

# PROPOSAL TO CAP COSTS FOR PATENT/IP CASES IN THE SHORTER TRIALS SCHEME

## SUBMISSION ON BEHALF OF GOWLING WLG (UK) LLP

### Introduction

This submission is made on behalf of Gowling WLG (UK) LLP, an international law firm with a longstanding high reputation for the conduct of intellectual property litigation in UK and European courts. The submission reflects the views of the firm, through the members of its intellectual property team, but not the views of any particular client or class of clients. Where client views have been taken into account that will be indicated clearly, even if the client cannot be identified for confidentiality reasons.

We are aware of other submissions being made by, for example, the Intellectual Property Lawyers Association, in which the basis of the public consultation (the Consultation) and the outline rules of the Shorter Trials Scheme have been set out in full. In the interests of brevity we will not repeat those contents in this submission.

The simple question asked is "Should an extended form of costs capping arrangement be introduced for particular specialist areas (such as patent cases or the Shorter Trials Scheme generally)?" Our short answer to that is "yes" and this submission will explain why as briefly as possible.

### Why is the proposed costs cap a good idea?

The UK has a strong reputation for the handling of legally and technically complex patent disputes across the full range of technologies. The judgments of the Patents Court in London are respected across the world and frequently cited as advisory authorities in both Civil and Common Law courts. More recently, the Intellectual Property Enterprise Court (IPEC) has similarly gained a strong reputation for dispensing justice in IP disputes at an affordable level for small and medium sized enterprises.

In relation to costs, the two courts represent extremes of client experience. Whilst IPEC offers only modest possible damages recovery (up to £500,000) and caps recoverable costs at or just over £50,000<sup>1</sup>, the Patents Court (and other branches of the High Court) offers an open-ended jurisdiction in which the costs of a case which proceeds to a full trial are almost always over £1m for each party, and now frequently reach figures in excess of £5m. Damages are unlimited.

The only control on the levels of cost incurred is through the Shorter Trials Scheme (STS) which limits the length of a trial to four days (including pre-reading time for the judge) and places other limits on the length of pleadings, as well as case management controls on experts, experiments and disclosure. There is however, no cap on the recoverable costs incurred in STS cases, so the threat of open-ended liability to very substantial costs remains.

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<sup>1</sup> The costs recovery level in IPEC rose to £60,000 on 1<sup>st</sup> October 2022, but that only applies to claims made after that date.

When IPEC was re-established under its current rules, there was a surge in demand for IP litigation, which did not result in any reduction in the number of cases being filed in the High Court. This was pent up demand, unleashed by a new system with certainty at its core.

We believe that there is similar pent up demand in the middle tier of potential litigants – those for whom the £50,000 cost cap and £500,000 liability cap in IPEC is too low, but for whom the prospect of potential liability for fees running to £millions is simply too much of a risk to take in terms of the long term viability of their businesses. There is significant anecdotal evidence, and some empirical evidence, of companies with potential patent infringement actions under consideration which might be tempted by the prospect of a ceiling of liability in the event of defeat, defined by their own legal costs, over which they have a degree of control and a limit of no more than £500,000 to the other side.

The benefit of certainty is of particular importance in cases where a medium sized enterprise is at odds with a very large multinational company. The inequality of arms in those circumstances can deter an SME from commencing proceedings, or drive them towards an inappropriate settlement, merely to avoid the open-ended risk of cost liability to an opponent operating the "no stone unturned" approach to conduct of the case.

All of these points are brought into sharp focus by the likely opening of the Unified Patents Court across at least 17 European jurisdictions in early 2023. The availability of a multinational relief in the form of damages and/or an injunction, will be a clear attraction. Up to now there has been a good chance that international litigants, especially those based in common law jurisdictions, will see the UK as an attractive place to "test the water" in Europe. Some companies have chosen to commence litigation in the UK and Germany at the same time, but the thoroughness and, to American litigants in particular, the recognisable systems (party appointed experts, disclosure, cross-examination of witnesses) have made the UK an attractive venue. The recoverability of costs in the UK was also an attraction compared to absence of meaningful costs recovery mechanisms in jurisdictions like France, Germany and Italy.

From early 2023 there will be an option to litigate in the UPC, a court that has actually adopted some aspects of common law practice from UK influence in the rule-setting procedure, that can offer pan-European remedies, and that has a predictable cost recovery regime at a significant level. This will provide serious competition for the UK courts and will certainly be attractive to smaller or medium sized corporate entities from the USA and other jurisdictions, which might otherwise be afraid of the unlimited cost liability in the UK.

The downside of the UPC is that it is a brand new court with untried systems, an untried judiciary, and with potential significant jurisdictional issues that may be a huge distraction in early cases.

The availability of an alternative option in the UK, a tried and tested jurisdiction with a reputation for thoroughness and accuracy, which has a similar cap on recoverable costs, might be very enticing to potential multinational litigants, who may consider a UK judgment "in hand" as a very helpful tool for negotiation in Europe and beyond.

### **Why £500,000?**

The figure represents a sensible medium between the very low recoverable costs in IPEC, and the current commonly very high costs of Patents Court litigation – rarely under £1m and frequently much more. It also fits alongside the cost recovery caps in the UPC for cases valued at around €6-8m, so it

would hopefully have the effect of taking costs out of the equation for someone questioning where to start a patent litigation campaign in Europe. A four day full trial under the terms of the STS in the UK courts, is likely to be a more comprehensive and thorough process than the largely paper-based UPC procedure, and consequently more attractive, particularly to US litigants.

Lower sums, for example £250,000, have been considered, but that does not represent a realistic figure for the costs of a medium sized patent dispute. It is feasible for such a case to be run in the STS at a cost level not materially higher than the cap. This is, of course, a cap – not a benchmark for all cost recovery. There have been hardly any cases in IPEC where the full £50,000 has been awarded, and the same is likely to be the case with the STS cap in practice, so those favouring a lower cap may have their concerns assuaged by the actual awards made.

It is not proposed that there should be an "issue by issue" assessment of costs as in IPEC. At present the presiding judge has the ability to make a simple assessment of costs in STS cases, and it is thought by the majority of practitioners that this would be the right way to proceed in respect of the proposed costs cap, avoiding the time and expense of a costs taxation process.

The fact that STS trials are limited to four days (including reading time), and that there are other rules allowing for streamlining of the process, naturally limits the likely costs of STS cases, so the risk that any party would suffer real hardship in only being able to recover £500,000 does not really exist, save for cases where the party itself has sanctioned high levels of legal costs to be incurred, in which case it will have made its own choice, and must live with the consequences.

## **General Support**

The proposed costs cap has met with general support across the ranks of IP practitioners and, importantly, industry. The IP Federation, which represents large IP owning industry in the UK, has stated its support, as has the solicitors' profession through IPLA and the bar through IPBA.

## **Remaining Queries**

There are a small number of remaining issues which need to be resolved in order for the introduction of the costs cap on a "trial basis" to proceed. Below are our thoughts on these issues:

- 1) Quantum Trials –the UK operates a bifurcated system in which liability is assessed first, then, if relevant, a damages enquiry follows. It is well known that the costs of a damages enquiry can often match that of the liability trial, though that is not something to be encouraged. In IPEC, there is a £25,000<sup>2</sup> cap for a damages enquiry following a finding of infringement. By reference to that, our recommendation is that the costs cap for a damages enquiry following a STS liability trial should be £250,000.
- 2) Patents only? – At present the proposal for the STS costs cap relates only to patent trials. There is no particular reason why the cap should not apply to all intellectual property matters, including trade mark, copyright, or design cases. The best reason for keeping it at "patents only" is simplicity, and the fact that it is only for a trial period, so additions could be made if the scheme is successful. The costs of other IP disputes tends not to approach those of a full patent battle, so the urgency for having a cap in those cases is not so great. Further, the UPC

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<sup>2</sup> The cost cap for quantum trials in IPEC rose to £30,000 on 1<sup>st</sup> October 2022, for claims made after that date.

is, of course, only a threat in respect of patent litigation. We have no strong views either way, but if anything lean slightly in favour of keeping the cap for patents cases only in order to simplify and speed up implementation and the commencement of the trial period. With the UPC coming on-line at the beginning of 2023 in all likelihood, there is a degree of urgency to get the STS costs cap in place.

- 3) Part 36 – There has been some contention as regards the IPEC costs cap in terms of the effect of Part 36 offers. Initially it seemed that the IPEC position was that the effect of a Part 36 offer made by a claimant was to effectively lift the cap, so that if such an offer was not "beaten" in the liability trial, the claimant would be entitled to recover all its costs on an indemnity basis, not restricted by the cap<sup>3</sup>. However, subsequently, the same judge (HHJ Hacon) in IPEC made a contrary finding<sup>4</sup> and said, in effect, that his earlier *Hagan* ruling, whilst not overruled, should be limited to exceptional circumstances. As regards the uplift described in CPR Part 36.17(4)(b), the practice in IPEC has been to apply a 25% increase to the costs award.

There seems no reason why a simple adjustment could not be made in respect of the proposed STS costs cap to the effect that the cap should not be removed in the event of a *defendant's* successful offer (in line with Lord Jackson's recommendations<sup>5</sup>), but that, in line with the position in IPEC described above, an uplift of 25% should be available to costs claimed under CPR Part 36.17(4)(b) i.e. in the circumstances of a *claimant's* Part 36 offer.

## Conclusion

In the light of all of the above, Gowling WLG (UK) LLP supports the introduction of a costs cap in the Shorter Trials Scheme on a trial basis. It is hoped that by keeping the proposal simple and avoiding unnecessary further investigation of additional items, the costs cap trial can begin as soon as possible so that the publicity surrounding the opening of the Unified Patents Court in Europe in 2023 can be countered with a strong message regarding certainty of costs liability in the UK courts.

Gordon D Harris, on behalf of Gowling WLG (UK) LLP

October 2022.

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<sup>3</sup> Phonographic Performance Ltd v Hagan [2016] EWHC 3076 (IPEC)

<sup>4</sup> Martin v Kogan [2017] EWHC 3266 (IPEC)

<sup>5</sup> Review of Civil Litigation Costs: Supplemental Report – Fixed Recoverable Costs- Lord Justice Jackson – July 2017 - Chapter 5, Para 2.6