

**GOVERNMENT RESPONSE
TO THE CONSULTATION ON
SETTING THE LIMIT
ON THE VALUE OF CLAIMS
HEARD IN THE PATENTS COUNTY COURT**

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BACKGROUND

This document sets out the Government response to a consultation launched by the Intellectual Property Office (IPO), a trading fund of the Department for Business, Innovation and Skills (BIS) on 22 October 2010. The consultation was launched in the wake of findings by Lord Justice Jackson who was commissioned in late 2008 (by the then Master of the Rolls) to undertake a review of the rules and principles governing the costs of civil litigation in England and Wales.

In his independent and comprehensive report, Jackson LJ made a broad range of recommendations to promote access to justice at proportionate cost. The review was established on the basis that the costs of civil litigation in the UK are too high. Lord Justice Jackson published his report, „Review of Civil Litigation Costs: Final Report’, in January 2010¹.

In the report Jackson LJ made 109 recommendations including six in relation to Intellectual Property (IP) disputes. One of the six endorsed the Intellectual Property Court Users Committee (IPCUC) proposals for reforming the Patents County Court (PCC) which included amendments to PCC procedures, a new costs regime and a limit on the value of claims heard in the court. The PCC, which despite its name has jurisdiction over all the IP rights (patents, copyright, trade marks and designs), was created in 1988 with the intention of serving the interests of SMEs and entrepreneurs by providing an affordable forum for IP litigation.

Judges, legal practitioners, court users, industry and business were given numerous opportunities to comment on the issues of IP litigation costs and PCC reform (including the principle of the damages limit in the court) over a period of 14 months. Opportunities included the two full public consultations by Lord Justice Jackson as part of his review (IPO interests including business and industry were notified of these). In addition, the IPCUC Working Group undertook a short (four week) public consultation to enable it to reach final proposals for the Jackson Review.

A full breakdown of the process of public engagement on the issues is found at Annex B of the consultation document. These consultations indicated that there is broad support for the IPCUC proposals to reform the PCC including introducing a limit on the value of claims heard in the PCC. The IPO consultation (“the consultation”) therefore only sought comments and any relevant evidence as to the actual level of the limit on the value of claims which should be set.

¹ <http://www.judiciary.gov.uk/publications-and-reports/reports/civil/review-of-civil-litigation-costs/>

The need for reform of the PCC

As detailed in the accompanying Impact Assessment, there is some evidence to suggest that IP litigation in the UK is costly in comparison with continental Europe. For example small to medium cases may be three times more expensive than similar cases in for instance the Netherlands or Germany. Prior to the recent changes introduced by the Ministry of Justice (MoJ), litigants in the PCC were potentially exposed to having to meet a substantial, and unpredictable, adverse costs award if unsuccessful. As a result, it is possible that right-holders, and in particular SMEs, are deterred from bringing infringement actions or defending their rights, especially against larger enterprises.

The recent consultations suggest that the PCC may not have been fulfilling its purpose as an affordable forum in which to resolve IP disputes. The Government therefore believes that reforming the court through amendments to procedures, a new costs regime and placing a limit on the value of claims heard, is a key means by which to reduce the cost of lower value IP litigation and by which to improve access to justice in particular for SMEs.

The Government has already made changes to court procedures and the costs regime through amendments to the Civil Procedure Rules (CPR - in particular Part 63) and related Practice Direction which were introduced by the MoJ at the Common Commencement Date (CCD) of 1 October 2010.

The Government now intends to limit the value of claims heard in the PCC. This will further differentiate the PCC from the High Court, and will ensure from the outset that lower value IP litigation falls within its jurisdiction. This will also reduce uncertainty for court users as to the appropriate court and obviate the need for potentially protracted and costly transfer considerations.

The Consultation

The recommendations which are the subject of this response were consulted on in a document launched by the IPO on 22 October 2010, and ran for 6 weeks until 3 December 2010.

Three available options were outlined in the consultation Impact Assessment:

1. No change to the current position i.e. unlimited value claims in the PCC.
2. Place a limit on the value of claims heard in the PCC of £500,000.
3. Place a limit on the value of claims heard in the PCC other than £500,000.

Thirteen (13) responses were received: from representative bodies, IP firms, IP representatives and one individual, with ten (10) responses (77%) endorsing option 2.

A full summary of the responses received follows, however it is useful to recognise at this stage that the consultation document explained that the Government considered Option 1 was not viable. The reasons for this relate to consideration of evidence from the previous consultations which suggested that reform of the PCC was long overdue and a cap on damages was necessary. This was reinforced by the IPO consultation to set the appropriate limit. Maintaining the status quo had no benefits as the uncertainty as to the appropriate choice of court would continue. The larger or financially stronger party could bring that choice into dispute by initiating transfer proceedings. It is possible that such protracted negotiations could delay proceedings and front-load pre-action costs for the SME or weaker party. Any financial benefits already brought by the amendments to procedures and cost regime in the PCC would be negated and the cost of litigation is likely to remain a barrier to justice for many SMEs.

It will be necessary to implement this through an affirmative resolution Order in Privy Council, as required by CDPA s288(5), and other measures.

In addition, reform of the PCC, as MoJ puts it in its consultation document, <http://www.justice.gov.uk/consultations/docs/jackson-consultation-paper.pdf>

„is set against the background of costs in civil legal cases having frequently become disproportionate and unaffordable to many individual litigants and businesses – and in particular small businesses. Access to justice is important for both claimants and defendants. Some defendants have complained that the disproportionate costs of defending claims against them mean that they are denied effective access to justice... In seeking to rebalance the costs of civil cases, we are endeavouring to ensure: that necessary claims can be brought; that reasonable claims should be settled as early as possible; that unnecessary or frivolous claims are deterred; and that as a result costs overall become more proportionate’.

This measure, which seeks to complete the reform by limiting the value of claims heard in the court, is underpinned by these MoJ principles. As already outlined, there have been numerous opportunities for interested parties to comment and the Government considered this approach proportionate and in line with Better Regulation requirements.

In helping the Government to reach a decision on the level of the limit to set, the Government asked consultees to consider the following specific questions:

1. Do you agree with the IPCUC proposal that the figure for the limit on the value of claims heard in the PCC should initially be set at £500,000 (excluding interest)?
2. If you consider this figure does not set the limit correctly, what is your proposed limit and what is your reasoning and evidence for your proposal?
3. Should you consider that £500,000 is set correctly, what is your reasoning and if possible evidence for supporting this proposal?

SUMMARY OF THE RESPONSES

- The IPO received 16 comments in response to the consultation.
- Comments were received from nine Representative Bodies [including the IPCUC], two IP firms, four IP Representatives, and from a member of the photographic industry.
- However, of these, one commented on a separate recommendation from Lord Justice Jackson's Review which was outside the scope of the consultation. In addition, two IP Representatives questioned the need for the limit and therefore did not comment on an appropriate figure.
- Three other respondents, (one IP firm and two Representative Bodies) while questioning the need for the limit, agreed it should be considerably higher than the £500,000 suggested (£1,000,000 and £5,000,000 (x2) respectively).
- Therefore, of the 13 comments received which commented on the proposed limit, ten (77%) supported implementing the £500,000 limit (seven Representative bodies, including the IPCUC and Patents County Court Users Committee [PCCUC], one IP firm and two IP Representatives).
- Most respondents provided evidence on, or rationale for, their proposed limit.

Consideration of the options

£500,000 limit

The IPCUC response explained the working group's rationale for proposing this figure in its final report:

„The Working Group originally proposed a limit of £250,000, but in the light of the responses to the Consultation revised this to £500,000 (excluding interest). It is important to appreciate that the Working Group arrived at this figure not by an assessment of statistics for awards of damages and profits in IP claims, because there is no data available from which conclusions may reliably be drawn. Rather, the Working Group exercised its collective judgement in the light of the experience of its members and the points made by respondents to the Consultation.

It is also important to appreciate that the Working Group selected the figure of £500,000 not in isolation, but as part of its overall package of recommendations. In particular, the Working Group had regard to the figure of £50,000 which it was proposing as the maximum recoverable amount of costs (for the liability phase) in the PCC.

As noted in the Consultation Paper, Article 14 of European Parliament and Council Directive 2004/48/EC on the Enforcement of Intellectual Property Rights
http://eur-lex.europa.eu/pri/en/oj/dat/2004/l_195/l_19520040602en00160025.pdf
provides:

“Member States shall ensure that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this.”

What is “reasonable and proportionate” depends on what is at stake. The Working Group took the view in the Final Report that costs of up to £50,000 were reasonable and proportionate for claims of up to £500,000 tried under the proposed new PCC procedure. The IPCUC continues to support this assessment.’

The IPCUC also considers that the limit should apply to all IPR claims in the PCC: *„The costs cap of £50,000 has been imposed on all claims in the PCC, and the two limits form part of the same overall package of reforms’.*

- Of the ten responses supporting the £500,000 limit, seven indicated that it was important to remember that this proposal was part of a package of measures intended to reform the court and better enable SMEs to enforce/defend their IP rights (thereby improving access to justice). In this regard, seven respondents believed that this limit was therefore proportionate to the cap on recoverable costs [costs/damages ratio of 1:10].
- Seven responses emphasised that the measure would not only help to ensure that appropriate cases would be heard by the court but also that the court would not be burdened by inappropriate cases which should more properly be heard in the High Court (examples of excessively complicated cases of extremely high value with unduly difficult litigants were cited).
- In addition, six responses emphasised that the measure would help to ensure that SMEs are not burdened by the delays and pre-action costs associated with transfer disputes.
- Five responses asserted that the limit of £500,000 should, like the cap on recoverable costs, apply to all the IP Rights (no responses took issue with that view).

Other options

Less than £500,000 limit - No responses were in favour of any lower figure and five respondents explained why, in their view, a lower figure would not be appropriate.

One response asserted that the guiding principle is that a SME should be able to afford to sue for IP infringement even where damages are substantial. Also, it added that there is much to be said for having a high cap i.e. £500,000, knowing that the PCC always has the flexibility and discretion to transfer a case to the High Court.

Whilst also supporting the principle of the overall package, another comment supported the view that were the limit to be much lower, then it would potentially start to push some cases which were entirely suitable for the new Patents County Court procedures into the High Court.

Greater than £500,000 limit - Five respondents provided comment as to why a higher limit would also not be appropriate.

One response felt that it would be anomalous that cases with very high monetary value should be conducted before the PCC where the costs recoverable are in stark contrast to the value of the claim. In addition, it continued, procedures in the PCC are streamlined and in high value claims i.e. greater than £500,000, it is appropriate for the parties and the court to have available the broader scope for disclosure, cross-examination and trial length afforded by litigation in the High Court. The

response adds that with so much at stake parties are more likely to want the extensive procedures of the High Court.

A further response addresses the argument for a much higher limit: where the claim is much higher and reputational and financial costs are greater, the respondent believes that parties will start to spend more on preparation, strategy and even look to develop ways of complicating procedures and arguing for more complicated procedures.

One response, commenting on the possibility of a higher figure, asserted that few, if any, of the cases he had run on behalf of SMEs would exceed a value of £500,000.

However, whilst supporting the proposed limit of £500,000, three respondents expressed that the limit may possibly need to be higher. These are included in the eight respondents who considered that the measure would need to be kept under review (with suggestions that it be reconsidered at anything from 2-5 years after implementation).

Another respondent suggested a limit of £1,000,000 [a costs/damages ratio of 1:20], considering that the presence of a relatively modest limit may encourage SMEs to file their claims in the High Court. The response also considered that it is unreasonable to suppose that the presence of the cap will automatically eliminate transfer disputes, maintaining that the £500,000 limit will increase the debate over appropriate court prior to litigation and will create an impression in the mind of some parties that the PCC is an inferior forum.

Two other respondents argued that a limit of £5,000,000 [a costs/damages ratio of 1:100] is more appropriate:

The first considered that with a limit of £500,000 the PCC may become by default a small claims court for IP matters. It asserted that the value of the claim is not the only significant factor that will determine the appropriateness of the forum. It reasoned that there is also the danger that the PCC will become unusable for many SMEs with valuable claims. The respondent envisaged legal costs in the region of £100,000 being incurred by a party to a patent claim in the PCC even with its lower cost procedures (because of the need to instruct technical experts, prepare expert reports and the cross-examination of the experts on technical issues).

A further respondent suggested that the limit should be several millions, for example £5,000,000. The response continued that at only £500,000 damages, the costs of running a case in the PCC would still act as a disincentive. It believed that such a limit would leave a tier of cases above, which were inappropriate in size, complexity and value for the High Court

Summary of those responses which commented on the level of the limit (13):

- None of the responses supported implementation of any lower limit including the £100K, £250K and £350K proposed as part of the consultation/IA.
- Ten (77%) supported the IPCUC proposal that £500,000 is the appropriate limit on the value of claims heard in the Patents County Court.
- Eight suggested that the effect of the measure be kept under review from the outset.
- Three (23%) suggested that the limit should be higher.

COMMENT

The Government agrees with respondents that to set a figure lower than that proposed by the IPCUC, including the alternatives proposed in the IPO Consultation would unnecessarily reduce the frequency of appropriate cases brought by SMEs in the PCC. To do so could defeat the object of improving access to justice and better protecting UK Innovation.

The Government recognises that the limit of £500,000 was proposed as part of a package of reforms and that it is important to ensure that the limit is proportionate to the maximum recoverable costs of £50,000 which has already been effected by changes to the CPR.

There was some difference of opinion in the consultation as to what figure represents a substantial level of damages. One consultation response, which advocated a considerably higher limit, even suggested that the proposed limit of £500,000 would make the PCC a small claims court by default. There also seemed to be some expectation by the respondents who advocated considerably higher limits, that with so much at stake they would not want to feel constrained by the court procedures and costs cap (notwithstanding that successful parties may only recover £50,000 max). It is fully intended that the PCC should hear less complex/lower value cases which may successfully be heard within the parameters of the new streamlined procedures and costs cap.

The Government however, does recognise that the limits on costs and damages are not insignificant sums and supports Lord Justice Jackson's call for cheaper and more readily available 'Before the Event Legal Expenses Insurance' (BTE LEI) as a possible means to further ensure access to justice.

In addition to the limit, which should provide a demarcation line and a practical level of control on the complexity of cases before the PCC, the Government welcomes the IPCUC proposal that, in order to provide further clarity, additional guidance be given in the Court Guides as to the types of cases that would be suitable for the PCC.

The Government, along with a substantial majority of respondents, believes that implementing a £500,000 limit will help to ensure that those SMEs who might wish to claim such substantial damages, are then more likely to be able to bring the claim in the PCC. It considers the measure will clearly benefit the majority of SMEs by reducing the likelihood of an expensive and time-consuming change of forum to or from the High Court. The limit does not remove existing options for any SME, which

includes filing a claim in the High Court. In fact implementation adds further possibilities to any potential IP litigation strategy for all SMEs including those in the high tech business sectors. With the exception of point 3 below, which is already available, the following scenarios will be possible once the relevant measure comes in to force:

1. A claimant may abandon any excess claim above the limit of damages; in which case a patents county court shall have jurisdiction to hear and determine the action, but the claimant may not recover more than that amount (CDPA s288(2)).
2. If the parties agree that a patents county court shall have jurisdiction in any proceedings, that court shall have jurisdiction to hear and determine the proceedings notwithstanding any limit imposed under section 288 (CDPA s288(4)).
3. A claimant may still seek to have the case heard under the Streamlined Procedure (Patents Court Guide para 8.6) in the Patents (High) Court.

Point 3 above is an important one for those SMEs who are seeking very high damages but whose case may be relatively uncomplicated. The Streamlined Procedure in the High Court offers similar prescriptive procedures as those in the PCC including opportunities for cross-examination. Although there is no undertaking to endeavour to ensure that the trial lasts no more than two days, it is highly likely that the streamlined procedure in the High Court would not be as costly as standard procedures. Costs will therefore be more proportionate to what is at stake.

The Government considers that by helping to ensure that lower value IP litigation automatically falls within the jurisdiction of the PCC, it will minimise the risk of costly pre-action disputes as to forum. It recognises that in some cases other factors will also be germane. The Government is persuaded by the proposed guidance from the IPCUC, whose members include the specialist High Court and County Court Judges, which maintains that:

„In deciding whether to transfer a case to, or away from, the PCC,

- *the primary criterion should be whether the case is one which an SME requires the forum to be the PCC in order to achieve access to justice.*
- *The secondary criterion should be that of proportionality.*

„In considering proportionality, the value of the claim (including the value of an injunction) and the complexity of the issues will be relevant, but not determinative, factors’.

CONCLUSION

Over 75% of the responses to the consultation were in favour of the IPCUC's proposed limit of £500,000, with no respondents advocating a lower limit. In light of this, the Government believes Option 2 is appropriate and will therefore implement a limit of £500,000 on the value of all IP claims heard in the Patents County Court.

However, the Government is mindful of the concerns expressed that such a limit may be too low. It proposes to monitor how this limit works in practice and to consider it again 3 years after it comes into effect as part of a post implementation review.

NEXT STEPS

The IPO proposes taking forward Option 2 – introducing a cap of £500,000 on damages/account of profits available in the PCC. It will be necessary to effect this in two stages –

- 1.** The limit in relation to the special jurisdiction of the PCC, i.e. Patents and Designs, will be implemented by means of an affirmative resolution Order in Privy Council under Section 288(1) of the CDPA. This is expected to come into force on 14 June 2011 and the IPO suggests a first review in June 2014.
- 2.** To fulfil the policy intent it is legally necessary to lay a further Order to set financial limits in relation to intellectual property matters which are heard in the PCC but are not within its special jurisdiction e.g. copyright and trade marks. The application of the limit in relation to all forms of IP are considered to be covered by this consultation and it is anticipated that this further Order will be laid with a Common Commencement Date (CCD) of October 2011.

APPENDIX A

OPTIONS AND QUESTIONS SET OUT IN THE CONSULTATION DOCUMENT and IA

Three available options were outlined in the consultation Impact Assessment:

- 1.** No change to the current position i.e. unlimited value claims in the PCC.
- 2.** Place a limit on the value of claims heard in the PCC of £500,000.
- 3.** Place a limit on the value of claims heard in the PCC other than £500,000.

However, the consultation document explained that the Government considered Option 1 was not viable. Reasons for this relate to consideration of evidence from the previous consultations which suggested that reform of the PCC was long overdue and a cap on damages was necessary. This was reinforced by the IPO consultation to set the appropriate limit. Maintaining the status quo had no benefits as the uncertainty as to appropriate court would continue. The larger or financially stronger party could bring the forum into dispute by initiating transfer proceedings. Such protracted negotiations could delay proceedings and front-load pre-action costs for the SME or weaker party. Any financial benefits already brought by the amendments to procedures and cost regime in the PCC would be negated and the cost of litigation would remain a barrier to justice for many SMEs.

In helping the Government to reach a decision on the level of the limit to set, the Government asked consultees to consider the following specific questions:

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APPENDIX B

LIST OF RESPONDEES

GUY TRITTON	BARRISTER
DAVID MOORE	PATENT ATTORNEY
INTELLECTUAL PROPERTY COURT USERS COMMITTEE	REPRESENTATIVE BODY
CHARTERED INSTITUTE OF PATENT ATTORNEYS	REPRESENTATIVE BODY
INTELLECTUAL PROPERTY BAR ASSOCIATION	REPRESENTATIVE BODY
BIOINDUSTRY ASSOCIATION	REPRESENTATIVE BODY
IP LAWYERS ASSOCIATION	REPRESENTATIVE BODY
PATENTS COUNTY COURT USERS COMMITTEE	REPRESENTATIVE BODY
INSTITUTE OF TRADE MARK ATTORNEYS	REPRESENTATIVE BODY
CONSUMER FOCUS	REPRESENTATIVE BODY
FILEMOT TECHNOLOGY LAW LTD	IP FIRM
MILLS & REEVE LLP and ALASDAIR POORE	IP FIRM/PATENT ATTORNEY
LICENSING EXECUTIVES SOCIETY	REPRESENTATIVE BODY
BOB HOBBS	PHOTOGRAPHER
PAUL COLE	PATENT ATTORNEY
DOMINIC HUGHES	BARRISTER