

THE COST CHALLENGE: HOW CAN THE UK COURTS REMAIN COMPETITIVE FOR PATENT LITIGATION IN A NEW ERA?

GORDON D HARRIS

Gowling WLG, London

Introduction

When Lord Wolff published his proposed reforms to the conduct of civil litigation in England and Wales in 1995, he stipulated that the court system should deliver justice fairly, offering 'appropriate procedures at a reasonable cost'. He had identified excessive costs and poor forecasting as key issues requiring to be addressed.

That his reforms did not have the instant impact he would have hoped for became clear in the requirement for Lord Jackson's 'Review of Civil Litigation Costs' in 2009. Lord Jackson advocated changes to disclosure rules, the introduction of costs budgeting, and more robust case management as the best means of reducing the costs of litigation generally, having identified patent litigation as an area of particular concern.

So is patent litigation a particular problem, and if so, why?

Background

Between the Wolff Report and the Jackson Report came the widely reported costs decision in *RIM v Visto*¹ in which the lawyers representing RIM managed to run up costs of around £6 million on a case involving a single patent. Floyd J, as he then was, did not pull his punches. He said:

... it is astonishing that a sum in the order of £6m can have been spent by RIM's advisors in fighting these disputes.

And he went on:

This case was not a particularly heavy patent action. There was no disclosure, and the technology was not of the most complex kind. The trial itself only lasted about five days.

Floyd J was particularly taken with the fact that one side outcharged the other by a factor of around 5 to 1. He went into the breakdown of hours and noted that about nine 'man years' had been spent over 15 months.

The impact of that case and Floyd J's decision was significant, and directly or indirectly has led to some major attempted reforms to limit the costs of patent litigation.

The Jackson Report and Other Recommendations

The planning which led to the Jackson Report (2009) was well underway before the *RIM v Visto* decision, but it still identified IP litigation as a particular area for concern. Noting the impact on SMEs in particular, the report specifically recommended reform of what was then known as the Patents County Court. The proposals led to the Intellectual Property Enterprise Court (IPEC, a division of the High Court, rather than a county court) which we see today, and which has done much to improve the accessibility of justice in smaller IP disputes.

However, it is the eye-watering costs of major High Court IP cases, in particular patent cases, which has continued to cause concern and which has provoked some of the other

¹) *Research in Motion UK Ltd v Visto Corporation* [2008] EWHC 819.

reforms which have taken effect to try to address the problem. There are a number of factors that have served to increase costs in recent years.

(1) Active Case Management

This was a specific recommendation of the Jackson Report and was supposed to involve judges taking a much more direct role in the management of litigation in order to avoid the parties incurring massive costs. It does, of course, depend entirely on the willingness of the judge in question to ‘take a hard line’. Some do, and some very much do not. Really active case management seems to have been more prevalent in the era of Judge Birss (as he then was) in the IPEC, but otherwise, the exercise of judicial powers to reduce the scope of the issues in litigation is sporadic at best.

The judges are very prone to allowing endless extensions of time, and many amendments to pleadings. The feeling is that justice must be served, but it can result in justice delayed. Amendments frequently result in applications for further expert evidence. This in turn can lead to a flurry of expert evidence in the period leading up to trial, which always increases costs, and can lead to a delay in the trial.

(2) Case Timetable

A few years ago it was established that patent cases should come to trial within 12 months of commencement. That level was maintained for a period, but a variety of circumstances including, of course, underinvestment in the justice system, have resulted in the trial timetable slipping badly. It is a simple fact of life that the longer litigation goes on, the more expensive it gets. A tightly managed schedule can help to control costs. Constant extensions of time, amendments to pleadings, and increases in expert evidence, all lead to prolonged timetables, often now creeping back towards two years from commencement to trial.²

(3) Cost Budgeting

This is another post-Jackson requirement in cases where the sum in issue is below £10 million. It is not entirely clear why that ceiling was introduced, as it tends to be in the larger cases where the costs run out of control. The argument used is that in the bigger cases, the parties should be free to spend as they see fit to protect or challenge valuable rights. That notion does now seem to be under scrutiny. The Master of the Rolls, Sir Geoffrey Vos, said in a speech:³

I have for some time been concerned about the seemingly unlimited costs in lengthy cases ... I think that ‘money no object’ litigation needs careful consideration in the modern environment.

It was the ‘leave no stone unturned’ approach that was the stated justification for the level of costs incurred in *RIM v Visto* and it is interesting to see a belated challenge to that approach.

In the meantime, the cost budgeting requirement only applies to litigation of a lower value, but it does impose a significant burden on the parties. The process is substantial and frequently gives rise to lengthy argument in case management conferences. In the end, as with active case management, it is down to the judges to use the cost budgeting process to reduce the costs of litigation and it is questionable as to whether this is happening. On the contrary, the cost incurred in the budgeting process can exceed any savings in the long term.

(4) Experts

It is common ground among patent litigators that ‘experts win cases’, so it is not at all surprising that the process of instructing experts and compiling their reports can be amongst the most expensive aspects of patent litigation. That process has been rendered more complex and consequently

²) In patent cases tried since January 2021, the average length of time between e-filing of a claim form and trial has been a fraction under 20 months, with two cases taking over three years to reach trial.

³) Speech to the Association of Costs Lawyers’ Annual Conference, 25 November 2021.

more expensive by recent case law following the decision in *MedImmune*.⁴ The sequential disclosure of material to experts, with the overall aim of reducing the possibility of hindsight tainting evidence, results in a longer process, more meetings and inevitably more costs.

(5) Service

Overseas parties, particularly, recently, Chinese companies that have become increasingly involved in SEP/FRAND litigation, have taken to falling back on the Hague Convention as an obstruction to effective and timely service of proceedings. This can lead to delays of up to 18 months. German courts allow ‘service by publication’ once a number of standard options have been exhausted. That option should be considered because the delays, and the process itself, lead to increased costs.

(6) Position Papers etc

The judges have taken to requesting the parties to supplement pleadings with position papers, lists of agreed items of common general knowledge, and lists of agreed and disputed issues. The intentions are no doubt good – to narrow the issues in dispute and so reduce the length of the trial. Unfortunately, in practice, they tend to have the effect of causing further delay and increasing costs. Asking the parties to agree can often bring about more dispute, delay and expensive interim hearings. As part of a rigidly enforced and disciplined case management process, these items could be helpful, but that is not how it is going.

In the interests of balance it is fair to say that improvements in the disclosure process, both in terms of method (e-disclosure) and scope (issues and categories), have led to a more manageable and cost effective process in most cases.

The Outcome

Although there is no doubting the good intentions of the reforms of the last few decades, and there have certainly been some beneficial outcomes in terms of costs, it is hard to say that the costs of IP and in particular patent litigation have been significantly curtailed. Although costs details are often not publicly obtainable, some disclosed costs levels in recent cases are showing single party’s costs well in excess of £2.5 million, and pretty much never below £1.5 million. Even costs within the Shorter Trial Scheme – one of the better innovations for reducing the cost of patent litigation – regularly exceed £1 million.

There has been no sign of a downturn in the levels of High Court patent litigation in recent years; even during the middle of the pandemic period the annual average was largely maintained. However, equally there has been no significant increase in levels of litigation, and much of the litigation now being fought is in the peripheral field of FRAND disputes where the experts tend to be economists rather than scientists. There is evidence that the number of patent cases initiated in the High Court and IPEC has dropped significantly over the last six months on an annualised basis. The reasons for this are not clear, as no survey has taken place.⁵

The Advent of the Unified Patents Court

The UK courts are now facing a new competitor in the field of patent litigation. Up to now there has been a clear line between the UK procedure and that common in the major European civil law jurisdictions like France and Germany. That line concerned the recoverability of costs. Although the German and French courts both offer litigation at a materially lower cost than the UK, there was never any opportunity to recover significant costs from the losing party.

4) *MedImmune v Novartis* [2011] EWHC 1669 (Pat).

5) Between Q3 2020 and Q4 2021, the average quarterly figure for new High Court patent cases was just above 14. In the first two quarters of 2022, to date,

there have been eight in each quarter. That is not long enough to ascertain a trend, but if the number does not rise in the third and fourth quarters of 2022, that will be indicative of an issue.

The forthcoming Unified Patents Court (UPC, now due to start operations in the first quarter of 2023) offers a substantive and thorough litigation process, with some aspects of common law practice built in, but more importantly, it offers the prospect to make material cost recovery in the event of success. It is also offering a 12-month trial schedule, to be rigidly enforced by the judge rapporteur in each case.

The long delays and uncertain costs of the procedures in England and Wales may become a competitive problem once the UPC is up and running. The UPC also seems likely to be a pro-patent jurisdiction.

What are the obvious points of comparison between the courts of England and Wales and the UPC?

(1) The actual court costs of initiating proceedings will be much higher in the UPC. For actions in the range of €10 million to €15 million, the court fee will be €75,000. For cases valued over €50 million, the court fees will be €325,000. These are significant sums of money, though they are refundable on a sliding scale if the case settles before trial.

(2) UPC cases will be listed for trial within 12 months of commencement. This will compress the time available for the usual steps required, but it will inevitably control the overall costs incurred.

(3) There is no formal ceiling on costs recoverable in litigation in the High Court in England and Wales. In the IPEC the recoverable cost ceiling has remained at £50,000, but in the High Court it is at the absolute discretion of the judge, based on evidence from the parties of costs incurred. In the UPC recoverable costs will also be in the discretion of the judge rapporteur, but there is going to a graduated ceiling.⁶ For example, the costs recoverable on a case where the value in dispute is between €4 million and €8 million, the maximum costs recoverable will be €600,000. For cases where the value in dispute is between €30 million and €50 million, the maximum recoverable costs will be €1.5 million, These levels

are not hugely out of step with the likely levels of cost recovery in the courts of England and Wales.

(4) Disclosure will be available in both courts, albeit on an entirely discretionary basis in the UPC. However, restrictions on disclosure in UK patent cases are now so tight that it is unlikely to be a material difference between the courts.

And so ...

Obviously there will not always be a straight choice between the UK courts and the UPC. In some cases there will be compelling strategic reasons to go with one or the other, and in some cases actions will be brought in both. However, it is fair to assume that there will be times when a litigant will make the decision where to start a new action, when the strategic scales are evenly balanced. What can the UK courts do to swing the balance in their favour?

A few options stand out:

- Return to the objective of getting cases to trial within 12 months of commencement, and exercise case management powers with that goal in mind.
- Curtail issues regarding service out of the jurisdiction by approving substituted service rules if reasonable efforts are not successful after, say, three months.
- Make the granting of court sanctioned extensions of time the exception, not the rule, and limit the amount of expert evidence to be used by the parties.
- Reduce the requests for position papers on issues in the case, and have a cut-off on such requests at the case management conference.
- Reduce the amount of late filed evidence so parties have a clean run at trial preparation without belated distractions: the courts need to police this aspect of litigation much more closely.

6) The full details of the UPC costs scheme can be found in Rules 150–157 of the Rules of Procedure, and the fixed court fees and scale of ceilings for recovery of costs can be found in the Annex to the Preparatory Committee's

'Rules on Court Fees and Recoverable Costs', originally published in February 2016.

- Introduce a recoverable cost ceiling for cases in the Shorter Trial Scheme of, say, £500,000 to provide the sort of certainty available in the UPC and to encourage SMEs to litigate in the High Court. This proposal, which originated from the author, is now under detailed consideration and will be the subject of a multi-disciplinary 'Town Hall Meeting' in September involving professionals and judges to ascertain the demand and assess the practicalities of such a cap.
- Finally, and perhaps most controversially, significantly increase the fixed court fees for high value cases (to UPC levels) and use the funds raised to improve staffing and technology in the High Court.

Litigation will always be expensive, and patent litigation more expensive than most, but it need not become the existential threat that it currently poses to many businesses which, for good strategic reasons, need to enforce or defend their patents. It must not be the exclusive domain of those with money to burn.

The courts of England and Wales have a strong tradition in thorough, fair and just patent litigation. The UK remains an important and, more significantly, innovative economy. There is no reason why its courts should not continue to thrive, but a slight touch on the tiller might be necessary to maintain a real competitive edge.