

## IPLA

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

### Introduction and Executive Summary

This Note is the Response of the Intellectual Property Lawyers' Association (IPLA) to the public consultation by the Costs Working Group created by the Civil Justice Council (the Consultation).

The IPLA represents about 65 law firms in the UK which have a substantial practice in the field of Intellectual Property (IP). Our member firms advise and represent the parties in most of the disputes and proceedings in relation to IP in the UK.

The IPLA represents solicitors on the Intellectual Property Court Users Committee (IPCUC) and the Chair of the IPLA (Michael Burdon) is the secretary of the IPCUC.

This Note focuses on the idea of capping costs for patent cases in the Shorter Trials Scheme (STS) which is referred to in the Consultation.

The Consultation includes, in paragraph 48,

"For example, there may be other areas in which some form of fixed costs or cost capping scheme may be worthy of consideration. A possible example could be certain kinds of high value specialist litigation. An idea mooted recently has been to set up an extended form of costs capping arrangement, similar to the one operated in the Intellectual Property Enterprise Court but set at a higher level, for patent cases in the Shorter Trials Scheme. With that in mind, responses from the intellectual property sector (and any other specialist sector where similar changes would be of value) are invited."

The questions at Annex B, Part 4 include –

"4.3 Should an extended form of costs capping arrangement be introduced for particular specialist areas (such as patent cases or the Shorter Trials Scheme more generally)? If so, please give details."

The IPLA has developed and discussed with the wider IP community, including the IP Federation which represents IP-rich industries operating the UK, the idea of capping costs for patent cases in the STS. The main reason for the proposal is to improve access to justice for "mid-tier" patent disputes by providing potential litigants with greater certainty about the total costs risk of commencing proceedings (which was identified as the most important reason for the success of the IPEC reforms).

In essence, the proposal adopts the current procedures for the STS in PD 57AB and adds a single total costs cap of £500,000. Recovery of costs would follow the standard principles, including proportionality and the indemnity principle, and be subject to the summary assessment procedure set out in PD 57AB (which is considered to be a positive feature). The amount of £500,000 should enable the successful party to recover a reasonable proportion of their total costs. The amount is consistent with costs awards in patent cases in the STS and feedback from industry supports this level.

The proposal is designed to be simple to apply with minimum changes to the existing procedural rules. PD 57AB would not change other than to be subject to a single total costs cap of £500,000. We consider a single overall cap to be the best option. It is the overall cost of litigation which is considered by industry and experienced users to be the most important criterion in deciding whether to fund the issue or defence of proceedings. We consider a detailed schedule setting out caps on costs for each phase of litigation would involve avoidable complexity and additional cost without material benefit. We also consider there to be sufficient variation in the complexity and value of

disputes that imposing multiple caps or fixed fees for each stage of the proceedings would not be fair. We anticipate that some costs orders will be below the cap and success should not result in a windfall or premium on costs expended which might occur with fixed costs. Costs awards would be subject to judicial discretion, summary assessment and the indemnity principle which would provide ample protection and information without having to assess costs by reference to multiple caps.

There is also widespread support for the idea of a costs cap for STS cases involving other forms of Intellectual Property. The motivation, analysis, evidential support and discussion for this proposal has focused on patent cases. There is also some urgency for the introduction of a costs cap for patent cases in light of the imminent commencement in 2023 of the Unified Patent Court (UPC), involving most EU member countries. The parties in patent disputes usually litigate in a small number of countries and have a large amount of choice as to where they choose to enforce, challenge and defend their patent rights. The UK Patent Court will face significant additional competition as a forum for patent disputes from the European UPC. The proposed costs cap will help to encourage litigants to use the UK Patents Court. The amount of the proposed cap is similar to the recoverable costs in the UPC for disputes of a similar size and value. This Note therefore focuses on the idea of capping costs for patent cases.

The aims and features of the STS are well known. The streamlined procedure works well for “mid-tier” patent cases. We do not propose any change other than the addition of a cap on costs recovery which we expect would make it more popular and better used by litigants who might otherwise not litigate in the UK. It is therefore not necessary to discuss the details of the STS in this Note, but we have included a summary in an Annex in case it is helpful to those less familiar with the STS procedure.

## **Detailed Rationale**

This proposal is designed to improve access to the Patents Court for companies, and in particular SMEs, with mid-tier patent cases and to make the UK an attractive forum for patent disputes which can be brought in different international jurisdictions.

The UK courts are attractive for very complex and high value patent disputes on the one hand, and for relatively small and simple patent disputes on the other but are less attractive for cases which fall in the middle of the range. The main concern of potential users is the difficulty of predicting the complexity and cost of the proceedings. The STS procedure goes a long way to addressing the complexity through streamlined procedures and case management. However, users remain concerned about their potential costs exposure in the event they are unsuccessful, and that uncertain and open-ended costs risk can be a determining factor in deciding whether or not to commence proceedings, and to enforce their patent rights in the UK, or to seek to clear the way or challenge the patent rights of competitors. It is also possible that some competitors do not supply products in the UK or defend claims or challenge assertions of patent rights in the UK, because of the high and uncertain cost of UK patent litigation, including the risk of high and unpredictable adverse costs.

IPEC has proved to be a very attractive forum for smaller value IP cases. In IPEC, damages and accounts of profits are limited to a maximum of £500,000. The Patents Court on the other hand regularly considers complex and high value patent disputes where the value is many millions of pounds and sometimes several billion pounds. Most claims commenced in the Patents Court contain a certification that the value of the claim is in excess of £10,000,000.

The total fees and costs of a Patent Court action will rarely be less than £1 million. The total costs of a small to medium size patent dispute will usually be in the range of £1.5 – 2.0 million. In many cases the total costs will be more than £2.0 million. Costs budgeting does not apply to cases with a value in excess of £10,000,000. The successful party usually recovers 65-75% of their total costs. However, the unsuccessful paying party will not know how much they have to pay until after the trial and judgment.

In IPEC, costs are awarded on the basis of a schedule of fixed fees for different phases of the proceedings, with a total overall cap in relation to liability of £50,000 (which was set in 2010) which has recently been increased to £60,000 with effect from October 2022.

The mid-tier cases for which this proposal is designed are those which are less complex and valuable than the types of cases which are conducted in the Patents Court, but which are more complex and valuable than the types of cases brought in IPEC.

This proposal is designed to fulfil an unmet need and increase the overall number of patent claims commenced in the UK. It is not designed to cause a redistribution to the STS of the lower value cases which are brought in IPEC or the higher value cases which are started in the Patents Court (for which the STS is not suitable). The introduction of the IPEC reforms about 10 years ago led to a significant increase in the number of patent cases brought in IPEC without any reduction in the number of new claims brought in the Patents Court. The Official Report reviewing the introduction of the IPEC reforms identified the costs cap as the single most important reform, citing “Certainty to litigants about their potential exposure”. The IPEC reforms clearly improved access to justice for SMEs with lower value disputes<sup>1</sup>.

## **The Amount of the Cap**

The £500,000 cap is proposed as an amount which is considered proportionate to the likely value of patent disputes which are suitable for the STS. It is considered by industry as a reasonable amount to budget for potential adverse costs for this type of dispute. It is supported by anecdotal evidence from solicitors with experience of using the STS for patent disputes. It should allow a reasonable recovery of actual costs sufficient to make the scheme attractive for claimants but provide a disincentive for bringing speculative cases. If the cap was set at a lower amount, so that a reasonable recovery of actual costs was not possible, the STS would be less attractive, and users would most likely use the standard Patents Court procedure or choose not to litigate in the UK. The proposed cap is substantially higher than the IPEC costs cap and also significantly lower than the amount usually recovered by the successful party in Patent Court proceedings. It is also comparable to the amount of recoverable costs for mid-value cases in the new Unified Patent Court, of which the UK is no longer a part, but which is likely to attract a significant amount of patent litigation affecting commercial activities in the European Union.<sup>2</sup>

There is no costs budgeting in the STS. Parties file and exchanges schedules of their costs within 21 days of the end of the trial (before the outcome is known) and the trial judge makes a summary assessment. We consider the summary assessment procedure to be an attractive feature of the STS.

The purpose of the costs cap is to ensure that those bringing or defending a claim can be more certain about their total potential costs budget, taking into account the possibility that they will not be successful, and costs will be awarded against them. The amount of the costs cap should permit a reasonable recovery of total fees and costs incurred in successfully bringing or defending a claim.

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<sup>1</sup> Official Report commissioned by IPO on IPEC Reforms published 22.6.2015 reported significant success in increasing access to justice of patent cases in IPEC. The number of cases after the reforms were introduced increased significantly.

84% increase 2010-2011, 10 cases per annum 2007-2010, 27 cases 2011, 26 cases 2012, 17 cases 2013. 53% of interviewees said costs cap was the single most important reform (35% said active case management was important).

“Certainty to litigants about their potential exposure”

NB also parallel increase in Patents Court cases 2010 (50) – 2011 (92), 2012 (89), 2013 (61) so IPEC cases were not redistributed from Patents Court

<sup>2</sup> In the UPC, the ceiling for recoverable costs for a dispute valued at €4,000,000 is €400,000 and for a dispute valued at €8,000,000 is €600,000.

There are very few judgments and orders which provide information about costs recovery in patent claims brought under the STS. We have identified the following cases -

In *Elkamet Kunststofftechnik GmbH v Saint-Gobain Glass France SA*, [2016] EWHC 3421 (Pat), the unsuccessful defendant was ordered to pay the claimant £458,000.

In *L'Oréal Société Anonyme v RN Ventures Ltd (Rev 1)* [2018] EWHC 173 (Pat), after a summary assessment, the unsuccessful defendant was ordered to pay £558,000, including interest (plus a daily rate of £122.30 between the date of the judgment and the payment).

In *Permavent Ltd & Anor v Makin*, [2020] EWHC 3495 (Pat), the successful claimant's costs were assessed at £328,279. The total amount claimed in the Claimants' schedule of costs for the action, was £410,621.10, with reserved amounts from an injunction application of £17,827.60.

In *Insulet v Roche*, [2021] EWHC 2047 (Pat), Deputy Judge Treacy gave a separate detailed judgment on costs (dated 22.07.2021). The defendant, Roche, was successful overall in the action. Roche's total costs of defending the action were £1.67 million of which £1.2 million were solicitors' fees. Insulet's costs were capped under an agreement with their advisers at £1 million but would otherwise have been between £1.1 – 1.2 million. Ms Treacy considered Roche's costs to be high and only awarded 55% of those costs on a summary assessment. After deductions and offsets for issues on which Roche were not successful, Roche was awarded £714,684.

The final Order in *Advanced Bionics v Med-El Elektromedizinische*, dated 23 September 2022 records the Defendant agreeing to pay the successful Claimant the sum of £600,000 in settlement of the costs of the action and counterclaim.

The proposed cap of £500,000 is considered by experienced users and advisers to be an amount which should allow the successful party to recover a reasonable proportion of their total costs. Costs recovery will in any event be subject to the indemnity principle and a summary assessment (under STS rules).

We recommend there is a single overall cap and not separate caps for each phase of the proceedings to keep the application simple and avoid unnecessary complexity which will have little or no incremental benefit. The parties are required to prepare costs schedules in the form of Precedent H which the trial judge then summarily assesses which should provide adequate safeguards about the reasonableness of the costs within each phase of the proceedings.

We consider the restrictions on cases which are suitable for the STS, together with the indemnity principle and the summary assessment procedure, provide sufficient safeguards such that a threshold for the value of the disputes to which this proposal would apply is not necessary or beneficial. A value threshold would be subjective and potentially lead to extra cost and satellite disputes. The fundamental requirement that a trial in the STS cannot last more than 4 days including the Judge's pre-reading together with the other streamlined procedures in the STS will also help to ensure that the total costs incurred in a patent action in the STS are kept to a reasonable and proportionate amount. The cap of £500k should serve to reinforce the reasonableness and proportionality of the costs. The cap should also help to ensure equality of arms especially in the case where a SME is in dispute with a much larger global company.

## **Detailed Costs Points**

We have identified, with our preferred solution, the following detailed points about the award of costs under such a cap:-

We propose that the court would not order a party to pay total costs of more than £500,000 other than as expressly provided for in the new Practice Direction. We propose that under the new Practice Direction -

Costs in addition to the capped amount could be ordered for – court fees, interest, wasted costs, enforcement of orders and VAT.

For simplicity, the cap should apply after set off under CPR 44.12(1)(a) but the Judge should have a discretion to apportion the cap if just in the circumstances of the case.

Part 36 should apply with some modification. In relation to successful defendant's offers, the court should take into account the proportion of costs incurred by each party before and after the time for acceptance of the offer and apportion the costs cap accordingly, so that the aggregate of both parties' costs does not exceed the cap. In relation to successful claimant's offers, the Court should consider in relation to the relevant period awarding additional interest at a rate not exceeding 10%, indemnity costs and an additional amount of 10% of the monetary award. In the interests of certainty and fairness, an increased cap of £625k should apply to such awards.

## **Discussion and Support**

The idea underpinning this proposal was initially considered, with indicative support, at a meeting of IPCUC on 21 November 2019. It was debated at a Town Hall meeting of IP industry representatives and professionals on 10 February 2020. It has been considered by the IP Federation which represents about 50 UK-based companies in IP-intensive industries who have indicated their support, as have the IPBar, CIPA and Law Society IP committee.

The principle and amount of the cap were discussed in a further Town Hall meeting, arranged by IPLA and IPBar, which was held on 21 September 2022. Birss LJ spoke at the meeting, and it was attended by Master Kaye and several IP Deputy Judges as well as about 50 specialist IP lawyers (barristers and solicitors). Mr Danny Keenan, a senior patent lawyer at Unilever and Vice President of the IP Federation, spoke in support of the principle and the amount of the costs cap, explaining its importance and attraction to industry in deciding whether and where to engage in patent litigation. Mr Keenan also gave an example of a patent dispute involving packaging technology which was relatively simple and suitable for the STS but where the damages would easily exceed the IPEC limit of £500,000. Mr Keenan agreed there were situations in which patent owners would be unlikely to commence such cases if their recovery of costs was open-ended and uncertain. He also said that it would be a disincentive to commencing such proceedings if the cap were set at a much lower amount preventing recovery of a reasonable proportion of actual costs.

There was unanimous support for the proposal at the recent meeting and near-unanimous support for the amount of £500k, with one or two attendees suggesting lower or higher amounts. Many attendees mentioned the importance of the cap to enhance the competitiveness of the UK Patents Court in the light of other European courts, notably Germany, and also the new European UPC, hoping that the proposal could be implemented quickly in light of the imminent opening of the UPC. Many attendees also expressed support for expansion of the idea to other IP disputes, noting that it could apply to all STS cases in the IP List in Chancery as well as patent and registered design cases in the Patents Court.

## **Implementation**

We recommend the costs cap is introduced as a Pilot and applies to new proceedings involving Patents brought under the STS. Parties to existing proceedings might consider it unfair to apply a cap retrospectively to proceedings. As it may take some time for new cases to be commenced after the Pilot is introduced and for those cases to proceed to trial and summary assessment of costs, we recommend a period of at least 5 years. The Pilot could also be subject to monitoring and interim review.

We recommend the Pilot can be kept simple by overlaying a simple cap on total costs on top of the existing STS rules with changes and additions to the STS and other rules kept to a minimum.

The existing Rules on the Shorter Trial Scheme in Practice Direction 57AB would continue to apply subject only to the cap on total costs awarded for Patent cases in the STS which are commenced after the Pilot starts.

We would be happy to assist with further information and in the preparation of a draft Practice Direction.

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## Annex

### SHORT SUMMARY of the AIMS and FEATURES of the STS

#### Aims of the STS

The aims of the STS and the FTS are succinctly set out at paragraphs 2 and 3 of the Shorter and Flexible Trial Procedure Guide, a document which was appended to a note dated 10 July 2015 from Colin Birss J, as he then was, to the Civil Procedure Rules Committee:

"The aim of both pilot schemes is to achieve shorter and earlier trials for business related litigation, at a reasonable and proportionate cost. The procedures should also help to foster a change in litigation culture, which involves recognition that comprehensive disclosure and a full, oral trial on all issues is often not necessary for justice to be achieved. That recognition will in turn lead to significant savings in the time and costs of litigation."

"The Shorter Trial procedure offers dispute resolution on a commercial timescale. Cases will be case managed by docketed Judges with the aim of reaching trial within approximately 10 months of the issue of proceedings, and judgment within six weeks thereafter. The procedure is intended for cases which can be fairly tried on the basis of limited disclosure and oral evidence. The maximum length of trial would be four days, including reading time".

The Guide also "...recognised that there may be aspects of the schemes which require refinement over time. The courts will work closely with users to clarify and resolve any such issues in an efficient way."

#### Key Features of the STS

- The STS covers cases in the Business and Property courts which do not involve allegations of fraud or dishonesty and do not involve multiple issues or multiple parties
- Trial cannot require more than 4 days, including Judge's pre-reading.
- Not appropriate where extensive disclosure, experiments or evidence are required.
- No Limit on Remedies or Value of Dispute.
- Quicker time to trial - within 8 months after the CMC. CMC can be fixed for 12 weeks after date for acknowledging service
- Streamlined Procedures
  - Particulars of claim no longer than 20 pages.
  - Additional requirements for contents of particulars of claim.
  - Core bundle to accompany particulars of claim; additional core documents to accompany the defence.
  - Any counterclaim must be served with the defence; any reply and defence to counterclaim to be served together.
  - Limited scope to agree time extensions.
  - Disclosure: abbreviated, issue-based approach; no requirement to volunteer adverse documents.
  - Provisions to limit witness evidence
  - Costs management does not apply.
  - Applications on paper/by telephone.

- Designated judge to hear CMC and try case where possible.
  - Judgment within six weeks of trial.
  - Trial judge to summarily assess costs of whole case.
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- Applications to transfer in and out possible



