

Comments for Jackson Enquiry (costs)

IPLA Observations on Costs in Intellectual Property Proceedings

The Intellectual Property Lawyer's Association ("IPLA") act as a representative body for law firms in England and Wales with Intellectual Property practices, who wish to lobby for improvements in IP law and practice. Some 66 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 patents, member firms are also familiar with how the patent system operates across Europe and elsewhere. Member firms act for a wide range of clients, from major multi-national groups and 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 patent litigation works in practice in the United Kingdom, and good familiarity with parallel litigation elsewhere in Europe¹.

Introduction

The costs of pursuing and defending Intellectual Property litigation in the Civil Courts in the United Kingdom are a significant barrier to entry to some, especially smaller, companies and to individuals who need to protect and assert IPRs and/or to defend against such assertions of IPR.

The current Patents Court and the proposed PCC are primarily focused on high and low value disputes and will leave a significant number of companies and individuals with medium value IPR disputes who fall into this gap with limited access to justice. It is important to find a balanced legal framework which encourages the creation and exploitation of innovation.

Costs of litigation should be minimised in line with the overriding objective of providing, as far as possible, equality between parties and proportionate costs but without significantly compromising the quality of the justice and decisions of the English courts handling IPRs.

The specialist Patents Court and its Judges are critically important to good quality IPR dispute resolution. The Patents Court would benefit from increased independence from the general Chancery list to improve case management.

Active Case Management and Allocation

The Patents Court system would be improved and issues narrowed at an earlier stage in proceedings with more active case management. This would include limiting the parties' ability to agree and vary directions by consent.

Where a trial Judge (or equivalent) was appointed early in proceedings he/she could deal with case management issues and ensure delay and broadening of issues were dealt with promptly and with minimal argument. Although the parties are obliged to attempt to narrow the issues and deal with case management in the light of the overriding objective, without the threat of such active case management by the court or more importantly by the trial Judge this often does not occur as effectively as it should.

Some IPR cases are automatically designated as multi-track. Cases involving patents and registered designs - CPR 63.7(2) by virtue of the provisions of CPR 63.3(2). An allocation questionnaire is required for e.g. an unregistered design right claim or a copyright claim. Consequentially certain parts of Part 29 Case Management are omitted from the management of patent and registered design cases by Part 63.7. However, certain cases, namely those issued in the Patents County Court could be suitable for disposal under either the small claims or the fast-track procedure.

In addition, this process avoids the usual rule of the High Court that parties should provide costs estimates during the proceedings – particularly at an early stage in proceedings. One of the major problems with the current system is the deterrent effect of the potentially (and uncertain) large costs of an opposing party in an IPR dispute. The lack of the use of cost estimates removes transparency for decision making by parties at the start or during proceedings. Such costs estimates are useful also to demonstrate where one party is likely to try and 'outspend' another and permits the Judge to cap such costs. A trial Judge should be allowed to use costs estimates to limit the costs recovery of a successful party where its costs have far exceeded the estimate without further notification to the court.

Increased use should be made of the streamlined procedures. Active case management should assist in determining which disputes require a 'full' investigation and which are more suited to a streamlined procedure. The trial Judge (or equivalent) should permit or require disclosure, experiments, factual evidence, expert evidence and cross-examination only where a cost benefit test is satisfied. On disclosure - in very many actions the vast majority of it never makes it to the trial bundles. The suggestion in the Preliminary report that we abolish standard disclosure and limit disclosure to documents relied upon with the ability to seek specific disclosure (IBA approach) has a lot to recommend it.

The Patents Court Guide requires the Patentee to identify which of the claims of its patent are contended to have independent validity and which of those claims is said to be infringed and should communicate a list of those claims to the other parties. There is a direction that the position should be kept under review, however adherence to such matters would be improved by more active case management or stronger/stricter costs penalties.

Further at case management there should be greater consideration of the adequacy of statements of case. Greater use of statements of case on particular issues would help narrow the matters in dispute. Parties should not be allowed to make non-admissions in pleadings which although generally not permitted is somehow tolerated in patent actions. A short explanation of the basis for the denial would also help narrow the issues in dispute. Moreover parties should set out their case on common general knowledge earlier than exchange of expert evidence - this was flagged by Floyd J in *Ratiopharm* for example.

A cost benefit review would help ensure that such additional steps tended to decrease rather than increase the costs of the dispute.

Patents County Court

The IPLA has made separate submissions on the PCC. In short, its role is to provide access to justice on low value IPR disputes. What it does not (and probably cannot) do is to promote access to justice to the large number of SMEs or large companies with IPR disputes which are beyond the modest limits proposed in the PCC but which are significantly below the

potential costs of a 'full' IPR dispute in the Patents Court.

The Intellectual Property Court Users Committee (IPCUC) has proposed a model for the Patent County Court which could be extended or some of its features adapted more generally, especially after some experience of it in practice.

Claim construction

US style Markman hearings on claim construction may assist but again, where there is active case management such a preliminary issue could be dealt with under the current system. Again a cost benefit approach should ensure that such preliminary steps would indeed reduce costs overall.

ADR

There should be greater encouragement of parties to engage in ADR and in appropriate cases, consequences in costs where they do not.

Conditional Fee Agreements

In order for many SMEs and individuals with significant IPR disputes to have access to justice the only option is through a CFA. Unlike PI and other equivalent cases, a law firm accepting an IPR case is likely to be adopting considerable risk along with its client. IPR cases are often complex, require specialist legal skill and can be of such value that decisions are regularly appealed. CFAs overcome the barrier to entry to justice and by this fact assist in improving innovation. CFAs allow companies and individuals who have innovative IP rights which could/should be asserted but where there is a mismatch in the power of two parties in dispute, to defend against or challenge larger organisations.

Under the current regime a law firm operating under a CFA is entitled to obtain an uplift on its costs from the losing party. In such long, complicated and risky cases as are the subject of many IPR disputes if the uplift was not available it is unlikely any firm could accept the risk of the litigation.

Third Party Funding

Third party funding is unlikely to be available for many IPR disputes. Unlike, for example, the Commercial Court, there are often no large damages claims to entice third party funders. Rather many IP claims involve court declarations on validity and extent an IP right.

After the Event Insurance

AEI is available from the market for IP disputes where there are independently assessed strong prospects of success. It is a valuable tool for parties to achieve access to justice. CFAs alone would not allow a significant number of SMEs and individuals to assert or defend IPRs for fear of the potential cost exposure, even where the case has overwhelming prospects of success.

AEI are complex tools and there are still limited parties offering policies for IPR disputes. This is a burgeoning area which needs promotion and fine tuning.

Detailed Assessment

There are significant problems with the recovery of costs under the current detailed assessment system. For example, where three parties have been involved in complex patent litigation and there is a 'mixed' costs order the difficulty is not the issue based costs order of the court but the detailed assessment. It would not be unusual for each of these parties and its legal representatives to have conducted the same issues under the proceedings but one to have costs of £1m, another of £2m and another of £3m. The problem is that as a rule the detailed assessment system would allow a return to each party of about 65%. There is therefore discordance. Where one party incurs considerably more costs than another is not dealt with by the costs order (which reflects the issues) and at detailed assessment the system (arguably unfairly) favours the party who has larger costs.

Currently, therefore, a party could be very successful in a case and then discover that despite this it owes money to the losing party due to the level of costs they incurred on the limited issues where the (overall) losing party was awarded costs. The trial Judge along with the costs Judge should have greater say on recoverable costs. Greater cost control from the outset is important and the use of estimates at the outset would at least provide a benchmark to consider later costs and the losing party's liability to pay those costs.

Without reviewing the entire detailed assessment system it would seem that the cost estimates provided by parties during proceedings could be used effectively to limit final recovery and therefore also encourage reduced spending and a narrowing of issues earlier.

Increased use of Summary Assessment of Costs at preliminary stages may assist.

The trial Judge should credit a losing party which had attempted to limit costs and/or settle in a reasonable manner.

The current Court judgment interest rate at 8% is penal and should be amended in line with real bank rates in all cases. IPLA does not propose a change in rates for IP cases alone as IP owners should not miss out. It is preferred that the costs system be revised before the interest rate is varied because interest very often cushions the blow of the difference between costs recovered from the losing party and the solicitor own client costs.

Groundless Threats

A pre-action protocol specifically for IP disputes would assist, provided it is applied with common sense and proportionately. If possible, where the Court could provide that use of such a pre-action protocol would allow a party to avoid an allegation of groundless threats this may lead to less, not more litigation. Currently, the law on groundless threats can encourage litigation because parties issue proceedings rather than run a risk of an allegation of making groundless threats.

Alternative Procedures

Other European jurisdictions and Patent offices make decisions on IPR disputes based solely on paper-based submissions. In the right cases there is no reason that this system could not be adopted by a trial Judge in the Patent Court under the streamlined procedure.

German Federal Patent Court Costs System

IPLA members experience of Germany illustrates that a comparison with Germany is difficult although Germany is simply a much cheaper jurisdiction than the UK for very many patent cases. The German system for costs recovery is based on a model where costs recovery is dictated by the 'value' attributed to a patent. Such value does not depend on the 'real' value of a patent. The court at first instance and at appeal can amend the 'value' attributed to the patent and therefore the costs recoverable throughout the proceedings. The uncertainty under this system does not really deal with the cost issues under the UK system.

Despite the lack of cross examination and disclosure in the German system the costs are significant and can be in line with costs in UK cases although some have experience of validity or infringement determinations at first instance in Germany obtained for less than 100,000 euros for each side. The costs are paid by the losing party although the scale costs system also is not particularly complicated - it is certainly a lot less complicated than CPR 44 and the related practice directions and case law.

Part 36 comments

Pt 36 has a valuable role to play as have the other measures discussed to improve access to justice.

Summary

We propose that a more effective model for the UK would be increased active case management by the trial Judge along with use of tools such as cost estimates, cost capping, streamlined proceedings where relevant and narrowing the issues more effectively.

ⁱ It will be noted that elements of this document have been adopted from the Law Society's Working Party submission on Costs re IPR