

INTELLECTUAL PROPERTY ADVISORY COMMITTEE REPORT

THE ENFORCEMENT OF PATENT RIGHTS

GOVERNMENT RESPONSE

Overview

1. The Government welcomes the report of the Intellectual Property Advisory Committee into patent enforcement. The importance of this area has been demonstrated over recent months by the proposal and adoption of a European Directive on the enforcement of intellectual property rights¹ and the Department of Trade and Industry's Innovation Report². Both of these reflect that an effective intellectual property system needs comprehensive enforcement mechanisms if the full value of intellectual property (IP) is to be realised.

2. Enforcement is a vital part of the Government's aim to promote innovation, in that an effective enforcement policy helps to encourage innovators that they will see the fruits of their labours. Our aim is to create a system in which valid intellectual property rights are respected and their owners find it straightforward to exploit and invest in their inventions. Allied to this is the need to make sure that IPR holders are not allowed to stifle creativity and innovation by being allowed to make claims beyond those to which they are entitled. The IP system has to balance the rights of the IP holder with the need to have fair competition across the economy.

3. As a result, effective enforcement of intellectual property rights is an area where new ideas are constantly needed in order to deal with the ever-changing needs of rights holders and the wider market. The impact of counterfeiting, piracy and infringement on the economy is a serious concern and the Government has been strengthening the mechanisms available to fight the growing problem of 'IP crime'. The report of IPAC into enforcement is therefore a very useful contribution to the debate and one which the government welcomes.

4. The report's emphasis on mediation and other alternative methods of resolving disputes corresponds with the Government's wish to reduce the costs and time of legal cases. The Government is very keen to see greater take-up of alternative methods of dispute resolution across the legal system, reducing the burdens on the courts and the taxpayer, and this applies as much to intellectual property disputes as to other civil matters. The patent system already has a number of ways of settling disputes and we welcome the intention of the report to make these simpler and more accessible.

5. The Patents Bill 2004, currently making its way through Parliament, will provide a new procedure to obtain an assessment of the validity or infringement of a patent, and there is a new IP Crime Group looking at enforcement issues in the UK: that Group is expected to produce a national strategy by this summer. The Patent Office is also looking at other means

¹ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights

² "Competing in the Global Economy: the Innovation Challenge", The DTI Innovation Report, December 2003

of improving enforcement through a feasibility study into a Patent Enforcement Project (PEP) and the Office continues to give a high profile to enforcement matters in its publicity.

6. The report has been useful in addressing some of the issues surrounding the structure of the legal system as it affects patent enforcement. The question of court procedures and the organisation of legal services is one that is already under active consideration by the Department for Constitutional Affairs. Key to this is the current review by Sir David Clementi into the regulatory framework for legal services in England and Wales, which will look at the questions of multi-disciplinary practices and the framework for lawyers acting in more than one discipline.

7. At the moment, we believe that there is not sufficient evidence for further changes to be made to intellectual property litigation regime, separate to wider changes to the rest of the legal system, beyond the initiatives that are already in hand as mentioned above. We recognise that it has proved difficult for IPAC to show direct evidence of the problems that exist, but new initiatives designed to make the system simpler – such as the ‘streamlined procedure’ – have been in place for a very short time and need further opportunity to show benefits. We perhaps need to allow time to gather sufficient evidence of how these initiatives are working before attempting to make further changes to the current systems.

8. Overall, the IPAC report has been extremely useful to both the DTI and the DCA. Detailed comments on the individual suggestions follow.

Responses to Report Suggestions

Court Procedures

a) we propose active promotion of the currently little-used “Streamlined Procedure” in the Patents and Patents County Courts. A “Further Abbreviated Procedure” should be introduced in the Patents County Court and Patents Court to further reduce costs, and with a view to acting as a model for a corresponding low cost procedure associated with the Community Patent (see 4.1.1)

9. We fully support full use of the current abbreviated procedure and strongly encourage all those involved in the process to make use of this procedure. This procedure has been in place for only a year and, while it has not been widely used so far, it has been welcomed. Patent judges, in particular Mr Justice Laddie in *Merck & Co vs Generics (UK) Ltd* ([2003] EWHC 2842 (Pat)), have referred to the court’s ability to require use of this procedure and strongly recommended that parties make use of it at an early stage.

10. We agree that this procedure should be more actively promoted and, as can be seen from the above, the patent judges are already doing so. We are always open to further suggestions on how to reduce the costs and time involved in patent and other cases: Lord Justice Brooke commented in *Dunnett vs Railtrack plc (in administration)* that parties had to face “the possibility that, if they turn down out of hand the chance of alternative dispute resolution when suggested by the court, as happened on this occasion, they may have to face uncomfortable costs consequences”.

11. Given that there needs to be further use of the current abbreviated procedure to show its full benefits, we believe that it is too early to propose a “Further Abbreviated Procedure” at this time. As is clear from the Railtrack case, the court may already impose a limit on the amount that one party pays to the other in costs, and it is willing to use this power.

b) appeals in Patent Actions should be subject to rigorous leave to appeal requirements and, where leave is given, the appeal should be prosecuted under an abbreviated procedure (see 4.2.1 – 4.2.2)

12. We agree that permission to appeal should only be granted where there is a real prospect of success or some other compelling reason why the appeal should be heard, as is currently the case.

13. It is difficult to see how these restrictions could be further tightened for patent cases without putting undue restrictions on the rights of the parties. The Review of the Court of Appeal (Civil Division) carried out by Sir Jeffrey Bowman in 1997 looked closely at the civil appeals system and stated that, although an appeal should not be seen as an automatic further stage in a case:

An individual who has grounds for dissatisfaction with the outcome of his or her case should always be able to have the case looked at by a higher court so that it can consider whether there appears to have been an injustice and, if so, allow an appeal to proceed.³

14. The proposed abbreviated procedure appears to be similar to that used by the United States Court of Appeals for the Federal Circuit: we believe that this has not succeeded in

³ <http://www.dca.gov.uk/civil/bowman/bowman3.htm#part3>

reducing costs or time to decision in US cases and so it is not currently under consideration. However, the Department for Constitutional Affairs has recently consulted on proposals for rationalising procedures for Statutory Appeals and Statutory Review⁴.

Deregulation of Professional Roles

c) practitioners qualified as more than one of barrister, solicitor or patent attorney should be allowed to practice in any discipline in which they are trained and qualified. Barristers should be allowed to provide litigation and advocacy services directly to the public (see 4.3)

15. The Government favours measures designed to remove any restriction on competition which cannot be justified in the public interest. Recent moves include the right of audience of patent agents before the courts. More broadly, there are a number of studies currently looking at this area, including the review of the regulatory framework for legal services in England and Wales under Sir David Clementi.

16. This will remain under consideration and we await the outcome of Sir David's review, in particular, before any further action is proposed.

d) Judicial appointments to a Patent (or wider IP) Tribunal should be from all IP disciplines and the statutory amendments to enable this should be made.

17. Judges are appointed on the basis of their legal knowledge to sit in a wide range of cases. In the case of the Patent Court, specialist judges are already separately authorised to sit in that court on the basis of their skills and expertise in the intellectual property area. Patent agents have had the opportunity of right of audience before the courts for a number of years: in principle, a patent agent with wide skills and knowledge would be appropriate for appointment to the bench.

18. However, even judges in the Patents Court need to have experience beyond the boundaries of intellectual property law in order that they can deal with cases in other courts when there are no patent cases to hear. This is particularly important when cases are settled just before a court hearing: judges can then be reassigned to other cases. If judges in general were specialist in only one or two areas of the law, this would require a much larger number of judges to be appointed and this would have major effects on the resources available to the courts system.

19. While there appears to have been little take-up of patent agents' right of audience, this provides an important and useful opportunity for IP professionals to gain the relevant experience for future court appointments. There needs to be progress in that area before any further moves can be considered.

Alternative Dispute Resolution

e) for a trial period (see 4.4) mediation should be mandated by the Patents Court,

20. The Government wishes to encourage mediation where there is a legitimate chance of agreement and there is no reason why a voluntary mediation programme, such as one being developed by Judge Fysh in the Patents County Court, should not be started and encouraged

⁴ www.dca.gov.uk/consult/statutory/statappeals.htm

by judges. The Government is happy to encourage further development of this if the scheme is shown to have the support of both users and providers.

21. It should be borne in mind that the general view from organisations such as the Centre for Effective Dispute Resolution (CEDR) is that compulsory mediation does not work. Forcing parties who will not resolve their differences by agreement to mediate will only add cost and delay to litigation.

f) to encourage appropriate participation in mediation, it should be made clear that failure to participate satisfactorily may lead to the penalty of an adverse cost order

22. The courts already have powers under the Civil Procedure Rules to take into account the conduct of the parties when deciding what costs order to make. The *Railtrack* judgement on costs (referred to above) is an example of the need to take mediation or other forms of dispute resolution seriously, and the consequences of not doing so on any award of costs.

23. It is, however, necessary to respect the confidentiality of the mediation process. The benefits of mediation include the ability to raise a number of issues without these becoming part of the record. Any process that undermined this confidentiality could have the effect of reducing the attractiveness of mediation as a lower-cost solution to a dispute. As for taking account of behaviour during mediation, it would also be difficult to get a factual and impartial account of any mediation process as a reputable mediator would be unlikely to agree to report on the parties.

Re-Examination and other Procedures within the Patent Office

g) the Patent Office should offer a re-examination service, and seek to include this topic in patent practice harmonisation discussions with other national offices (see 4.5)

24. The Patents Bill 2004 currently before Parliament will allow the Patent Office to provide an opinion on the validity and/or the infringement of a patent. This new procedure for a non-legally binding opinion, could form the basis for a negotiated settlement of a dispute. Use of existing procedures or a review of an opinion will permit a full-blown hearing on the merits of a case where this is desired.

25. A suggestion that the Patent Office should offer a formal re-examination service was included in the Office's consultation on a proposed Patents Act (Amendment) Bill in 2002 and 2003. Following that consultation, it was felt that a legally-binding re-examination was not necessary.

26. The issue of re-examination could usefully be discussed in the relevant international forums in order to develop best practice amongst international offices.

h) amendment procedures should be simple and not open to opposition, with a view to speedy disposal

27. The removal of the ability to oppose amendment of a patent was suggested in the Patent Office consultation paper on the possible contents of Bill to amend the Patents Act 1977. This proposal was strongly rejected by respondents to that consultation (as set out in

the response document on the Patent Office website⁵) and so this has not been taken forward in the current Patents Bill.

Updated Patent Validity Assessment

i) the Patent Office should consider offering an administrative updated patent validity assessment service (see 4.6) with the courts linking the award of costs to whether an Updated Patent Validity Assessment had been obtained by the patentee before commencement of proceedings

28. Our response to g) sets out the proposal in the Patents Bill. We do not believe it would be appropriate to fetter the courts' discretion on an award of costs as there may be circumstances where a patentee is fully justified in, for example, seeking summary judgement in a timely fashion in a patent dispute. The courts will continue to be able to take into account all aspects of the parties' behaviour, as set out in our response to f), when deciding on an award of costs

Patent Cost Insurance as a means of enabling enforcement

j) the Patent Office should monitor this area. We also recommend the setting up of a Working Party to investigate whether an insurance scheme for patent litigation costs can be commercially viable (see 4.7)

29. The European Commission received a report into patent litigation insurance⁶ which reached no clear conclusion on the viability of such a scheme, but noted that various voluntary schemes in member states had failed. On that basis, it recommended further study into a compulsory patent insurance system despite widespread opposition amongst respondents to any form of compulsory insurance for patentees. It therefore seems to us that there is, at present, no commercially viable economic model for patent litigation insurance, either in the UK or in Europe.

30. Nonetheless, we will continue to monitor this area as new markets can appear relatively quickly for insurance products and the economic conditions may change as IP develops a greater profile amongst innovators.

Corporate Governance

k) we suggest that an audit of IPR should form part of any company's annual audit. Such an IPR audit should include a risk assessment of the company's IP portfolio and any patent notifications by other patent owners implying or directly asserting patent infringement. It should form part of the annual report and accounts, at least to the extent that a statement that such an IP risk assessment has been undertaken would form part of the "signing off" responsibilities of the directors (see 4.9)

31. The Government expects companies to provide accurate and useful reports to shareholders and customers, while ensuring that the demands on companies are not unduly onerous. The DTI is currently consulting on proposals to require certain large companies to prepare a statutory Operating and Financial Review. The Operating and Financial Review will in essence be a report by the directors which will enable shareholders and others to form

⁵ www.patent.gov.uk/about/consultations/responses/patact/index.htm

⁶ http://europa.eu.int/comm/internal_market/en/indprop/patent/docs/patent-litigation-insurance_en.pdf

an assessment of a company's policies, performance and prospects. In companies where IP matters are sufficiently important to affect that assessment, those matters will have to be covered in the Operating and Financial Review.

32. IP audits are being trialled through organisations such as IP Wales⁷ and the Patent Office continues to support studies into meaningful IP metrics.

The Proposed European Directive on Enforcement of IP

l) we recommend that Government support finalising and then quickly implementing the proposed Directive, with the proviso that criminal law provision should only be applied in the most extreme circumstances (see 4.10)

33. The Government has played a full part in negotiations on the proposed Directive which was adopted on 29 April 2004. The criminal law provisions have been removed from the final draft, as most members states considered these to be inappropriate given the legal base (Article 95 of the EC Treaty) chosen by the Commission. The Directive provides an important step in ensuring effective enforcement whilst not targeting those who carry out relatively minor acts of infringement, and contributes to the fight against counterfeiting and piracy.

International

m) Government should take a European and international lead in promoting more consistent and timely IP enforcement systems (see 4.11)

34. The UK has consistently taken a key part in promoting and negotiating effective IP systems, and will continue to do so. The support for the European Directive on enforcement provides one example; the creation of the IP Crime Strategy in the UK is another. The inaugural meeting of the IP Crime group was held in February 2004 and a national strategy will be prepared by Summer 2004. The Patent Office has continued to build links across government, industry, the public sector and consumer groups to develop our work to combat counterfeiting and piracy. The Office has produced an interactive enforcement training and awareness package for brand owner anti-piracy officers, This was launched in June 2004 at the Trading Standards Conference, held in Manchester.

35. These and other exercises show the importance that the Government attaches to taking a lead and showing an example to other jurisdictions to make enforcement as effective as possible. We will continue to take other opportunities as they arise to emphasise the importance of enforcement.

n) in Asia, particularly the [People's Republic of China], the UK should promote the positive role of IP in a modern economy.

36. As in m), the UK will continue to play its part in encouraging effective enforcement systems. The Patent Office is strengthening its contacts with China and other Asian nations and is developing policy links on this issue. Ministers at the DTI have taken a keen interest in the issues facing UK companies in China and Asia and will continue to encourage these nations to develop strong intellectual property regimes.

⁷ <http://www.ipwales.com/home.asp>

o) the Patent Office should make more explicit, via its website, the nature and scale of the problems that may be encountered in other jurisdictions to help owners and potential owners understand better the difficulties they may have to manage.

37. The Patent Office is working on increasing the information available to rights holders through its website and associated sites: specific country information is already being added⁸ and issues raised in managing IPR in other jurisdictions will form part of the background to this information.

Alternative Fee Arrangements

p) we recommend making available US-style contingency fee agreements for patent disputes for a trial period (see 4.8).

38. The Department for Constitutional Affairs is committed to the use of Conditional Fee Agreements (CFAs) as the primary mechanism for funding private litigation. A CFA allows the solicitor to charge a success fee for the risk taken of not being paid if the case is lost. The success fee can be as much as 100% of his fee. CFAs were introduced in 1995 but the law governing their use was fundamentally reformed by the Access to Justice Act 1999 to allow the recovery of the success fees (and any premium for after the event insurance) from the losing party. This reform significantly widened the accessibility of CFAs. Currently, CFAs are used mostly in personal injury cases including clinical negligence and in defamation and insolvency. CFAs are also used to a much more limited extent in other areas such as commercial and consumer law. DCA is currently undertaking a review of the secondary legislation that regulates CFAs and likely to introduce a significantly simplified regulatory regime later this year. This should make CFAs easier to use generally and a more attractive vehicle in more areas of law including intellectual property rights disputes.

39. Contingency fees are based on the solicitor taking a share of the clients' damages as payment. Unlike CFAs contingency fees are impractical for defendants or in non money cases. They also cannot be used in court proceedings or any other contentious business. They can be used legitimately in the majority of Tribunals or where the courts are not the ultimate sanction and the case settles. The Government has no plans to generally extend the use of contingency fees beyond what is currently permitted and does not believe that the enforcement of patent rights is a special case. The extension of contingency fees would require primary legislation to make such arrangements enforceable. The Government believes that CFAs provide a suitable mechanism to provide access to justice for meritorious claims and that future reforms should be concentrated in improving these agreements. It is also worth noting that the Committee recommends the trial of US style contingency fees. In the US there is no loser pays rule (also known as the English rule) and parties usually bear their own legal costs. The extension of US style contingency fees would therefore also require fundamental reform of the basis on which costs are awarded in England and Wales.

Additional Procedural Reforms to be considered

q) the introduction of a new procedure to prevent the enforcement of a patent inconsistently with representations made in the course of prosecuting the application.

40. This concept of 'file wrapper estoppel' has been developed in US law. Experience there suggests that there are significant drawbacks to this approach. Third parties can no

⁸ <http://www.patent.gov.uk/about/ippd/ukiprights/index.htm>

longer determine the scope of a patent by reading the granted specification, instead they have to delve back through all the papers on the Patent Office file to see if they contain anything that might affect the scope of the patent. That increases uncertainty and scope for expensive legal wrangling. Furthermore, it is not clear that this provides an effective remedy to the perceived problem of false representations being made.

41. Accordingly the government does not believe that this would be a useful concept to introduce into our law.

r) the ability to halve renewal fees by endorsement of the patent "licenses of right" should be more vigorously promoted (see 4.25).

42. The Patent Office will look at ways of highlighting the possibility of using 'licence of right' across its publicity, including its website and other methods, to try to increase the take-up of this useful action.