

## Lessening the burden of costs of patent litigation for SMEs

*Costs in patent litigation cases are invariably high. This is a problem for all litigants, but particularly for so-called small and medium sized enterprises (SMEs). While the courts are looking to use their case management powers to exert more control over costs, an ongoing review has acknowledged that this problem “is now urgent, principally because of the burden of costs upon SMEs”.*

### 1. Introduction

1.1 Patent litigation has always been expensive. The high costs associated with patent litigation are partly a function of the fact that patent cases often require detailed legal and technical issues to be resolved. Further, under the “loser pays” system for costs which prevails in the English courts system, there is a risk that an unsuccessful party may be required to foot a hefty costs bill run up by the successful side, in addition to bearing its own costs. Thus, it is not surprising that potential litigants may be wary before entering into patent litigation. Indeed, it has been said that smaller businesses are sometimes deterred from engaging with the patent system at all, because of the potentially very high costs of enforcing any rights they may obtain.

### 2. The situation in the courts

2.1 The judiciary has become exercised on the issue of costs in a number of recent decisions. In a notable case, *RIM v Visto*<sup>1</sup>, the costs incurred by the successful party were almost four times more than those incurred by the unsuccessful party. In his judgment, the judge expressed his strong dissatisfaction with this state of affairs and suggested that courts should make more use of their case management powers to proactively keep a rein on costs.

2.2 In patent cases, nowadays it is the norm for the courts to take an issue-based

<sup>1</sup> *Research In Motion UK Ltd v Visto Corp* [2008] EWHC 0326 (Pat)

approach to costs<sup>2</sup>. Under this approach, the courts can disallow the costs of a successful party in relation to a particular issue and can sometimes go further and order the successful party to pay the unsuccessful party's costs of that issue. For instance, in *RIM v Visto*, RIM was the successful party insofar as it succeeded in revoking Visto's patent. However, its costs were reduced, because it lost on the issues of infringement, added matter and insufficiency. Further, the unsuccessful party, Visto, was awarded its costs in respect of these issues.

2.3 An issue-based approach to costs was also employed in *Eli Lilly v HGS*<sup>3</sup>. In this case, although overall Eli Lilly was clearly the successful party, the judge concluded that it would be fair and proportionate to disallow its costs as regards an issue of obviousness involving complex bioinformatics, on which it had been unsuccessful, since HGS claimed to have incurred 70% of its costs in dealing with this issue.

2.4 In a more recent development, faced with the prospect of further proceedings between itself and RIM, Visto was successful in obtaining an order from Mr Justice Arnold<sup>4</sup> for both parties to provide a statement of costs to-date and an estimate for future costs. Given that the courts appear to be concerned generally with controlling the costs of patent litigation, it would not be surprising if similar orders were issued in other cases in the future. Hence, it could be that the exchange of costs estimates becomes increasingly common in patent litigation.

2.5 It should also be noted that the Patent Office and the courts actively encourage parties to make use of alternative dispute resolution, e.g. mediation, to settle disputes without having to go to trial<sup>5</sup>

### 3. Lord Justice Jackson's review

3.1 Especially pertinent to small businesses will be the ongoing review of the entire civil

<sup>2</sup> *Smithkline Beecham v Apotex* [2005] FSR 24

<sup>3</sup> [2008] EWHC 2511 (Pat)

<sup>4</sup> [2008] EWHC 3026 Pat

<sup>5</sup> <http://www.ipo.gov.uk/mediation.pdf>

litigation system being conducted by Lord Justice Jackson. The review is intended to provide recommendations for promoting access to justice at proportionate cost.

3.2 A preliminary report<sup>6</sup> was published recently at the end of the first phase of the review. On the subject of intellectual property litigation, Lord Justice Jackson pays particular attention to small business disputes, i.e. disputes between small and medium enterprises (SMEs) and lower value disputes between businesses of any size, in which costs will usually be a particularly sensitive issue. In this context, he acknowledges that intellectual property litigation is one category of disputes which “has proved particularly intractable”.

3.3 However, he further acknowledges that: “This problem is now urgent, principally because of the burden of costs upon SMEs”. The importance of the problem to the UK economy may be further illustrated by the fact that the vast majority (almost 99%) of businesses in the UK qualify as small and medium sized enterprises (SMEs).

3.4 In order to alleviate this problem, Lord Justice Jackson expresses a preference in his preliminary report for the Patents County Court to be reconstituted as a low cost forum<sup>7</sup>.

3.5 The Patents County Court was created in 1990 following a previous review of the costs of patent litigation to provide a more cost-effective forum for patent disputes than the High Court (Patents Court). However, in practice, there is, at present, little discernible difference between the jurisdiction and procedure of the Patents County Court and the Patents Court.

3.6 However, in contrast to the current

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<sup>6</sup> Available online at [www.judiciary.gov.uk/about\\_judiciary/cost-review/preliminary-report.htm](http://www.judiciary.gov.uk/about_judiciary/cost-review/preliminary-report.htm); intellectual property litigation involving SMEs is discussed at Part 7: Chapter 29

<sup>7</sup> This view was put forward by (Mr Justice) Richard Arnold in a paper presented to the Midlands Intellectual Property Society on 26 February 2009.

situation, the proposed reconstituted Patents County Court would be distinguished from the Patents Court by having an upper financial limit.

3.7 Further principal cost-saving measures of this proposed reconstituted Patents County Court would be:

- (i) procedures based primarily on written arguments;
- (ii) disclosure, experiments, written evidence and cross-examination being allowable only upon application and where a cost-benefit test is satisfied; and
- (iii) a system of scale costs, akin to that currently used in hearings at The Patent Office and The Trade Marks Registry, whereby the successful party is simply awarded a modest sum regardless of actual expenditure.

3.8 In a recent document<sup>8</sup> produced in time to be fed into the next phase of Lord Justice Jackson’s review, the Intellectual Property Court Users’ Committee came out in support of the proposed reconstitution of the Patents County Court. The Intellectual Property Court Users’ Committee endorses the ideas discussed in Lord Justice Jackson’s preliminary report and adds some details to the procedure that could come into force before such a reconstituted Patents County Court. On the issue of costs, the Intellectual Property Court Users’ Committee proposes that the maximum total fees (including disbursements) recoverable after a fully contested action for patent infringement and validity should be no more than £50,000. In other IP cases the maximum total recoverable should be £25,000.

3.9 While the proposal for a reconstituted Patents County Court is undoubtedly gaining traction, it remains to be seen in what form (or even if) it will appear in Lord Justice

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<sup>8</sup> Intellectual Property Court Users’ Committee, Working Group’s Consultation on Proposals for Reform of the Patents County Court, [http://www.judiciary.gov.uk/docs/pub\\_media/p-roposals-reform-patents-county-court.pdf](http://www.judiciary.gov.uk/docs/pub_media/p-roposals-reform-patents-county-court.pdf)

Jackson's final report, which is scheduled for the end of the year.

#### 4. Summary and conclusions

4.1 The courts have demonstrated their will to use their case management powers to take a pro-active approach to the control of costs in patent litigation.

4.2 The exchange of costs estimates may become increasingly common in patent litigation.

4.3 A new lower cost forum for patent litigation in the form of a reconstituted Patents County Court has been proposed. At present, this proposal seems to be favoured by Lord Justice Jackson as part of his ongoing review of civil litigation. Accordingly, such a forum may be recommended in his final report and could then be brought into being to provide an alternative forum for patent litigation in the UK.

4.4 We consider that these changes will increase the opportunities for SMEs to assert their IP rights, knowing that the costs burden will not be prohibitive, or at least will be more predictable.

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