales with intellectual property practices who wish to lobby for improvements to IP law.

Over 50 firms are members of IPLA, and the vast majority of patent and other litigation and transactional work relating to intellectual property rights in England and Wales is conducted by these member firms. Because of the international nature of IP, member firms are also familiar with how things operate in many other countries across Europe and in the United States of America. Members act for a wide range of clients, from major multi-national groups of companies to SMEs and technology start-up companies, as well as universities and private inventors and investors. As a group, IPLA probably has unparalleled experience of how existing IP systems work in practice in the UK.

The IPLA is in very broad agreement with the Working Group's proposals. Below we set out our comments on what we see to be some of the most important elements in ensuring the success of the Court, particularly related to the financial limit, transfer and forum shopping. We also comment on the importance of limiting the maximum adverse costs on appeals and enquiries. A number of other minor points are also mentioned. The IPLA remains willing and enthusiastic to work with others on the fine detail of how a reformed and revised PCC should be set up, including its rules and procedures, if the broad thrust of the consultation proposals is accepted.

Financial Limit

The current proposal suggests a limit of £250,000 on the financial remedies available in the PCC. In our view that limit is too low and also does not recognise the value of the injunction. IP litigation about damages of £250k or less is unlikely to be commercially viable. The costs of running litigation are likely to be of the order of £100k (irrespective of the maximum recovery of £50k for the successful party). There is also a risk of losing and paying the other side £50k. Therefore the total "investment" of legal fees at first instance (to be spent and at risk) is likely to be £150k. A company is unlikely to risk £150k to obtain damages of less than £250k. Such a low limit also risks creating a class of dispute which is too valuable to fit the PCC criteria, but still too small to justify High Court proceedings with their potentially unlimited costs liability.

We consider that, rather than limit the size of the recoverable damages, the financial limit should be assessed by reference to the annual sales, or projected sales, of products protected by the patent; i.e. total annual sales in the UK by the patentee and/or licensees and the potential infringer. We consider that the PCC should be used where total annual sales of relevant products are less than £1 million. Assessing value by reference to sales is simpler and will help avoid arguments about profitability and royalty rates. It will also ensure that claims which are brought before the defendant starts trading where the market is of considerable value should be heard by (and if necessary transferred to) the High Court, and provides relatively clear and simple criteria for such an assessment.

We consider that providing financial limits by reference to sales, rather than the amount claimed, is within the scope of section 288(1) CDPA which refers to "limits of amount or value in relation to any description of proceedings".

We consider that considerable use of the PCC is likely to be made by parties seeking to revoke a patent or obtain a declaration of non-infringement. A financial limit dependent on sales or forecast sales would also provide a useful, clear and simple threshold in determining whether it is appropriate to hear proceedings in the PCC for revocation, and declarations for non-infringement. It makes clear that challenges to patents which protects sales of many millions of pounds should not be heard in the PCC.

It would also be open to the parties to agree to the jurisdiction of the PCC notwithstanding any financial limit (section 288(4) CDPA). We recommend that a party commencing proceedings about IP in the High Court should be required to certify that the annual sales of relevant products are (or are forecast to be) more than £1 million.

A limit based on annual sales of £1m would be more appropriate and be more likely to attract SMEs, taking into account the likely total costs of conducting, and which are at risk in, IP proceedings.

A patentee who resists an application to transfer proceedings from the PCC to the High Court should be unlikely to succeed unless they undertake to limit their remedies, including recovery of damages, to an amount based on annual sales of £1 million.

Transfer

We agree that the court first appraised of any particular action (PCC or HC) should decide any application in those proceedings for the matter to be transferred to the other court.

Where a Claimant commences proceedings in the PCC but for any reason the case is transferred to the High Court the Claimant should have an opportunity at the time of transfer to withdraw from the proceedings with a fixed liability to costs and without prejudice to its commencing later proceedings on the same issue in the High Court. Otherwise SMEs are deprived of the certainty of maximum adverse costs which the proposals rightly advocate.

The PCC is being designed to manage risk and costs of potential parties to disputes in that court. Where a case is transferred to the HC the risk will change considerably and it is likely to put any SME at a disadvantage at that time. In order to allow such an SME to review properly whether it can justify High Court proceedings, and to try to avoid applications to transfer for tactical reasons, the SME should be at liberty to bring new HC proceedings at a later date.

Forum shopping and disputed applications to transfer

Where both parties to proceedings are content to be heard in the Patents County Court there appears to be no reason why the Court should not have the usual powers in relation to any finding of infringement and validity (including injunctions and revocation).

There will, however, be cases of dispute. For example a small company concerned about the

patent of a large company which wishes to seek a declaration of non-infringement and/or revocation to clear the way but the stronger patentee may believe the patent has value which goes far beyond the use which the prospective claimant says it would make (or already makes) of the patent. It would be helpful if the smaller party estimated both the anticipated value of its market and the maximum sales which it intended to make and also offered to limit the relief sought from the Court. Thus, it might agree that if successful (whether on the grounds of infringement or validity) the Court would not grant a general declaration of non-infringement nor invalidate the patent but rather award it a paid up/royalty free licence to frank goods up to the value of the case as estimated by the claimant. If the claimant was not prepared to agree to limit its claim in this way, then the Court might be sceptical as to whether the Defendant's intended activities in relation to the patent were as limited as it said.

In such a scenario, if and when the Claimant had exhausted the value of its licence, and if it was unable to agree a further licence, then it would be open to proceedings for infringement in the High Court – but by then, by definition, it would have already made sales of several million pounds and so presumably be in a position to afford such proceedings and/or to obtain funding.

Similarly, where an SME seeks an injunction against a much larger company but asserts that the value of the claim is less than a certain amount, it might be reasonable to ask the SME to say what value it put on a successful claim (e.g. £1 million). The Defendant would then be offered the option to buy out the claim for that amount (plus scale costs) at any time (including after a finding of infringement of a valid claim had been made). If no such offer was made then the court would be likely to order that the case proceed in the High Court.

The consultation paper identifies the need for strong incentives to choose the correct forum. This is very important, especially as the current PCC judge estimates that a typical contested transfer application requires a full day to be heard. With the much greater differentiation proposed between the PCC and the HC, choice of forum will be a far more significant factor than it has been in recent years.

By forcing parties to accept the full implications of any estimate which they make as to the value of the market for the patented product/process, the value of that market for them or the value of the proceedings, many disputes about which was the correct forum might be avoided. It should reduce the risk that very valuable rights would be subject to adjudication in the PCC¹. Whilst it is probably not possible to predict every conceivable scenario, once it was established that to get a party unwillingly into the Patents County Court, an offer consistent with assertions as to the value of the claim would have to be made, many applications might be avoided and the Judge dealing with transfer can focus not on highly disputed predictions (about sales by each party, profitability, price depression etc.), but rather on whether the parties backed those assumptions with commensurate offers.

Expert Evidence

Whilst clearly there may be some cases where it is possible for the case to be determined on the basis of pleadings alone, IPLA believes this will be the exception rather than the rule. In a typical case some expert evidence is likely to be required. The Court is required to "don the mantle" of the skilled person in reading the patent and considering the prior art. IPLA believes that even if much of the common general knowledge can be set out and agreed in the pleadings, some colour will normally need to be given to the state of the art by experts for the

parties. Experience in the EPO suggests that expert testimony there, which is not generally subject to cross examination, can be of somewhat dubious quality. A case in point is experiments relied on in the EPO; other expert testimony given there can also be highly contentious. Accordingly, the IPLA believes that the majority of cases will require expert evidence (albeit hopefully considerably shorter than the 100 page documents commonly produced in High Court proceedings) and that it would often be appropriate to have an order for at least short cross examination of the experts (if requested) to clarify differences between the experts on key points in the case.

Word limits

The consultation document rightly notes the importance to SMEs of not being faced with a larger adversary gaining a significant advantage by outspending them. We believe there would be benefit in the rules of the new PCC specifying a maximum number of words for initial statements of case and for the court to consider limiting the length of expert reports and other evidence at the CMC.

We agree that time at trial should be divided equally between the parties.

CFA's and Part 36

Commensurate with the predictability of any maximum adverse costs order (other than for bad behaviour) where a party had agreed a CFA with its advisors, no premium would be recoverable. CPR part 36 should continue to apply.

PPDs

The draft proposals suggest that the Defence should set out "a description of the product or process alleged to infringe unless the Defendant accepts the patentee's description". Given that PPDs are frequently the subject of intense debate, it is also desirable that the Defence identify an individual who is fully knowledgeable on the PPD, certifies its accuracy and completeness, and who will, if necessary, be cross examined if the PPD is disputed.

Proposed Rules of Procedure of the Proposed European Patent Court

Mention is made of the "non-paper" proposed rules of procedure. It is noted that in some respects these appear to be unnecessarily detailed for example unnecessary detail of the patent is required in the initial Statement of Case. The PCC should not slavishly follow the current proposals for the European rules of procedure, although they may well be better developed and more fully defined before the PCC adopts new rules.

Trial Date

It is agreed that the trial date should be set at the CMC. We should give an indication of when the trial should normally be heard (say within five to six months of the hearing of the CMC). If the proceedings are to be shorter then it is reasonable, and very helpful in providing business certainty, that proceedings would normally come to trial more quickly. Giving the Judge control of the Court's diary and setting fixed trial dates are also strongly supported.

Name

IPLA agrees that it would be helpful to rename the court the Intellectual Property County Court.

Further Stages in the Proceedings

Appeals

In many cases there will be an appeal. The objective that SMEs should have access to justice because they know at the outset what their maximum liability will be (their own advisors' costs plus a maximum of £50,000) will be almost worthless if there may be an Appeal to the Court of Appeal with a potentially unlimited order for costs. IPLA proposes capping the costs recoverable in the Court of Appeal, on an Appeal from the Patents County Court, at £25,000.

Enquiries

It may be hoped that in most cases where liability is established any enquiry as to damages or account of profits will be relatively easily settled because the maximum amount at stake ought to be limited (and may indeed be limited by order). Nevertheless there will be cases where an enquiry is required. It is suggested that the target should be that the enquiry be heard within six months, that it follow a similar procedure to that for the main proceedings (with as much as possible in the pleadings and limited evidence) with the opportunity for only very short cross examination. The hearing should take no more than half a day of Court time. Again, costs should be limited; we would suggest £25,000.

On this basis an SME could go into proceedings in the Patents County Court knowing that its maximum liability for costs, assuming a First Instance hearing, an Appeal and an enquiry as to damages would be £100,000 on top of its own professional fees.

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<sup1< sup=""> cf Oulton Committee proposals, point (4)</sup1<>