

## **ALAN JOHNSON - Response to Consultation**

This response deals only with the proposal to impose a recoverable costs cap on STS patent actions.

### Personal background and perspective on the proposals

By way of background I am a Solicitor (qualified 1983). I retired as a partner in Bristows LLP in 2019, but have recently come out of retirement and am a consultant to Hogan Lovells International LLP. However, I make this response in a purely personal capacity.

It is relevant to this response to mention that prior to my retirement I was (since about 2001) Secretary to the IPEC (formerly Patents County Court) Users' Committee and sat on the Committee in summer 2009 which (as part of the Jackson review) recommended the proposals subsequently adopted to introduce separate procedures for what is now the IPEC including the recoverable costs cap of £50,000. It is also relevant to note that I have long been involved in advising the UK IPO on matters including the reform of its own procedural rules for litigation, and the UK's position on the UPC; and further that I served on AIPPI's UPC, and later joint UPC Committee and Unitary Patent Committee and chaired that latter committee from 2013 to 2016. The relevance of the UPC is twofold. First, to a not insignificant extent, the proposed new procedures of the IPEC were modelled on what was perceived at the time to be likely procedures of the UPC, including the costs cap; and secondly, the imminent start-up of the UPC which will add competitive pressure to the UK patent litigation market.

### Summary of substantive comments

- I strongly support the proposal to introduce a pilot scheme to impose a recoverable costs cap on STS patent actions;
- I have no strong views on the precise level of the cap, but broadly support a level of £500,000. In my view it should be no higher than about £750,000;
- If it is possible also to impose a cap, or to indicate through guidance, that there should likewise be a cap on recoverable costs on appeal to the Court of Appeal, I would support a cap of the order of £250,000;
- I support the view that the pilot should run for a significant period, and regard 5 years as an appropriate period, albeit I would prefer that it is simply introduced immediately without any pilot;
- I do not believe the cap should be imposed retrospectively on existing actions, save by consent;
- I would like to see a mechanism being included to permit automatic inflationary increases of the cap (due to the present significant rate of inflation);
- I would like to see the new cap being introduced as soon as possible due to the likely imminent start-up of the UPC;
- There should be clarity in the proposals as to the potential effects of Part 36 offers and any possible "unreasonable behaviour" and possible indemnity costs orders.

### Detailed explanation for views – main points

Before the 2009 proposals to change Patents County Court procedures, there was a reluctance among litigants to commit to relatively low value litigation without some degree of certainty as to costs including possible adverse costs orders. The mindset of clients was that they could to a reasonable extent control their own lawyers' costs, but that the potentially unlimited size of an adverse costs order had two negative effects. Most obviously the effect was to create a risk of a liability for costs of an unknown size. Additionally, however, if the adverse party knew if had no limit on its recovery, it would be more likely to increase both parties' costs by conducting litigation in a disproportionate manner. This upward pressure on one's own costs would make it difficult to stick to a pre-agreed (but not legally binding) budget.

Hence, the suggestion of a costs cap in (what became) IPEC was universally welcomed by clients and resulted to my personal knowledge in clients taking actions to deal with infringements which otherwise could not have been prevented. Further it is possible in some cases to insure against the risk of an adverse costs order and this insurance could safely be taken out to cover costs up to the £50,000 cap.

So too must the case be here. There is a category of cases unsuitable for the IPEC, which nonetheless do not justify the risks of full blown patents court litigation, in particular because of the risks of an adverse costs award. A recoverable costs cap would address that issue and also the effect of upward pressure on one's own costs as described above. Further, it would allow, in some cases, the potential claimant to insure against an adverse costs risk to a figure which it would know with certainty would cover an adverse costs award.

I have personal experience of the sorts of cases which are currently not brought in the UK in part at least because of the absence of a costs cap other than in IPEC. These are of two types.

First, there are international cases (typically US or Far Eastern patentees) where the client has a choice of jurisdictions. Often the first preference is for German proceedings and a second preference for UK proceedings. Whilst in some cases, actions might be brought in both fora, some cases are brought only in Germany, albeit they may spawn a retaliatory revocation action in the UK. Historically the UK courts have competed with the German courts for this international business. Germany has an advantage<sup>1</sup> that it is (for many products) a larger market, whilst it has a system similarly efficient to that of the UK but cheaper. With the advent of the UPC, which can be regarded as a "Germany plus" jurisdiction, potentially cases can be brought which may result in relief (including injunctive) covering many European countries. This will inevitably put further competitive pressure on the UK. The STS is of itself an answer to this, but the inclusion of a costs cap would be very helpful because the UPC also has costs caps of the same order of magnitude as is suggested for the STS. It is not known when the UPC will begin, but it is widely predicted to start from 1 April 2023. It is therefore sensible that if this proposal is to be adopted, it is done before then if possible.

Second there are purely domestic actions which are neither small enough for IPEC, nor truly large enough for a full-blown Patents Court action. It should be stressed that these are far from all cases for SMEs. Rather more often they are potential cases involving very large corporations (multinationals) but which have a smaller product line which does not justify a legal spend of several millions as opposed to perhaps £1M. I well recall one such case for a US multinational who declined to bring the case for these very reasons. Effectively that client was denied justice since it

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<sup>1</sup> There is also a further reason which is the constitutional position which requires invalidity (nullity) counterclaims to be brought in a separate court in a separate action which can lead to what is known as the "injunction gap" problem (that is a problem for defendants rather than patentee/claimants)

was commercially not worthwhile following through on any threats it might make to commence proceedings.

### Supplementary points

I have mentioned in my summary a few other specific points:

*Appeal costs* – one point raised by some in the context of the IPEC consultation was “what about the costs of an appeal?”. The answer to this was that nothing could be done within the constraints the consultation group was working under, albeit it was felt unlikely that the Court of Appeal would permit recovery of excessive costs. I perceive that the same concerns may pertain in the case of the STS cap. Hence if anything can be done to constrain costs on appeal for cost-capped STS cases, this would be helpful.

*Part 36 offers and unreasonable conduct* – the IPEC costs cap was rendered somewhat uncertain by two issues. First, the potential problems of the cap not applying to unreasonable behaviour. In practice this has not been a problem, however, and in my view unreasonable conduct should be punishable in costs and potentially override the cap. Part 36 offers and their effects have been more problematic, however, and I would suggest this issue be addressed in formulating the Rules.

*Inflation* – the £50,000 costs cap (proposed in 2009) in the IPEC should, in my opinion, have been raised by now to £100,000 rather than the recently agreed increase to £60,000. Inflation should be taken into account and preferably a mechanism for automatic raising of the limit should be included if possible. In any event, it ought to be possible even in the course of a five year pilot, to increase it due to the current extreme inflationary pressures.

*Retrospective imposition of the cap?* – I do not favour the imposition of any retrospective measures, including in this case. However, were the parties to consent, that would be another matter.

*A Pilot rather than a simple Rule change and duration of Pilot* – In view of the IPEC experience, I would prefer that this change simply be introduced immediately as a permanent rule change. However, if that is not an option, I would note that recent pilots have been extended before becoming permanent. This creates some uncertainty. In my view it would be better to put in place a pilot of significant duration. Five years is arbitrary, but about right in my view.

### IPLA submission

Finally I would add that I have read in draft and support the IPLA submission but formed my view independently of, and before reading, that submission.

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