

**EXPLANATORY MEMORANDUM TO
THE PATENTS COUNTY COURT (FINANCIAL LIMITS) ORDER 2011**

2011 No. 1402

1. This explanatory memorandum has been prepared by the Department for Business, Innovation and Skills and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 The purpose of the instrument is to limit the value of claims which may be heard in the Patents County Court (“PCC”) to £500,000.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 The instrument implements for the first time the power in section 288(1) of the Copyright, Designs and Patents Act 1988 (c.48) to set financial limits in relation to proceedings within the special jurisdiction of a PCC.

5. Territorial Extent and Application

5.1 This instrument applies to England and Wales.

6. European Convention on Human Rights

The Parliamentary Secretary for Business, Innovation and Skills, Baroness Wilcox, has made the following statement regarding Human Rights:

In my view the provisions of the Patents County Court (Financial Limits) Order 2011 are compatible with the Convention rights.

7. Policy background

• *What is being done and why*

7.1 Following the Oulton Committee’s Report (1987)¹ the PCC was created by Parliament to serve the interests of small and medium-sized enterprises (“SMEs”) by providing an affordable forum for intellectual property litigation.

¹ 'Patent Litigation: The Report of a Committee, November 1987' by Sir Derek Oulton, Permanent Secretary to the Lord Chancellor.

7.2 The PCC has not functioned as intended. In 1996 the Woolf reforms² removed the procedural distinctions between the County Court Rules and those governing patent cases in the High Court. This left little scope for using the enhanced case management powers under the Civil Procedure Rules (“CPR”) to reduce costs. Research detailed in the attached Impact Assessment (“IA”) shows that, partly as a consequence, intellectual property (“IP”) litigation in the UK is three times more expensive for small to medium cases than in other European states. Further evidence indicates that SMEs have, as a result, been deterred from protecting their innovation by enforcing/defending their IP rights through the courts.

7.3 There has been a long standing call from the Judiciary, the IP legal profession, industry and business to reform the court and cast it in the form that was intended. This was reflected in the responses from all of these sectors during the course of the numerous consultations (please refer to sections 8.1 and 8.2 below).

7.4 As part of Lord Justice Jackson’s Review of Civil Litigation Costs (2010)³ the Government also asked him to make recommendations to improve access to justice at proportionate cost. Lord Justice Jackson endorsed the Intellectual Property Court Users Committee (“IPCUC”)⁴ proposals to reform the PCC as a means by which to achieve this in relation to IP disputes.

7.5 The Ministry of Justice (“MoJ”) implemented the first of the proposals in relation to court procedures and the costs regime through amendments to the CPR on 1 October 2010. The streamlined procedures include new rules on the process and timings of filing claims, defence, counterclaims etc and a maximum duration of two days for the main hearing. These changes are coupled with a recoverable costs scale which stipulates maximum charges for each stage of the process up to a limit of £50,000.

7.6 The Patents County Court (Financial Limits) Order implements a further IPCUC proposal and will limit the value of claims heard in relation to patents and designs disputes to £500,000 excluding interest. Further secondary legislation will be necessary to impose a financial limit in relation to the other IP rights e.g. copyright and trade marks.

7.7 The Order will further differentiate the PCC from the High Court and will ensure that lower value, less complex cases, which would typically involve SMEs, will automatically fall within the jurisdiction of the lower, cheaper court. It will bring greater clarity and certainty for SMEs as to the appropriate court to hear the case and should ensure that costly and lengthy pre-action disputes, which front-load litigation costs and continue to deter them from defending/enforcing their rights, will be avoided.

- ***Consolidation***

7.8 N/A

8. Consultation outcome

8.1 The IA lists the extensive previous consultations on, and associated research relating to, reform of the PCC (table of references page 4). Over a period of 14 months,

² 'Access to Justice: Final Report to the Lord Chancellor on the Civil Justice System in England and Wales, July 1996' by The Right Honourable the Lord Woolf, Master of the Rolls

³ <http://www.judiciary.gov.uk/publications-and-reports/reports/civil/review-of-civil-litigation-costs/>

⁴ The IPCUC includes the High Court IP Judiciary and the Judge of the PCC.

Judges, legal practitioners, court users, industry and business had numerous opportunities to comment on the issues of IP litigation costs and PCC reform (including the principle of the damages limit in the court).

8.2 Opportunities included two full public consultations by Lord Justice Jackson as part of his review (Intellectual Property Office (“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. Finally, Jackson LJ tasked the Strategic Advisory Board for IP with further research on SME views on the proposals.

8.3 The proposals to reform the PCC received widespread support from all sectors, including from the Federation of Small Businesses and Confederation of British Industry, and at every stage of public engagement.

8.4 The IPO held a further six week consultation in order to seek views on the proposed IPCUC limit on damages of £500,000 (the Better Regulation Executive considered this proportionate in light of the previous public engagement and support for the measure.) The consultation also sought further evidence in relation to IP disputes in order to better inform the IA.

8.5 Views were again sought from all sectors including industry and business. Responses were received from the legal profession and industry representative bodies. Ten of the thirteen respondents (77%) supported the IPCUC proposal that £500,000 should be the appropriate limit on the value of all types of IP claims heard in the Patents County Court. Three (23%) suggested that the limit should be higher. None of the responses supported implementation of any lower limit. Further details on the consultation and analysis of the consultation responses can be found in the IA at pages 10-12.

9. Guidance

9.1 At the time the Order is made the IPO will publicise the effect and benefits of the measure through its e-notice system. The system is used to communicate with over 400 stakeholders on key IP issues. Stakeholder lists include representative bodies from the legal profession, industry and business.

10. Impact

10.1 The impact on business, charities or voluntary bodies is: that in relation to enforcing their IP Rights it will improve access to justice at proportionate cost.

10.2 The impact on the public sector: none.

10.3 An Impact Assessment is attached to this memorandum and will be published alongside the Explanatory Memorandum on www.legislation.gov.uk . Please see p. 12 for Impacts.

11. Regulating small business

11.1 The legislation does not regulate small business. However it will reduce costs and burdens for SMEs when protecting their innovation.

12. Monitoring & review

- 12.1 The success criteria are: that SMEs feel confident in using the PCC to resolve disputes since they will have certainty as to financial exposure; that there is eventually an increased deterrent to infringement with the improvement in access to justice, i.e. right holders would more easily be able to take enforcement action. This will be demonstrated through the increased use of the PCC and/or an increase in the proportion of disputes settled without litigation. It will also be gauged through stakeholder feedback.
- 12.2 The Government will hold a post implementation review (“PIR”) 3 years after the order is made. The objective of the review will be to ensure that the limit that has been set still represents the optimum outcome i.e. that the limit for lower value IP litigation is ensuring that the less complex cases involving SMEs are being heard in the PCC and that transfer disputes have been minimised.
- 12.3 The Government has agreed to work with the Judiciary to monitor the use of the PCC and High Court by compiling appropriate statistics and will periodically interview the Judiciary on the workings of the two courts. The Government will also consult with SME stakeholders on the functioning of the measure.

13. Contact

David J. Evans at the Intellectual Property Office [BIS] Tel: 01633 813831 email: DavidJ.Evans@ipo.gov.uk can answer any queries regarding the instrument.

Title:**Setting the limit on the value of claims to be heard in the Patents County Court****Lead department or agency:**

Intellectual Property Office (Department of Business Innovation and Skills)

Other departments or agencies:

Ministry of Justice and Judiciary

Impact Assessment (IA)

IA No: BIS0135

Date: 10/12/2010

Stage: Final

Source of intervention: Domestic

Type of measure: Secondary legislation

Contact for enquiries:

David J Evans; Tel: 01633 813831;

Email: DavidJ.Evans@ipo.gov.uk

Summary: Intervention and Options**What is the problem under consideration? Why is government intervention necessary?**

Intellectual property (IP) litigation costs in the UK have been expensive compared to Europe e.g. around 3 times more for cases involving small and medium enterprises (SMEs). Until recently procedures and so litigation costs in the Patents County Court (PCC) were largely the same as in the High Court. The resulting high costs in the County Court were a deterrent to those SMEs needing to enforce/defend their IP rights and protect their innovation. MoJ has now simplified procedures and introduced a capped fixed scale of recoverable costs. However, without the proposed measure lower value litigation will not automatically fall within the jurisdiction of the cheaper court and litigants, in particular SMEs, will therefore still be exposed to costly disputes over court and unlimited costs/damages awards if the case is heard in the High Court.

What are the policy objectives and the intended effects?

The measure is intended to reduce costs/burdens for SMEs, helping to improve access to justice, better protect innovation and stimulating economic efficiency/productivity and growth. Placing an appropriate limit on the value of claims heard in the PCC will ensure that the lower value, often less complex IP litigation, which is usually that involving SMEs, automatically falls within the jurisdiction of the cheaper, reformed PCC. With the procedural and cost reforms recently effected in the court by MoJ, it will further differentiate the PCC from the High Court. The cap will minimise the risk of costly pre-action disputes, ensuring the cost savings already introduced are not negated, and it will remove the uncertainty as to financial liability which deters SMEs from enforcing/defending their rights and protecting their innovation.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The Consultation Stage IA sets out three options on the appropriate limit value:

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

Option 2 is the preferred option. It will bring about certainty of jurisdiction as to the appropriate court to hear cases, improve access to justice for SMEs and enhance efficiencies in the administration of justice in line with the ongoing MoJ reforms. This option was broadly supported by majority of the consultees. It also reinforces the recommendation made by the Intellectual Property Court Users Committee and the Jackson LJ in his Review of Civil Litigation Costs. (see evidence base).

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?

It will be reviewed
04/2014

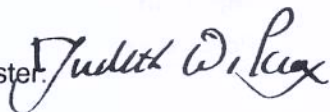
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

Yes

SELECT SIGNATORY Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:



Date: 16.2.2011

Summary: Analysis and Evidence

Description:

Place a limit on the value of claims heard in the PCC of £500,000

Price Base	PV Base	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low	High:	Best Estimate:

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	0		0	0

Description and scale of key monetised costs by 'main affected groups'

None.

Other key non-monetised costs by 'main affected groups'

None.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	0		0	0

Description and scale of key monetised benefits by 'main affected groups'

The changes will save SMEs potentially significant costs associated with pre-action disputes as to the appropriate court to hear the case. Savings resulting from the MoJ reforms of procedures and costs will not then be negated by such transfer disputes. Lower value litigation will be heard in the cheaper forum from the outset and the lower costs and damages exposure can also be mitigated through more accessible Before The Event (BTE) Legal Expenses Insurance (LEI). The measure will also save case processing costs for HM Court Service. The monetised and non-monetised benefits mean that this is a simplification (out) measure.

Other key non-monetised benefits by 'main affected groups'

It will reduce uncertainty for SMEs as to which court should hear their case - if the case was heard in the High Court they would still be exposed to a substantial (unlimited) and unpredictable adverse costs award if they lose - as the case will be fall with the jurisdiction of the lower court from the outset. It will remove the extra delays associated with pre-action disputes as to the appropriate court and hence reduces the already onerous burden of litigation. Subsequently, the court will also not be burdened with inappropriate claims, resulting in SMEs being able to benefit from a speedier resolution of disputes. The measure will help to improve access to justice, eventually increasing the deterrent to infringement and should also encourage arbitration rather than litigation. With reduced administration in relation to transfers/transfer disputes HM Court Service will be able to provide a faster more effective service for the benefit of SMEs.

Key assumptions/sensitivities/risks

Discount rate (%)

Risks:

- transfer of cases to the High Court;
- the value of the damages claimed is over £500,000.

Assumptions:

- that all parties agree where the claim is over the limit that the PCC has jurisdiction;
- that 25% of SMES with IP rights have been involved in disputes where the value of damages would mainly not have risen above £500,000

Impact on admin burden (AB) (£m):		Impact on policy cost savings (£m):		In scope
New AB:	AB savings:	Net:	Policy cost savings:	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	01/04/2011				
Which organisation(s) will enforce the policy?	IPO/JUDICIARY				
What is the annual change in enforcement cost (£m)?	0				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: n/a		Non-traded: n/a		
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: 0%		Benefits: 100%		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro 0	< 20 0	Small 0	Medium 0	Large 0
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties¹ Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	Page 15
Small firms Small Firms Impact Test guidance	Yes	Page 15
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	Yes	Page 8
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Lord Justice Jackson – Review of Civil Litigation Costs: Final Report (see http://www.judiciary.gov.uk/about_judiciary/cost-review/jan2010/final-report-140110.pdf)
2	Lord Justice Jackson – Review of Civil Litigation Costs: Preliminary Report: Volume One (http://www.judiciary.gov.uk/about_judiciary/cost-review/jan2010/vol1-low.pdf); Volume Two (http://www.judiciary.gov.uk/about_judiciary/cost-review/jan2010/vol2-low.pdf)
3	Intellectual Property Court User's Committee: Consultation on Proposals for Reform of the Patents County Court 21/06/09
4	Intellectual Property Court User's Committee: Working Group's Final Report on Proposals for Reform of the Patents County Court (http://www.judiciary.gov.uk/docs/pub_media/pcc-report.pdf)
5	Strategic Advisory Board for Intellectual Property Policy (SABIP): Research Papers (http://www.sabip.org.uk/home/research.htm)
6	Call for comments on Jackson LJs IP recommendations by the IPO (Jan 2010)
7	Ministry of Justice court statistics from Chancery IP Division (quarterly publication) and IPO research into county court records from 2006 to 2008.
8	'IP Enforcement in Smaller UK firms', October 2010, http://www.ipo.gov.uk/ipresearch-ipenforcement-201010.pdf
9	IPO Consultation Oct-Dec 2010 http://www.ipo.gov.uk/pro-policy/consult/consult-live/consult-2010-pcc.htm

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

* For non-monetised benefits please see summary pages and main evidence base section



Microsoft Office
Excel Worksheet

Evidence Base

INTRODUCTION –

In line with Coalition objectives, the measure will reduce costs/burdens for businesses, in particular SMEs, and will allow them to more easily enforce/defend their IP rights. This means that UK innovation will be better protected which could stimulate economic efficiency, productivity and growth. The measure is also in line with the Ministry of Justice aim of reducing the cost of civil litigation in order to improve access to justice at proportionate cost.

This section sets out the problem, rationale for intervention, policy objective and various options for the limit. It also sets out the additional information which the IPO received from consultees Oct-Dec 2010 and which supports and reinforces that statement.

PROBLEM UNDER CONSIDERATION

The Coalition Programme for Government states that 'Business is the driver of economic growth and innovation'. SMEs play a key role in innovation within the UK. Providing an effective and accessible enforcement regime for IP is a key part in ensuring that they can protect and profit from their innovation and creativity.

The Patents County Court (despite the name it has jurisdiction over all types of IP dispute) was created by the Copyright, Designs and Patents Act 1988 (CDPA) for the purpose of providing a low cost IP court for SMEs. However, it has never fully operated as intended. The problems were that procedures, costs and the value of cases which may be heard were largely the same as those in the High Court.

The proposals for the reform of the Patent County Court (PCC) put forward by the Intellectual Property Court Users Committee (IPCUC) included:

1. streamlining court procedures
2. introducing a capped fixed scale of recoverable costs and
3. placing a limit on the value of claims to be heard in the court.

Lord Justice Jackson's Review of Civil Litigation Costs endorsed these proposals in his final report of 14 January 2010.

The Ministry of Justice (MoJ) effected the changes to procedures and the costs regime through amendments to the Civil Procedure Rules (CPR) on 1 October 2010. The streamlined procedures include new rules on the process and timings of filing claims, defence, counterclaims etc and a maximum duration of two days for the main hearing. This is coupled with a recoverable costs scale which stipulates maximum charges for each stage of the process to a limit of £50,000. All these differ radically from the High Court where according to the Patents County Court Users Committee costs could be a minimum of £250,000.

However, both courts may still hear cases of unlimited value (3.) [a limit could not be introduced via the CPR but may only be made by an order under CDPA s288(1)]. In the past this has led to:

- i. a lack of clarity as to which court to bring claims in,
- ii. forum shopping (whereby one party seeks to have the case heard in the court they feel may give them an advantage)
- iii. disputes over forum and contested applications for transfer
- iv. the PCC being burdened with inappropriate claims.

Since the PCC is now the cheaper forum which it was intended to be, the consequences of these will be magnified i.e. without the limit as to the appropriate claims to be heard in the court –

- i. Uncertainty amongst litigants and their representatives as to their potential cost exposure, should the claim be allocated to the High Court and they lose, will continue.
- ii. Pre-action costs could be heavily front loaded through larger firms' forum shopping, disputing the appropriate court and contesting applications for transfer.
- iii. Delays will continue from the court being burdened with inappropriate claims which will disadvantage litigants, particularly SMEs, who have more appropriate claims.

- iv. Other burdens to business will increase in significance as a result of such delays including pressure on internal resources – management and technical departments are distracted/diverted from normal business operations - and the risk of reputational damage.

These could all negate the cost savings brought about by the MoJ reforms to procedures and costs regime and this will continue to deter SMEs from enforcing their rights.

Option 2 - the preferred option of a £500,000 limit on the value of claims heard in the PCC - will remove or reduce these costs and burdens for SMEs. It will clarify procedures and ensure that lower value litigation falls within the jurisdiction of the streamlined and cheaper PCC from the outset. By removing deterrents to SMEs enforcing/defending their rights, it will ensure that innovation is protected more effectively. It will further differentiate the PCC from the High Court and will improve access to justice.

It is important to set the limit at the correct level. This will ensure that all the appropriate small/medium cases fall within the court's jurisdiction.

RATIONALE FOR INTERVENTION

The cost of IP litigation is prohibitively high in the UK – roughly 3 times more than Europe for small/medium cases and 6 times more expensive for larger cases¹. At present both the Patents County Court (PCC) and High Court² are able to hear cases of the same unlimited value. The high costs and unpredictable nature of litigation in the High court and the PCC have been a deterrent to most SMEs trying to enforce or defend their IP rights and protect their business/innovation. The Patents County Court Users Committee (PCCUC) [which comprises the County Court Judge and members of representative bodies from the IP legal profession] asserts in its consultation response that 'typical High Court costs, even for very simple patent actions are at least £250,000'. It goes on that 'in addition, any litigant will be at risk of paying the other side's costs if unsuccessful. Consequently there can be few patent cases fought in the High Court which cost the losing party less than £500,000'.

Case study: An example highlighted to the IPO in 2009 illustrates this:

A small UK enterprise had secured a patent and sales of their product were increasing. They discovered that this was allegedly being infringed by a foreign company who were actually importing the article into the UK. Early dialogue was unsuccessful and it seemed that the situation would only be resolved through litigation which was estimated to cost more than £100,000 even if it was heard in the PCC (despite the product being low tech). Unfortunately the foreign company was aware of the cost of litigation in the UK and initially refused to engage in further dialogue. The IPO understands that the eventual outcome was that the UK Company, unable to afford the cost of litigation, was forced to agree a licence which they considered derisory in comparison to their initial projected profits from the UK market'.

Prior to Jackson LJs final report, contributory research indicated that 10% of SME respondents not currently enforcing their IP rights through the courts said they would use the county court if procedural changes were made which would make the court cheaper [5] (NB this would not necessarily translate into a 10% increase in cases; the improved deterrent effect would mean it is likely a proportion of the 10% would be settled out of court).

The Jackson Review [1, 2] recommended a greater separation of the county court and high court responsible for IP, in line with other court systems. This would maintain the high court as a court for hearing complex and expensive cases, with potentially unlimited damage and cost awards. The County Court should instead have shorter processing times for simpler cases, and have a limit on the cost of litigation and the damages awarded.

⁽¹⁾ Evidence on the average costs of court cases is contained in the 2006 European Patent Litigators Association Impact Assessment performed by the EPO which gives estimated figures for 2000.

⁽²⁾ The Patents (High) Court generally deals with important, complex or substantial cases.

In relation to costs, these generally "follow the event" so that the successful party to litigation is entitled to seek an order that the unsuccessful party pay his or her costs. In relation to damages the claimant will estimate what damage he has suffered as a result of the alleged infringement but the damages will be subject to quantum i.e. the actual amount will be determined by the court.

The Ministry of Justice capped litigation costs in the PCC on 1 October 2010 - a successful party will only be able to recover maximum £50,000. Therefore, in relation to costs, all parties will know their potential liability from the outset. However, the damages claim could still be unlimited running into millions of pounds thereby deterring an SME from defending their rights.

An appropriate limit on damages awardable in the court, will mean that damages are proportionate to the costs, will bring further certainty for litigants as to financial exposure and will ensure cases below the cap i.e. lower value ones, automatically fall within the court's jurisdiction (thereby largely avoiding costly transfer disputes).

Case Study: According to the IPCUC in its consultation response (see background on the IPCUC below) the need for the limit is well illustrated by the recent judgment of HHJ Birss QC in *Alk-Abello Ltd v Meridan Medical Technologies* [2010] EWPC 014:

'This was a transfer battle involving the costs of three parties represented by barristers (including a QC) and solicitors, preparation of evidence, a two hour hearing and a 60 paragraph reserved judgment just to decide which court the case should proceed in. It was a classic case of forum shopping [see definition above]. Furthermore, it was a case in which the parties were not SMEs and could well afford to litigate in the High Court, and in which the claim was worth a substantial part of a £24 million per year business. In the result, Judge Birss decided to transfer the case from the PCC to the High Court. If the financial limit had been in place, it is probable that it would never have been brought in the PCC in the first place. Even if it had been brought in the PCC, the answer to the request for transfer would have been clearer and therefore less likely to be contested. Even if there had been a contest, the answer would have been clearer. This would not have only benefited the parties, but also other litigants in the PCC.'

Failure to implement the measure could therefore mean that benefits for SMEs gained from the procedural/cost reforms implemented by MoJ will be negated by potentially protracted and costly transfer disputes (typically initiated by financially stronger companies). There will be continued uncertainty for SMEs and should the case be allocated/transferred to the High Court they will potentially be exposed to an unpredictable and unlimited cost/damages award should they lose. This will continue to deter SME's from enforcing/defending their rights.

The consultation has provided information on preferred/appropriate limit on the value of claims in the PCC and a clearer picture of the litigation landscape.

POLICY OBJECTIVE

The ultimate objective is to deter infringement of IP by reducing barriers to its enforcement through the courts, thus improving the incentives to invest in IP creation and improving the UK's prospects for economic growth and entrepreneurialism.

The aim here is to ensure that SME's will benefit from the procedural/cost reforms to the court by ensuring that the lower value/less complex claims, which they would typically file, automatically falls within the jurisdiction of the PCC.

We propose to achieve this by setting the limit on the value of claims heard in the Patents County Court at £500,000 through

1. an Order in Privy Council under CDPA s288(1) for its 'special jurisdiction' (patents and designs) and
2. a further Order for lower value copyright and trademark cases which are within its general jurisdiction as a Chancery County Court.

The measure will bring more clarity to the litigation process. Delays and potentially protracted and costly pre-action disputes over the appropriate forum will be avoided. It will enable SMEs to make more informed choices when considering entering into litigation thus enabling them to more effectively protect their rights for the benefit of business and the UK Economy.

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 of the court, is underpinned by these MoJ principles.

BRIEF OVERVIEW OF PREVIOUS CONSULTATIONS RELATING TO PCC REFORM

The references table (page 4 above) was also included in the consultation IA to show the extensive previous consultations on the principle of the limit.

Judges, legal practitioners, court users, industry and business had 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 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 (4 week) public consultation to enable it to reach final proposals for the Jackson Review.

SABIP RESEARCH [5]

The Strategic Advisory Board for Intellectual Property Policy (SABIP) was asked by Jackson LJ to examine evidence on IP enforcement, particularly in relation to the Reviews findings; their research paper was published in October 2009.

Whilst this additional work for Jackson LJ was valuable for highlighting both his review and the IP issues to a considerable number of SMEs/entrepreneurs/micro firms, concerns around the shortcomings of this research (some identified by SABIP itself) should be highlighted:

- i. The response rate for patents and trade marks was poor and lacked robust statistical evidence so that it was impossible to draw any accurate conclusions.
- ii. In addition the copyright/design sample only provided some data on general trends.
- iii. Larger companies (>249 employees) were also approached in the course of the research.
- iv. It is clear that the questionnaire did not explain some aspects of the research including the limit on damages and the law in relation to damages.

The result of these shortcomings is that the opinions were skewed heavily towards those of copyright and design right respondents. This is significant since it is the more complex patent disputes that typically generate higher costs and it is therefore patent right holders that would benefit most from a reduction in those costs. Additionally, the copyright/design responses may not be representative of the population as a whole as some questions were only answered by a few respondents. Further distortion resulted from responses from large companies which were mainly neutral suggesting that they recognised that the issue is one which will predominantly affect SMEs. Finally, the research questions did not make it clear that under UK law the central purpose of a civil law award of damages is not to punish the defendant; it is to compensate the claimant for damage, loss or injury they've suffered as a result of another's acts or omissions. This would have been crucial for respondents to assess situations in which they could have suffered actual 'damage', the level of the damage, how a cap would affect that situation and so come to a satisfactory conclusion.

The Government considers these factors to be significant in mis-leading the research to suggest that only 1:5 SMEs support implementation of the cap ('overall 22% welcomed, 48% were neutral and 30% were opposed'). Notwithstanding, the IPO consultation in particular sought to more clearly represent the issues and benefits and to indicate its intention to implement the measure to SME representative bodies including Federation of Small Businesses, Confederation of British Industry, SME Innovation Alliance as well as organisations with interest in copyright and designs including British Copyright Council, Design and Artists Copyright Society, Anti Copying in Design and Federation against Software Theft. The IPO might therefore have expected responses reiterating concerns over the principle of the limit which reflected the SABIP research. In the event the IPO did not receive comments from any of these bodies.

IPCUC - Intellectual Property Court Users Committee [3/4]

Background: Membership of the IPCUC committee includes the specialist High Court Judges of the Patents Court and the specialist Judge of the Patents County Court, plus a representative of each of the Intellectual Property Bar Association, the Intellectual Property Lawyers Association, the Chartered Institute of Patent Attorneys, the Institute of Trade Mark Attorneys and the Trade Marks, Patents and Designs Federation. The IPCUC considers the problems and concerns relating to intellectual property litigation.

In his final report Jackson LJ endorsed [2] the IPCUC proposals [3] for reform of the PCC which included a limit on the value of claims to be heard in the court. The committee reached its conclusions through a public consultation held by the IPCUC working group (members drawn from the full committee).

Whilst there was a mixed reception to the proposed imposition of a financial limit, the majority of respondents supported the need, with most debate being on the detail i.e. the level (the focus of this IA and consultation) and the scope of the claim to be limited. Mindful that in many IP cases, especially patent cases, it is the value of the injunction which drives the litigation and the difficulties posed by other solutions, including for instance estimating anticipated sales, the committee was ultimately persuaded that a simple limit on damages would be the most cost effective and appropriate.

This approach was endorsed by Dr Sivaramjani Thambisetty of the London School of Economics, a recognised expert in the area of IP litigation scholarship, when she provided an 'opinion' that would enable SABIP to contribute to the Jackson review within the given time frame. She concluded that 'An equitable way to ensure that an affordable PCC is not used to further increase the market power of large firms would be to limit the amount of damages.... that the PCC could award to an appropriate amount which would ensure that predominantly 'low value patents' were litigated, whether such rights are held by SMEs or not'. Her opinion considers that the measure therefore has the potential to benefit all UK businesses. SABIP expressed support for this recommendation.

Noting this and the Federation of Small Businesses support for 'the proposal to develop a streamlined and simplified PCC, building on the litigation procedures of continental Europe,' the Government also reached the conclusion that a limit on value of claims is the correct approach.

The IPO received 13 responses to its own consultation to set the level of the limit of which:

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

DESCRIPTION OF OPTIONS CONSIDERED AND RESPONSES RECEIVED

Three available options were outlined in the consultation IA:

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 believed **Option 1** was not viable. Evidence from the previous consultations suggested that reform of the PCC is long overdue and a cap on damages is needed. This was reinforced by the IPO consultation to set the appropriate limit.

Maintaining the status quo therefore has no benefits as the uncertainty for litigants 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 would 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 out of reach for most SMEs (please see IPCUC example above). In addition, maintaining the status quo does not accord with the principles laid down in the MoJ consultation document which aims to ensure that civil litigation costs become more proportionate (see Policy Objective below).

Options 2 and 3 introduce a cap on damages/account of profits i.e. a limit on the value of claims which may be heard in the court.

The IPO consulted a wide audience to ensure that the IPCUC proposed level (£500k, option 2) was appropriate. In drawing up the consultation IA five other options were considered:

Cap of £25k, £50k, £100k, £250k, £350k.

- £25k and
- £50k were too low from the outset when considering the range of claims and awards which were already being heard in the PCC (see table below on Patents County Court Statistics).
- £100k as an interim figure between the lowest and the
- £250k which was originally recommended by the IPCUC [3] and which the Government believed it was right to consider as a possible level.
- £350k again as an interim figure between initial and final IPCUC proposal.

(£500k was the revised recommendation, after some discussion, following the IPCUC consultation [3]).

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?**

RESPONSES TO THE IPO CONSULTATION ON SETTING THE LIMIT

- The IPO received 16 comments in response to the consultation.
- Comments were received from 9 Representative Bodies [including the IPCUC], 2 IP firms, 4 IP Representatives, and from a member of the photographic industry.
- However, of these, 1 commented on a separate recommendation from Lord Justice Jackson's Review which was outside the scope of the consultation. In addition, 2 IP Representatives questioned the need for the limit and therefore did not comment on an appropriate figure.
- Three other respondents, (1 IP firm and two 2 Representative Bodies) while questioning the need for the limit, agreed it should be considerably higher (£1,000,000 and £5,000,000 (x2) respectively).
- Therefore, of the 13 comments received which commented on the proposed limit, 7 Representative bodies (including the IPCUC and Patents County Court Users Committee [PCCUC]), 1 IP firm and 2 IP Representatives supported setting the limit at £500,000 (10 positive responses in total).
- Most respondents provided evidence for or rationale on their proposed limit.

Option 2 - £500,000 limit

The IPCUC response explained the working group's rationale for proposing this figure in its final report. The Working Group had originally proposed a limit of £250,000, but in light of the responses to its Consultation revised this to £500,000 (excluding interest).

The response continued:

'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.'

The IPCUC response also drew the Governments attention to 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 which provides that:

"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."

It therefore considers that what is "reasonable and proportionate" depends on what is at stake and takes the view in the Final Report that costs of up to £50,000 were reasonable and proportionate for claims of up to £500,000 [ratio 1:10 costs: damages] 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 in the same way as it applies to costs for all IPR claims.

- Of the 10 responses supporting the £500,000 limit, 7 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, 7 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 (numerous examples of excessively complicated cases of extremely high value with unduly difficult litigants were cited).
- In addition, 6 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).

Option 3 – limit other than £500,000

<£500,000

No-one supported a lower figure and 5 respondents explained why a lower figure would not be appropriate.

One 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, that there is much to be said for having a high cap i.e. £500,000, knowing that the PCC always has a discretion to transfer a case to the High Court. This ensures flexibility.

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.

>£500,000

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, procedures in the PCC are streamlined and in high value claims i.e. >£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 a lot is at stake, 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. This would not fit in with what the court is trying to achieve.

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, 3 respondents expressed that it 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.)

One respondent suggested a limit of £1,000,000 [a costs/damages ratio of 1:20], considering 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. It rather maintained 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 or even the only significant factor that will determine the appropriateness of the forum. 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 suggests 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 believes 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.
- 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.

IMPACTS, COSTS AND BENEFITS

The Government recognises that disputes involving some SMEs, may sometimes fall outside the scope of 'lower value IP litigation' as a result of the nature of their business. The complexity of their disputes may also not sit well within the simplified procedures of a county court. Some high tech and software SMEs indicated in the SABIP research that they were opposed to the measure. The Government is aware from its consultation on the Law on Damages (2007) that some business sectors, including parts of the software industry, were strong advocates of a punitive damages system in the UK. That such a system would not sit easily, if at all, within any specified limit may explain their opposition to the cap.

However, the IPO consultation document outlined the enforcement strategy options listed below and were keen to receive comment from this sector on the intended implementation. The Government received one response from a representative body in the high tech sector.

The Government 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. The limit does not remove existing options for any SME which includes filing a claim in the High Court. In fact implementation will add further possibilities to any potential litigation strategy for all SMEs including those in the high tech and software business sectors -

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.

Number 3 is important 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.

In light of the of the consultation responses the Government is persuaded that setting a limit that is proportionate and high enough to permit as many SMEs as possible to utilise these options is the right approach.

The proposal to limit the value of claims heard in the PCC represents significant savings for all court users and in particular for SMEs engaging in IP litigation. Claims will fall within the jurisdiction of courts according to the level of damages sought at the outset, which means that SMEs, typically seeking a lower level of damages, largely avoid the risk of transfer to the Patents (High) Court where under a less prescriptive procedure costs are considerably higher.

With the new scale of costs and cost cap in the PCC it means that potential financial liabilities may be estimated more accurately in advance (reducing uncertainty in any litigation enforcement strategy). In addition it will not matter who the opposing party is to the SME since they both start with equality of arms knowing that the potential litigation costs would not ordinarily rise above £50,000 and damages awarded could not rise above £500,000. There would be no uncertainties or surprises and the process under the new procedures is likely to be much quicker (the CPR rule changes fully prescribe procedures and include a maximum court time of 2 days).

A further possible beneficial side effect of reform is that with increased certainty of costs and also damages exposure, Before the Event (BTE) Legal Expenses Insurance (LEI) in relation to IP litigation, becomes a more viable option for business (traditionally the problem for insurance providers has been difficulty assessing financial risk exposure and, where it is available, premiums are often prohibitive as a result).

The certainty of costs and damages in the PCC should give business enhanced options i.e. companies may chose to compromise on damages and settle for a lesser award in the PCC rather than risk spiralling costs in the Patents (High) Court. Reform should also deter those who might otherwise consider infringing since it will be easier, quicker and cheaper to defend rights. This may even have the long-term knock-on effect of encouraging would-be infringers to become more innovative rather than infringe someone else's rights.

Introducing a cheaper, more effective PCC may increase the amount of IP litigation. However, there are alternative dispute mechanisms which both parties are likely to consider more carefully before resorting to the courts, e.g. they could undertake mediation in good faith, utilise the facilities of the IPO Tribunals and additionally, in respect of patents SMEs may obtain an authoritative opinion. All of these

professional services are offered by the IPO at a low cost and increasing the deterrent effect of the court is also likely to increase their use as alternative means of dispute resolution.

The relative positions of the IP litigation landscape, pre and post reform of the court (including implementation of the limit on claims), is expressed in this table:

	Court	Legal costs (max)	Damages (max)
Pre-reform	PCC and High Court	Unlimited	Unlimited
Post-reform	High Court	Unlimited	Unlimited
	PCC*	£50,000	£500,000

*Should more correctly be named the 'Intellectual Property County Court'

ADMINISTRATIVE BURDEN AND POLICY SAVINGS CALCULATIONS

Court statistics are published quarterly by the MoJ, but until recently there have been no figures relating specifically to the PCC [source:IPO]:

Breakdown of claims	Patents	Trade marks	Designs	Copyright	
2008	5	13	6	6	30
2007	6	16	5	7	34
2006	13	9	4	12	38
TOTALS	24	38	15	25	102

Similar detail is available for the High Court Chancery Division which deals with IP claims and particularly with more complex or substantial cases [source MoJ]:

Breakdown of claims	Patents and Reg designs	Passing off and trade marks	Copyright and design right*	
2008	111	142	286	539
2007	111	118	172	401
2006	57	50	120	227
TOTALS	279	310	578	1167

Approximately ten times more claims were filed in the High Court than in the Patents County Court over the same period 2006-2008 [7].

Further Patents County Court Statistics 2007 & 2008 (not available for 2006):

		<u>Minimum</u> (mean)	<u>Average</u>	<u>Maximum</u>
2007 (34 cases)	Value of claims	£4,000	£38,132	£175,000
2008 (30 cases)	Value of claims	£1,000	£25,540	£100,000
2007	Costs awarded	£1,250	£17,083	£ 30,000
2008	Costs awarded	£1,250	£ 6,989	£ 37,000
2007	Value of awards	£ 654	£10,382	£ 26,250
2008	Value of awards	£1,250	£24,531	£101,360

Source: [7]

Those claims which were being filed in the PCC (pre 1 October 2010) were usually of the very lowest value litigation. The table above shows that those cases in 2007 and 2008 which were resolved in the county court for which figures are available and where damages were awarded, the successful parties received an average £17,500. This ranged from a minimum award of £654 in 2007 to a single award in excess of £100,000 in 2008. Claims at the outset of litigation were much higher than the eventual award, and while three cases were filed with an 'unlimited' value and one was filed in excess of £20 million, none of these appear to have been resolved by the court. This suggests they were settled out of court.

The relative figures would seem to support the view that SMEs are deterred from protecting their innovation via the county court. The pre-consultation IA suggested that statistics [7] showed that SMEs are therefore forced to defend their IP rights in the High Court. However, from consultation responses, further research and closer examination of existing statistics it is evident that this is not the case. Of the litigators in the Patents (High) Court who are on the face of it SMEs, many are in fact 'UK-registered' firms owned by larger overseas parent companies [8]. That it is rare for a UK SME to litigate in the High Court was also supported anecdotally by the Patents Court Judges.

A Case Study: [8].

The CEO of medium-sized company explained how his experience of High Court litigation nearly bankrupted the company and would have done so had it happened at a time when their market had been depressed or business in general had not been performing well: 'Soon after filling the claim the company gradually started to become dysfunctional as a manufacturing company. Management were tied up in knots with evidence and expert witnesses and trying to understand the legal process etc. Unusually for a company of that size they had insurance to the tune of £110,000 for fighting a patent case. Once they took on the services of a QC and a Junior the £110,000 was depleted very quickly. Their main observation was that the cost is absolutely exorbitant and really precludes the small SME from taking action. The firm's lawyers were certain of victory and eventually they were able to switch to a no win, no fee basis. However they asserted that the final cost very nearly finished the company off. The MD believed it cost almost 1 million pounds in addition to the cost of it hampering their ability to develop and grow the business. They concluded that the process is so risky and so convoluted and expensive that it is just not something that SMEs can indulge in'.

A viable and cheaper alternative to the High Court would certainly have benefitted this medium-sized company. However, reform of the PCC could lead to an increase in claims NOT as a result of them being re-positioned from the High Court to the PCC, but rather because right holders, who are currently deterred from taking such risks, will be more willing and able to enforce/defend their rights: 'research indicated that 10% of respondents not currently enforcing their IP rights through the courts said they would use the county court if procedural changes were made which would make the court cheaper' [5]).

Estimates of potential overall cost savings

The estimates in the pre-consultation IA were largely based on the understanding that the measure will see a re-positioning of cases from the High Court to the PCC (cost savings would have been the difference between the relative costs of the case in the High Court and similar one in the PCC).

However, since SME claims are rare in the High Court this approach is not valid.

IPCUC response:

'Thus the purpose of the limit is not to move claims from the High Court to the PCC. On the contrary, it is to help stop inappropriate claims being brought in the PCC, and thereby to encourage use of the PCC by SMEs who have appropriate claims'.

In any case, for the purpose of this IA it is also clear from the IPCUC response (recalling that the membership of the IPCUC includes the specialist Judges of the Patents (High) Court) that there is no reliable data available on the level of claims or litigation costs in the High Court. The case-studies in this IA are though striking examples of cost exposures for SMEs in the High Court.

Recent research suggests with a high degree of certainty that around 25% of SMEs with IP rights have been involved in disputes (a 'dispute' defined as any IP infringement whether or not it has ended in legal proceedings): *'Across all survey responses, around 25% of firms had been involved in an IP dispute during the previous five years'.* [8]

However, it is clear from the statistics above on claims in the PCC and High Court that SMEs have been deterred from enforcing/defending those IP rights via the courts. *'Clearly the value of an IP right to a firm depends on its ability to enforce it. More widely, the IP system's incentive to innovate will be undermined if IP rights cannot be defended. In the extreme, a system with high costs and no valid protection would lead to less innovation and to a slower diffusion of new ideas'.* [8].

It is difficult to estimate the cost of this problem so far to the UK economy. The measure is though key to helping to ensure that such losses are minimised in the future.

RISKS AND ASSUMPTIONS

Risks:

- transfer of cases to the High Court. In such cases, the expected savings and efficiencies will not be realised;
- the value of the damages claimed is over £500,000. This puts the case outside the jurisdiction of the PCC.

Assumptions:

- that all parties agree where the claim is over the limit that a patents county court shall have jurisdiction and determine their case;
- that 25% of SMES with IP rights have been involved in disputes over IP infringement, and that the value of damages would not have risen above £500,000

IMPORTANT NOTE:

As part of the consultation process the IPO sought evidence to inform the Final IA and in particular cost/benefit estimates. The evidence sought included data on the value of IP claims in the Chancery Division; relative costs of cases according to IP right and; relative costs between the County and High Courts in relation to similar less complex cases. We also sought to understand if there are any potential costs to implementation. As noted above this approach was not the correct one.

WIDER IMPACTS

The ultimate objective is to deter infringement of IP by reducing barriers to its enforcement through the courts. Recent research [8] suggests that: *'In the extreme, a system with high costs and no valid protection would lead to less innovation and to a slower diffusion of new ideas'*. This measure should therefore help to better protect innovation providing the incentives to invest in IP creation and improve the UK's prospects for economic growth and entrepreneurialism.

SUMMARY AND PREFERRED OPTION; IMPLEMENTATION PLAN

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 document and IA, 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 responses to 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. Some respondents, in advocating a substantially higher damages limit, also considered it likely that they would then need to exceed the recoverable costs limit. The purpose of reform of the lower court is clearly that it should hear 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 (BTE) Legal Expenses Insurance (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 additional guidance be given in the Court Guides as to the types of cases that would be suitable for the PCC in order to provide further clarity.

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 dispute

involving 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 and software business sectors.

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 has also recognised 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 seeking 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 few concerns expressed that such a limit may be too low and 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 the post implementation review.

It will be necessary to effect this measure in stages -

1. The cap 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 CCD 6 April 2011 and we suggest a review in 2014.
2. A further Order will be made to set financial limits in relation to intellectual property matters which are heard in the PCC but are not within the court's special jurisdiction i.e. Copyright and Trade Marks. Anticipated implementation date of this is CCD October 2011. It will not be necessary to hold any further consultation or produce a separate IA.

SPECIFIC IMPACT TESTS

Competition

The changes will have a positive effect on competition. An improved and therefore more extensively used court service will discourage the public from infringing IP. In turn, this may encourage them to become more inventive.

Small firms

It is small firms who should benefit most in monetary terms from the scale of costs and cost cap. If they are involved in dispute with another SME/larger enterprise then they will benefit from equality of arms. The limit on damages should mean that their claim automatically falls within the jurisdiction of the cheaper court ensuring that larger companies cannot gain a significant advantage over an SME by taking it to or outspending it in the High Court. There may be an increase in litigation, but this could be offset by the expectation of the court that parties will have undertaken alternative measures such as mediation before resorting to litigation. In addition, BTE LEI should be more accessible.

Race equality

No obvious impact on race equality.

Disability equality

No obvious impact on disability equality.

Gender equality

No obvious impact on gender equality.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];

This impact assessment requires the proposal to be reviewed within a period of 3-5 years. The Government will also monitor the post-implementation impact from the outset to ensure this figure has the proposed effect.

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

The objective of the PIR is to ensure that the limit that has been set still represents the optimum outcome i.e. that the limit for lower value IP litigation is ensuring that the less complex cases involving SMEs are being heard in the PCC.

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

The review would consider how the cap on damages in the PCC has had a bearing on the number of cases heard, number of cases heard in the PCC, size of companies involved, cost of proceedings, level of damages sought, number of days taken to hear a case, cost of allocations, number of transfers and cost of transfers. We need to start collecting such data immediately following implementation - ideally with co-operation of the PCC and PC.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

The do nothing situation outlined in this IA is the baseline.

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

That SMEs feel confident in using the PCC to resolve disputes since they will have certainty as to financial exposure. There is an increased deterrent with the improvement in access to justice. This will be demonstrated through the increased use of the PCC and ADR. It will also be gauged through stakeholder feedback.

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

To monitor the use of the PCC and high court and compile appropriate stats. To consult with SME stakeholders on the functioning of the measure. To interview the Judiciary on the workings of the two courts.

Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]