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YOUR REFERENCE

IN REPLY PLEASE QUOTE

DATE

JRH

21 April 2006

DIRECT DIAL

020 7006 4502

Gowers Review of Intellectual Property
Zone 4/E1
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Sent by Email and Post

Dear Sirs

Call for Evidence

We are writing to make a number of observations about some parts of Section 4 and some of the "Specific Questions" appended to your letter of 23 February 2006. If any of our observations are unclear, please contact Mr John Hornby on 020 7006 4502.

Questions 4(a) and (b)

- *Are there specific problems with enforcing the main different forms of IP: patents, copyright, trade marks, and designs?*
- *Are there barriers to challenging infringement and enforcing your IP rights on grounds of cost? What drives these costs?*

In our view, in summary, the issues are:

- legal costs (particularly those associated with procedures that may not be appropriate for all cases);
- clarity and scope of the law; and
- the approach of judges to some cases.

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We elaborate below.

1. *The streamlined procedure of the Patents Court*

This has been a welcome addition to the procedures available to the Patents Court in order to reduce costs. However, we feel that several questions need to be addressed.

- (a) Why has this procedure not been formally implemented for other IP cases? Whilst some trade mark cases have come to trial within six or so months, the formal availability of a streamlined procedure should be considered.
- (b) Does the procedure go far enough? As to this point, we make some suggestions in what follows.
- (c) The UK Patents Court has stated (*RIM -v- Inpro [2006] EWHC 70 (Pat)*, Pumfrey, J. on 2 February 2006) that the streamlined procedure is not to be assumed to be the normal course. We ask: why not? If the UK Courts want to compete with other jurisdictions for IP cases (principally Germany), then speed and cost are crucial factors for many clients.

2. *Evidence generally*

Much of the cost of preparing a case is associated with the preparation of written evidence in advance of trial. Whilst this is a requirement of the CPR, we think that a more flexible approach to evidence should be adopted. In too many cases, judges will reject a point for lack of formal evidence or criticise the parties for not putting every evidential point in writing in advance of trial. Yet, common sense might dictate that the evidence need not have been formally adduced or at least that the other side would not be caught by surprise by it being adduced late. The upshot of this state of affairs is that advisors spend too much time discussing written evidence with witnesses. This, of course, drives up legal costs.

If legal costs are to be reduced, we believe that the judges should be encouraged to be more accommodating in their approach. Otherwise, clients' advisors will continue to spend too much time in the preparation of written evidence.

3. *Expert witnesses - greater use of Court appointed experts*

We believe that the costs of expert witnesses at trial could, at least in some (perhaps those of less economic importance) cases, be greatly reduced by having the Court appoint one expert witness to answer written questions posed by the parties and not allowing parties to call their own experts. This procedure is available in Spain and Australia, for example (albeit that the parties often want to call their own experts too). Such an expert could be from academia, industry or the Patent Office, depending on the type of evidence needed.

Indeed, adopting such a procedure could encourage the parties to settle before trial. Whilst consideration would need to be given to the criteria by which cases would be evaluated for such a procedure, we believe that this could cut legal costs considerably in appropriate cases.

4. *Legal experience of Judges*

Whilst in the Patents Court, the parties can usually (but not always) expect to get a judge familiar with IP law, this is not the case in other IP cases. Given that there are only a dozen or so patent cases heard per year in the UK, it seems to us that there is scope to expand the remit of the Patents Court to have exclusive jurisdiction to hear all IP cases. Less experienced judges often add to the time that a trial takes and this can only lead to delay and an increase in costs.

5. *Experience of Judges in relation to costs*

The ability for judges to assess costs summarily is, we believe, a useful procedural tool. The conventional procedure involving assessment by a Master is very cumbersome, time consuming and inefficient. However, we believe that the Patents Court Judges (at least) do not appreciate the amount and type of work that goes into preparing a case. Purely by way of example, one senior judge recently remarked in a public forum that large firms of lawyers typically get photocopying done by trainee solicitors at a cost of over £100 per hour to the client. In fact, most large firms have dedicated photocopying departments manned by non-lawyers. So, we think that consideration should be given to educating judges about this issue.

6. *Availability of interim injunctions*

The availability (or rather lack thereof) of interim injunctions in IP cases makes the UK an unattractive forum for litigants, especially compared to Germany. Again, formal evidential requirements make it an expensive exercise in the UK. Moreover, this affects the ability to enforce IP rights effectively. We suggest that procedures be considered to make available to parties the ability to get quick and efficient interim relief.

7. *Lack of clarity in the law*

There are a number of areas of UK IP law that are in need of clarification, in our view. We give two examples.

- (a) Is the dilution of a trade mark's reputation sufficient to found a passing off case? Learned articles abound about this issue but the answer remains unclear. (See too Aldous, LJ in *Arsenal -v- Read* [2003] EWCA Civ 696).
- (b) There is no comprehensive test for obviousness in patent law. The *Windsurfing* test does little more than to pose the question to be answered.

Some guidance (whether by statute or otherwise) on these issues would allow practitioners to advise their clients with a greater degree of confidence.

Furthermore, in relation to the first point above, our clients feel that the UK Courts are far less receptive to claims concerning trade dress and/or dilution than their counterparts in, particularly, Germany. This, again, makes the UK a less attractive forum for litigation and, in such cases that are brought here, the costs are increased because as much evidence/argument as is possible is brought into the case to meet the anticipated scepticism of the Court. In this regard, see too point 10 below.

8. *Party and party correspondence*

A lot of the costs in a dispute are spent on correspondence between the parties' advisors. We believe that much of this is unnecessary. We, therefore, recommend that consideration be given to making much party and party correspondence inadmissible before a Court. We realise that some correspondence (e.g., an offer to settle) may need to remain admissible. However, in our view, much of the correspondence between the parties in many disputes is unnecessary and, were it to be inadmissible, there would be less inclination to indulge in it.

9. *Identifying Infringers*

Establishing the identity of alleged infringers is often a problem in two types of cases:

- (a) internet/on-line cases; and
- (b) importation cases, where the identity of the importer is unknown.

We believe that consideration should be given to:

- making orders against web-hosting services more readily available without having to follow the *Norwich Pharmacal* test; and
- allowing greater access to customs information about the identity of importers.

10. *The perceived hostility of UK judges towards IP monopolies*

Clients have often told us that they would prefer not to enforce their IP rights in the UK because of the perception that UK judges are more likely to find for Defendants than their judicial counterparts in, for example, Germany. We believe that there may be justification for this view. For example, in the patents field, UK judges appear to be more willing to find a lack of inventive step than elsewhere. This remains a serious concern and should, we believe, be addressed.

Question 4(c)/(e)

- *To what extent does your organisation make use of other methods than litigation to resolve IP infringement cases, for example the Patent Office opinion service, mediation services, Alternative Dispute Resolution, or the Copyright Tribunal?*
- *Are there barriers to using such methods to settle IP disputes without recourse to litigation? How might they be removed?*

Many of the IP disputes in which this firm is involved are not readily capable of being resolved by mediation. If the proprietor wants the alleged infringer off the market, there is little scope for negotiation. However, mediation can be a useful tool in some trade dress cases, in our experience. On the other hand, in pharmaceutical patent cases, we have not seen much of a role for mediation.

However, we believe that Patent Office opinions might usefully be used in the context of point three of our answer to questions 4(a)/(b) above.

Questions 4(d)/(e)

- *To what extent do you use IP litigation insurance? How effective is it?*
- *Are there barriers to using such methods to settle IP disputes without recourse to litigation? How might they be removed?*

We have had experience of the other side (a Claimant) having litigation insurance. The problem that we came across was conflict of interest. The insurers and the client instruct the same firm. So, if the lawyer thinks that the client is likely to lose, what does he advise the client/insurers? That cannot be a comfortable position.

Question 4(f)

- *Are there specific barriers to challenging and enforcement of IP rights for small businesses or individuals?*

The problem specifically faced by small businesses and individuals is the cost of litigation, which we have dealt with above.

Question 4(h)

- *What are the principal barriers to efficient and successful challenge and enforcement internationally?*

The principal barrier to enforcement internationally is that IP rights have to be enforced on a territory by territory basis. Whilst it is possible to obtain pan-European relief in trade mark and registered design disputes (if the proprietor has a Community, rather than national, registration), the same is not true for patents. Moreover, of course, there are no international rights that cover Europe/Asia/America.

Of the issues that this barrier raises, probably the only realistic issue that might be resolved in the short term concerns enforcement of patents granted under the European Patent Convention on a trans-national basis. There is a groundswell of support for an European Patent Court to be able to do just that. Even if such a court cannot be established, consideration should be given to establishing bi-lateral conventions with the other major patent jurisdictions (most importantly, Germany) to recognise their decisions on EPs as binding in the UK.

Legal sanctions on IP infringement

- *Are you aware of any inconsistencies or inadequacies in the way the law applies legal sanctions to infringement of different forms of IP or to different circumstances?*
- *For example, should criminal sanctions on online infringement be the same as those relating to physical infringement?*

1. *Criminal sanctions*

In our view, criminal sanctions should only be available against those infringers perpetrating fraud. Otherwise, the threat of criminal proceedings will be used as a bullying tactic. In this

regard, it should be borne in mind that most IP infringement cases involve non-infringement defences and counterclaims of invalidity.

So, in our view, criminal sanctions should only be available against those who intentionally deceive purchasers into buying something that they would not otherwise have bought. This would restrict criminal proceedings to trade mark/trade dress proceedings. Criminal proceedings in respect of patents and designs would, in our view, be wholly inappropriate.

We see no reason for distinguishing on-line infringers from others.

2. *Threats provisions*

There are various threats provisions in the UK IP Acts. We understand that these provisions are to protect manufacturers/importers from unwarranted claims of infringement against retailers/suppliers. We believe that the economic landscape has changed since the first introduction of these provisions. Many retailers are now very powerful.

The threats provisions pose difficulties for advisors and warning letters have to be carefully crafted to avoid falling foul of the relevant provisions. This only adds to the costs of IP disputes. Moreover, we believe that an overhaul of the provisions is needed. We suggest that, for example, if a retailer/supplier refuses to name the source of the allegedly infringing goods, then, there should be no sanction for making a threat.

3. *Quantum*

The assessment of quantum is almost invariably ordered to be made at a separate trial following that on liability. One reason for this is probably the complexity of the trial on quantum, requiring expert evidence from accountants, extensive disclosure and so forth. We believe that it would be worth considering if such an extensive quantum trial could be avoided, at least in some cases. For example, the Court might order that only a royalty would be available. If such a procedure were formulated, then, a split trial might not be necessary. This could make the UK a more attractive forum for litigants.

Yours faithfully

A handwritten signature in cursive script that reads "Clifford Chance LLP".

Clifford Chance LLP