

THE ENFORCEMENT OF PATENT RIGHTS

Intellectual Property Advisory Committee (IPAC)

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INDEX

	<i>Page</i>
EXECUTIVE SUMMARY	5
SUGGESTIONS	7
1 INTRODUCTION	11
2 BACKGROUND AND SUMMARY OF CURRENT POSITION	15
2.1 History of patent litigation	15
2.2 DTI innovation review	16
3. PROBLEMS WITH THE ENFORCEMENT OF PATENTS	17
3.1 Lack of financial capability to enforce patents	17
3.2 Overseas	18
3.3 A comparative study of patent enforcement systems – England and Wales, France, Germany, the Netherlands and the USA	19
3.4 Legal representation in the UK	22
3.5 The validity issue	23
3.6 Damages	24
3.7 Threats	24
4. POSSIBLE SOLUTIONS	25
4.1 Court procedures - further abbreviated procedure	25
4.2 Court procedures - appeals	26
4.3 Deregulation of professional roles - removal of restrictive practices	28
4.4 Alternative Dispute Resolution (ADR)	29

4.5	Patent Office involvement - patent validity	31
4.5.1	<i>Re-examination</i>	31
4.5.2	<i>Amendment</i>	31
4.5.3	<i>Effective, Timely Procedures</i>	32
4.6	Updated patent validity assessment (legally non-binding)	32
4.7	IP Insurance as a means of enabling enforcement	33
4.8	Alternative fee arrangements	34
4.8.1	<i>Maintenance</i>	34
4.8.2	<i>Conditional Fee Arrangements</i>	34
4.8.3	<i>Contingency Fees</i>	34
4.8.4	<i>The Community Patent</i>	35
4.8.5	<i>Conclusions On Alternative Fee Arrangements</i>	35
4.9	Corporate governance	36
4.10	Proposed EU Directive	37
4.11	International	37
4.12	File wrapper estoppel	39
4.13	Patent defence union	39
4.14	Patent enforcement fund	40
4.15	Tax incentives	40
4.16	Licences of right	40
4.17	Data and evidence	41

APPENDICES

APPENDIX 1	Streamlined Procedure	42
APPENDIX 2	Overseas Patent Systems	45
APPENDIX 3	Further Abbreviated Procedure	52
APPENDIX 4	Summary of the Proposed “Directive of the European Parliament and of the Council on Measures and Procedures to Ensure the Enforcement of Intellectual Property Rights”	54

THE ENFORCEMENT OF PATENT RIGHTS

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EXECUTIVE SUMMARY

1. The problems, perceived and actual, of enforcement of patents are reported regularly by patentees and potential patentees as a handicap to the effectiveness of their rights or a disincentive to apply for them. Although much has already been done (particularly by the judiciary) to improve patent enforcement there remain real problems which will need to be addressed if there is to be further progress. We believe that the time is right for a new approach.
2. A fundamental problem is that, although the *"quality"* of justice in the Patents Court is well regarded, cost compared with the rest of the EU is very high and, frequently, prohibitive for the SMEs and individuals. There are suggestions even that larger companies are increasingly taking their infringement litigation to other European jurisdictions on the grounds of cost. Why, then, is the London Patents Court so expensive? One reason is that the forensic approach to patent litigation enabled by common-law-driven procedures in this country is out of step with the requirements of industry. We believe there is a good case for changes to how the system works.
3. The current shortcomings of patent enforcement procedures in the Patents Court also need to be considered in the light of the planned introduction of the Community Patent in 2007, followed by the Community Patent Court in 2010. That Court will, effectively, be a European Court of First Instance – located in Luxembourg – which will have exclusive jurisdiction over proceedings concerning the validity and infringement of Community Patents. The Court will have its own

procedures and, given its high reputation amongst patent jurisdictions in Europe, the UK should play a leading role in developing those procedures.

4. More immediate, however, is the need to develop a consistent and satisfactory system for enforcing European patents [EPs]. The EP will continue alongside the Community Patent and play an important role in the innovation process. This Report identifies the current issues, highlights why the present procedures of the Patents Court are failing to meet the needs of users of the patent system and proposes changes aimed at positioning the Patents Court as the European jurisdiction of choice. This presents an opportunity for Government to take a leading role in this aspect of the development of the European Union.

5. IPAC's role is to identify issues, taking a broad strategic approach. Accordingly, we have looked at patent enforcement in the round, considering not only the legal process but also the role that the corporate governance, mediation, patent litigation cost insurance and Patent Office procedures may have in assisting dispute resolution. Our conclusions are set out below. In many cases we have not been able to make formal recommendations in detail because the empirical or evidential basis for such recommendations is absent or deficient. We reinforce an earlier recommendation to remedy this. Nonetheless we point to areas where we believe that further work by, or sponsored by, Government is necessary or desirable and where we think there may be a good case for change. Certainly we see no grounds for the UK to be complacent on this subject.

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)
- 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)

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)
- 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.

ALTERNATIVE DISPUTE RESOLUTION

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

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

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

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)

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)

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)

INTERNATIONAL

- m) Government should take a European and international lead in promoting more consistent and timely IP enforcement systems (see 4.11)
- n) in Asia, particularly the PRC, the UK should promote the positive role of IP in a modern economy.
- 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.

ALTERNATIVE FEE ARRANGEMENTS

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

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

1 INTRODUCTION

1.1 This Position Paper provides a background to the enforcement of patents. It identifies the serious problems that exist, considers alternative solutions and makes final recommendations.

1.2 IPAC's terms of reference include the following objectives:

- advise DTI Ministers and the Patent Office on how intellectual property can best contribute to DTI and wider Government objectives; and
- endeavour to identify problems with the way the IPR system is working and look for early signs of potential risks and challenges to the system to help inform DTI Ministers and the Patent Office.

Specifically, this includes consideration of:

- how to foster the development of an international and European intellectual property rights (IPR) system which encourages innovation and competition and promotes global trade, for the benefit of commerce, industry and consumers;
- how best the intellectual property system can meet the needs of small and medium-sized enterprises (SMEs) as well as large businesses, and maintain a balance between the interests of right owners and users;

- the wider economic impacts of IP policy; and
- the interface between IP protection and competition policy.

IPAC decided early in its life to look at the enforcement of IPRs. We set up an Enforcement Group charged with reporting on the efficacy of the process for the enforcement of patents in the UK and also in the broader context of the major markets for UK industry in other countries. We focused on patents rather than all IPRs because the issues in each sector, though overlapping, are not exactly the same and we judged it better to concentrate on one clearly defined sector. However we are well aware that patents are not the whole, or only, story and we may wish to revert to the broader theme at a later date. The Group has drawn upon its own UK and international enforcement experience as well as consulting with many outside IPAC. IPAC's role is to take the broad strategic view, identifying issues and stimulating further discussion.

- 1.3 Our starting point was that patents are important to the economic welfare of the European Union. To be useful, patents have to be enforceable. The creation and exploitation of new inventions are critical parts of the innovation process. An integral part of the exploitation and use of patents is the ability of the owner or licensee of the rights to enforce them where necessary so as to prevent unauthorised use, colloquially called infringement. Only a small percentage of patented inventions are sufficiently commercially successful to result in their infringement and these are the important patents from the point of view of wealth creation. A deficient enforcement system hinders their exploitation. SMEs, in particular, are less likely to invest time in R&D and investors are less willing to support R&D if enforcing the underpinning patents is unaffordable. This barrier to the enforcement of patents is also thought to be a disincentive for many firms to seek patent protection for their inventive ideas. It is, however, recognised that facilitating the assertion of invalid patents is also a serious problem and a balanced

view of enforcement is essential. This calls for a legal system which provides affordable access to justice for both patentees and accused parties alike.

1.4 The UK patent enforcement system does not at present fully meet this need. It is high quality but it is often simply too expensive for many litigants, particularly SMEs. With costs of a typical infringement/validity action in the High Court at around £1 million, it severely limits the number of individual inventors and companies which can afford to enforce or defend their patents. The situation is still more acute for UK companies enforcing patents in the USA, where costs are (in the main) non-recoverable and typically in the region of US\$2-5 million for a patent infringement case of average complexity.

1.5 IPAC recognises the work undertaken over the last 10 to 15 years to improve the speed and lower the cost of litigation in the UK. However, even with the recently introduced “Streamlined Procedure”, our information indicates that there is still likely to be only a small proportion of patent disputes resolved by the courts, owing to the complexity (some of which may be unnecessary) of the common law system and the consequent high cost to litigants. In the context of the Community Patent and the proposed European Directive on the enforcement of intellectual property rights¹, the United Kingdom, quite simply, cannot afford to be out of step with the remainder of the Community. However, the aim should not just be competitive in terms of price but to maintain our reputation as European ‘market leader’ in terms of quality of justice. In that context, we recognise that in some circumstances the complexity of the common law system may in fact produce ‘more justice’ for all parties.

¹ Proposal for a Directive of the European Parliament and of the Council on measures and procedures to ensure the enforcement of Intellectual Property Rights. COM (2003) 46(01), Commission of the European Communities, January 2003.

- 1.6 Any consideration of this issue must take into account the newly agreed Community Patent. This patent is intended to eliminate differences in national approach to litigation across EU Member States by establishing a European Patent Court of First Instance and an Appeal Court, which will eventually operate entirely separately from the national court systems of Member States.

- 1.7 In our view, the United Kingdom should anticipate the inevitable changes which the new Community Patent system will bring and should undertake a root and branch review of the suitability of our present legal system to meet the needs of users, both today and in the future. We urge Government to lead the way in this respect. The work thus far on the existing system can only produce marginal improvements.

- 1.8 IPAC suggests that it may well be time for a totally new approach which takes into account not only the legal system but also the role that Patent Office procedures, patent litigation cost insurance, corporate governance and mediation might have in assisting dispute resolution. We set out our analysis and recommendations below.

2. BACKGROUND AND SUMMARY OF CURRENT POSITION

2.1 HISTORY OF PATENT LITIGATION

2.1.1 Patent litigation in the UK, and in particular in England and Wales, has undergone many changes over the last 15 years. Patent litigation was for many years mainly the preserve of patent agents and a handful of specialist barristers and solicitors. With the increase in importance of IPRs generally, procedures grew in complexity and consequently cost. This led to the formation of the Patents County Court as an alternative low-cost forum in the Copyright, Designs and Patents Act 1988. The Patents Court (a division of the High Court) has in the last decade pioneered procedural reforms which have significantly reduced the time to trial and the complexities of the previous, essentially party-driven, procedure. That is to be welcomed. IPAC endorses the excellent work done by the Patents Court Users' Group and the "Streamlined Procedure" that is now available in both the Patents Court and the Patents County Court (see Appendix 1).

2.1.2 However, the relatively high cost (actual and perceived) of enforcing patents in England and Wales (which still obtains) by comparison with costs in other major European patent jurisdictions reflects the fundamental difference between the common law system and procedures and the (essentially) written procedures which apply in the civil law system of continental European Member States. It is not a result of substantive patent law differences, because the law has, to all intents and purposes, been harmonised through implementation of the European Patent Convention.

2.1.3 Particularly for SMEs, failure to stop an infringement promptly can lead to destruction of their entire business; in other words, justice postponed is justice denied. The Patents Court needs to go further to provide access to justice for the party who requires a fast, effective and affordable forum to adjudicate urgent

matters. In this respect, we welcome the present willingness of the Patents Court to give directions for expediting trial, exceptionally within as short a period as 4 months, in appropriate cases.

2.1.4 However, the Patents Court tends not to entertain preliminary (or pre-trial) injunctions in patent matters, preferring to expedite trial. Applying the principles laid down by the House of Lords in the *American Cyanamid - v - Ethicon* (1975) AC396, the Court is not concerned with a preliminary merits-based evaluation but more with maintenance of the *status quo* pending trial. The exception to this has been a recent tendency to award preliminary injunctions where pharmaceutical patents are concerned and the Defendant is unable to satisfy the Court that:

- (i) the potential damage to the Patentee is not irreparable (for example, the irreversible price erosion which the entry of an infringing medicinal product may produce), and/or
- (ii) if such damage is quantifiable, that the Defendant has adequate means to compensate the Patentee if the patent is held to be valid and infringed at trial.

2.2 DTI INNOVATION REVIEW

The Innovation Review being carried out by the UK Department of Trade and Industry is concerned with examining innovation in its broadest sense in the context of its contribution to the economic well-being of the United Kingdom. Innovation is approached on two bases. They are both the activities of producing new inventions and ideas, and the exploitation of those creations. As noted above (paragraph 1.4) the ability to enforce patents is integral to exploitation. The review process recognised the importance of enforcement to successful innovation and we hope that our proposals can be taken forward as part of the implementation of the Review.

3. PROBLEMS WITH THE ENFORCEMENT OF PATENTS

3.1 LACK OF FINANCIAL CAPABILITY TO ENFORCE PATENTS

3.1.1 There is a widespread belief amongst individual inventors and SMEs that their patents can be knowingly infringed by wealthier companies without serious regard for the consequences. The problem is seen as particularly acute in relation to inventions that require little capital investment to copy, or are infringed by a large number of parties each of which would generate relatively little in damages. The same concern affects those larger companies which operate as an aggregation of smaller units, each of which has the same cost constraints as if it were an SME. On the other side of the coin, a patent which provides a potential 20 year monopoly for products and processes is a potentially very valuable business asset. The price of enforcing that monopoly is a business expense and that cost should, perhaps, be viewed in proportion to the value of the asset to the business.

3.1.2 It follows that the patentee (whether SME or large corporation) must recognise from the outset the costs involved not only in obtaining patent protection but also of maintaining that asset. This concept is generally recognised in some industries such as biotechnology but not so widely appreciated in traditional manufacturing industries. Maintenance, of course, includes the cost of enforcing the rights conferred by a patent, namely to prevent infringement. Many obtain patents unaware of the potential financial risk involved and without the ability to maintain and enforce the rights which those patents confer. IPAC has already identified very low IP awareness as a key generic problem. We understand this issue is being addressed in the Innovation Review.

3.1.3 Notwithstanding a need for greater awareness, we need to make patent enforcement at least as affordable in the United Kingdom as it is in other EU

Member States, notably Germany and the Netherlands, both of which are recognised as having high quality lawyers and judiciary in patent matters.

3.2 OVERSEAS

3.2.1 IPAC's investigations (see Appendix 2) show that, broadly, British industries' key markets are North America (particularly the USA), Europe and Asia (particularly China). In those jurisdictions we observe:

- (i) *USA*: the process is procedurally complex, costly and uncertain in outcome at first instance, largely because of a lack of a common approach from a judiciary generally inexperienced in patent matters². The jury trial system typically favours US litigants.
- (ii) *Continental Europe*: compared to the English Patents Court, the process elsewhere in Europe is less expensive and less complex. There is, however, a lack of consistency of outcome across the European Union, owing to differing procedural law and levels of expertise amongst the judges. Examples of this include claim construction and the "research exemption".
- (iii) *Asia*: copying and counterfeiting are endemic, although Japan and Singapore are exceptions. Even where (as in the People's Republic of China) adequate enforcement provisions are in place, there is little business appreciation of the positive role of IP in a modern economy and of the need to respect and enforce IPRs. Although the machinery is in place, its effectiveness is questionable.

² There are, of course, exceptions to this,. For example, the District Courts of Delaware, Virginia and Northern California have considerable experience of trying patent cases.

3.2.2 As a minimum, patentees need to be aware of the risks and potential costs associated with enforcing rights in other jurisdictions. Although there are self-evident drawbacks to the idea we believe that it would be helpful for the Patent office to provide a plain man's guide to the realities of this on its website.

3.3 A COMPARATIVE STUDY OF PATENT ENFORCEMENT SYSTEMS – ENGLAND & WALES, FRANCE, GERMANY, NETHERLANDS AND USA

3.3.1 As part of its review of the patent enforcement procedure, IPAC has taken evidence from patent lawyers in four other jurisdictions, USA, France, Germany and the Netherlands. A chart of features of the different jurisdictions is included in Appendix 2. In Germany, where infringement is tried separately from validity, time to trial on the infringement issue was in the past significantly quicker than in the English Patents Court: for example, trial within nine months for the Düsseldorf Court on a matter of medium complexity. Now, however, with the accelerated procedures and scheduling adopted by the English Patents Court, there is in effect no real difference in time to trial between the two jurisdictions. In fact, since infringement and validity are tried together in the High Court, the overall procedure in this country is now probably quicker than in Germany. Cost, however, remains the disincentive to using a UK jurisdiction. Although it is difficult to make exact comparisons costs in the English Patent Court can be of the order of four times greater than its counterpart court in Germany. IPAC has used what data is available. However, the lack of good comparative data and analysis is a good example of the general lack of hard data and evidence around IP.

3.3.2 While time to trial at First Instance is no longer a real issue in England and Wales, time to appeal is still too protracted, although the U.K. is not necessarily out of step with the rest of Europe in this respect. The time to appeal and availability of appeals are addressed in 4.2 below.

3.3.3 The Single Market needs both national patents and European Patents to be governed by consistent application of substantive and procedural law. Currently, there are significant procedural differences between the common law countries and the remainder of Europe. The English common law system is seen to be costly and procedurally complex, although proponents of the system say that it has the advantage (through disclosure and cross-examination) of being able to get to the bottom of things and (because validity and infringement are considered together) to be able to come to more balanced and rounded conclusions.

3.3.4 Given the tendency of the granting authorities, in particular the European Patent Office (EPO), to give the benefit of the doubt to applicants at both the application and opposition stages, one view is that validity should be open to robust challenge and *de novo* consideration "English style" during infringement proceedings. A contrary view is that, where a patent has survived EPO Opposition and Appeal, it is inappropriate for National Courts to engage – as the English Patents Court is apt to do - in a forensic reassessment of validity. The exception to this should be that where new and potentially relevant material is produced before the Patents Court, which material was not before the EPO, it is right that validity should be examined *de novo* against such new material. Such *de novo* reconsideration is, however, also applied in any event in the three European jurisdictions considered. So there is little difference between the jurisdictions in this respect. Additionally, in Germany it may be said that the system may do injustice to defendants because validity cannot be considered as a defence by the infringement court.

3.3.5 The bottom line, therefore, is that the English system can be more expensive than its European counterparts with little difference in the remedies available or quality of justice. Costs of litigating in the USA are even higher than the UK, but those costs can be acceptable where, because of the market size, damages can offset them. This is not the case for any individual European jurisdiction. Additionally contingency fees arrangements can alleviate the costs risk (see 4.8 below)

3.3.6 Preliminary Relief:

A preliminary injunction is, of course, a draconian measure. Without affording the Defendant an opportunity fully to present its case on the merits, a preliminary injunction excludes the Defendant from making, selling, etc. the patented product/process for a period of time until the case is scheduled for a merits-based evaluation at trial. Essentially, the preliminary injunction preserves the *status quo* for that period by temporarily excluding the would-be competitor from the market.

Germany

As with the English Patents Court, there is a general reluctance in Germany to award pre-trial injunctions.

France

In France, there are preliminary measures - for example, the Saisie Contrefaçon - which provide the Patentee with a form of interlocutory relief. It does not, however, amount to a pre-trial injunction.

The Netherlands

The Netherlands appears to be the only European jurisdiction where preliminary injunctions are routinely granted. But this remedy is only potentially available where the subject matter in issue is not overly complex.

England and Wales

See 2.1.4 above

Generally

The overall picture which emerges is that the inherent complexity of patent disputes does not generally lend itself to summary disposition by, for example, the grant of preliminary pre-trial injunctions. Where, however, certain circumstances apply - as in the particularly price-sensitive pharmaceutical market - the Patents Court has shown itself willing to grant preliminary injunctions coupled with scheduling an accelerated trial of the action. We do not consider that the UK is significantly different from other jurisdictions in this respect. We consider this not to be a major issue in the UK and have no recommendations to make.

3.4 LEGAL REPRESENTATION IN THE UK

- 3.4.1 In England and Wales, restrictive practices currently governing the provision of legal and litigation services reduce choice and increase cost. The team of at least three (patent attorney, solicitor, barrister) remains, typically, the minimum. The exception to this is the Patents County Court, a forum where patent agents and solicitors may both conduct litigation and all three professions can be heard. Such deregulation as has occurred in High Court practice (solicitors can now obtain rights of audience, and patent agents can be accredited as litigators) has not significantly reduced costs (see, for example, *Panduit v Band It* [Patent County Court 16 March 2001]) or increased choice. Traditional restrictions still remain: barristers in independent practice cannot conduct litigation; barristers, solicitors and patent attorneys cannot form a “mixed practice” (but note the current Clementi review of restrictions against MDPs); and patent agents cannot address the High Court. Importantly, most patent agents and solicitors still do not see themselves being able to function effectively as advocates.
- 3.4.2 The Patent Judges have encouraged other professionals to exercise their advocacy rights (most recently in a CIPA meeting on 8 May 2003), but inevitably there remains a perception of (perhaps unintentional) judicial bias towards maintaining

the arcane procedures in the common law system, which favour barristers trained and practised in that system.

3.4.3 This, of course, begs the wider question of why we maintain the split barrister/solicitor profession, which is unique to England & Wales and Ireland and out of step with all the other Community Member States, the answer to which is that it is said to give the consumer diversity of choice. However, these remaining restrictions can result in over-lawyering and unnecessary cost, particularly when compared to the system of representation in the other main European States as well as the USA and most Commonwealth jurisdictions. The removal of the remaining restrictive practices identified in 3.4.1 above should, over time, allow market forces to determine the most appropriate representation in court and give the consumer real choice.

3.5 THE VALIDITY ISSUE

3.5.1 Patents as granted are not necessarily valid. Patent Office examiners examine against prior art identified by the applicant (if any) and prior art found in an official search. This is usually limited to searchable databases. Other publications, such as trade literature and company brochures, cannot be reliably searched. Evidence of prior use, particularly that never recorded in writing, is effectively impossible to find at the searching and examination stage. It is normally only if an invention is successful in the marketplace that there is an incentive for others, typically putative infringers, to search for any means of invalidating a patent, not only additional prior art but questions of inventorship, behaviour of the patentee and technical deficiencies in prosecution. Issues of validity are complex and are a major area of dispute in most enforcement actions.

3.5.2 Accordingly, we believe the Patent Office should consider the introduction of a procedure which can provide an updated assessment of whether, in the light of such

new material, the claims as granted continue to meet the requirements for patentability. This would be aimed at assisting the parties to an infringement dispute to focus on the real issues and, hopefully, reduce the level of uncertainty which presently exists (for both parties) at the enforcement stage. This procedure could be triggered by any party and, once initiated, would require participation by the patentee at least to the extent of providing an update of potentially relevant new material which has come to his notice since the grant process.

3.6 DAMAGES

The current criteria applied for evaluating damages seldom adequately reflect the patentee's true loss caused by infringement, taking all tangible and intangible losses into consideration, including actual costs, executive time, etc. Effective damages should act as a deterrent to infringement. Currently they do not, despite a 1997 recommendation from the Law Commission which reflected a very broadly based consultation, The Law Commission's Report on 'Aggravated, Exemplary and Restitutionary Damages' No. 247 (1997). However, the proposed European Directive (refer to 2.2 above and 4.10 below) should, if implemented in its present form, go some way to ameliorate this.

3.7 THREATS

United Kingdom patent law [Patents Act, 1977, s.70] provides measures to prevent the abuse of patent rights by unjustified threats against certain categories of infringer. We note that the Patent Office carried out a consultation process on this topic as part of the consultation on the proposed Patents Bill and published its results on 14 November 2003. We have not been able to consider the results of this consultation before submitting this paper.

4. POSSIBLE SOLUTIONS

4.1 COURT PROCEDURES - FURTHER ABBREVIATED PROCEDURE

4.1.1. The following measures should be seen in the context of the underlying issue, which is whether the, perhaps overly, forensic approach to patent litigation enabled by the common-law-driven procedures should be rigorously revised. There is now a unique opportunity with the Community Trademark, the Community Design and the coming Community Patent for a total overhaul of procedure in the Patents Court – which overhaul should not be restricted only to patent enforcement but should embrace all IPRs – to bring it more in line with procedures in the rest of the European Union. The challenge for Government is to seek to lead the way in the context of the EPO's EPLP proposal and the structuring of the enforcement procedure for the Community Patent. The EPLP proposal contains, we believe, a workable blend of common law and civil law procedures.

4.1.2 We were told that the Streamlined Procedure in the Patents Court and the Patents County Court (see Appendix 1) is not used. We believe that the procedure should be actively publicised and promoted, and that the Patents Court Users' Group should consider the following proposal for a further abbreviated procedure in the Court:

- Claimant driven.
- Three rounds of written submissions.
- Case Management Conference (CMC).
- Judge chooses future path from 3 options:
 - (1) immediate court case,
 - (2) limited fact finding, or
 - (3) referral to Patents Court (High Court)

- CMC written record appealable.
- Possible cap on costs.

(See Appendix 3 for more detail.)

We believe that this procedure should be made available in the Patents County Court and Patents Court to further reduce costs and with the view of acting as a model for a correspondingly low-cost procedure associated with the Community Patent.

4.1.3 This system will only work if judges are allocated adequate time to read papers in advance of trial. A more accessible system along the lines of the proposed Further Abbreviated Procedure will inevitably mean significant increase in cases and a concomitant need for more patent judges. Given the need, in any event, for a total re-appraisal of the present system for litigating patent matters in this country, this could provide an opportunity now for a new approach to judicial appointments. This should include senior IP solicitors and patent attorneys who would provide a well qualified resource and, in terms of judicial background, a Patents Court which more proportionately and transparently reflects the professions employed in patent matters. **We recommend that all IP disciplines should be considered for judicial appointments to a Patent or IPR Tribunal. We are not suggesting the expansion of the pool of qualified applicants for the general High Court jurisdiction .**

4.2 COURT PROCEDURES - APPEALS

4.2.1 The benefits of introducing a Further Abbreviated Procedure (see 4.1 above) could be severely compromised if appeals could be lodged effectively as of right and used tactically by the "deep pocket" litigant to increase the cost of a case and/or to

make it more protracted. Judgments of the Patents County Court and High Court fall within the Civil Procedures Rules 1998, Rule 52.3 and so require leave to appeal. Currently, however, leave is routinely granted as a matter of course regardless of the merits.

4.2.2 It is recommended that appeals from the Patents County Court or High Court³ should only be allowed if they concern an issue of law and/or factual issues which merit review by the Court of Appeal. Leave to appeal should be decided, usually, on brief paper submissions (less than ten pages) with a hearing only if requested by one or both parties or the Court. Also, **we recommend that this should be coupled with an Abbreviated Appeals Procedure.** An example is the managed approach taken by the US CAFC, with its focus on written submissions (usually grounds of appeal, respondent's reply, and appellant's answer) and a hearing at which Counsel are permitted only brief submissions, the oral proceeding being primarily for the Court to put its questions to the parties.

4.2.3 Ideally, all disputes concerning European IPRs, including national patents granted via the EPO, should be dealt with by a single IP Court of First Instance with appeal to a Central European Court of Appeal, which would be the final appellate authority on all IP issues, including appeals from the EPO. Such a court is likely to be a special chamber of the European Court of Justice to which appeals from national courts under IP Directives and European IPRs, such as the Community Trade Mark and the Community Design Right, would ultimately be made. **Should the inclusion of the EPO within this appellate jurisdiction prove impossible, then we suggest that members of the ECJ IP Court should also be appointed to the EPO Enlarged Board of Appeals.**

³ This would include judgments in actions litigated under the Streamlined Procedure and the proposed Further Abbreviated Procedure.

4.3 DEREGULATION OF PROFESSIONAL ROLES - REMOVAL OF RESTRICTIVE PRACTICES

4.3.1 Competition would be increased by reducing the barriers to entry identified in Section 3.4 above and thereby increasing diversity of choice of advisor.

4.3.2 For example, some barristers' chambers may enjoy relatively modest overheads and provide correspondingly competitive fee rates. However, they are presently unable to provide litigation services directly to the lay client. We believe there is a demand, particularly at the SME level, for access to multi-skilled teams - for example, dual-qualified practitioners and mixed partnerships. In this way "one-stop shop" IP services could be provided by relatively small units. Presently, this is only on offer from certain large firms and even then only sparingly. Deregulation, specifically in the areas identified in the following paragraphs, should make litigation services more accessible to SMEs and start-ups. We see no compelling reasons to maintain the *status quo*, particularly when it results in the highest cost in Europe (see Section 3.3 above). By removing these barriers, market forces will dictate success or failure. Professional bodies will continue to ensure maintenance of standards and protect consumer interests.

4.3.3 **We recommend the following changes:**

- i) Regulations which prevent barristers in independent practice from forming partnerships or undertaking management and conduct of the entire litigation process should be abolished, as they have been for employed barristers.**

- ii) Patent attorneys should be able to offer High Court advocacy services with an appropriate advocacy qualification. Further, any prohibition**

against dual practice as a patent attorney and a barrister should be removed.

iii) Regulations which prevent the formation of multi-disciplinary partnerships comprising two or more of barristers, solicitors and patent attorneys should be abolished.

iv) More public information on the availability and options for representation.

4.4 ALTERNATIVE DISPUTE RESOLUTION (ADR)

4.4.1 Following the Woolf reforms of litigation procedure, parties requesting a trial date must certify that they have considered Alternative Dispute Resolution. There has therefore been, over the last 3 years, an increasing emphasis on ADR, mediation being the usual form. There is, however, still resistance in practice to embracing fully this potential low-cost, fast method of dispute resolution. But, with the increased use of mediation, the courts have gradually become bolder in its application. For example, adverse costs orders have been made against parties who fail to approach the mediation seriously. Case law in this area is still developing.

4.4.2 In cases involving IPRs, the use of mediation has thus far been sporadic. It has, probably, been most used in trademark and passing-off, rather than patent matters. This may be because of a perceived misconception that, because the mediator has no jurisdiction to rule on the validity of a patent, the procedure is unlikely to produce results. This, however, is rooted in failure to understand the mediation process. It is not an adjudicative process. It is designed to facilitate settlement. For example, there is nothing to preclude an agreement made through mediation which provides that, *inter partes*, a patent is or is not infringed by a certain product or process.

4.4.3 Mediation is already successfully employed in the County Court system in non-IPR matters and is widely used in IP disputes (including patent matters) in other major jurisdictions, for example Australia and a number of States in the USA.

4.4.4 **We propose that mediation be mandated in the Patents Court on a trial basis, say for 12 months.** The parties will be ordered at the Case Management Conference to enter into a mediation process, maximum duration of six to eight weeks, unless this has already been tried and failed. The action will be stayed for that period. **There should be provision for the Court to call for a Report from the Mediator on the question of costs, the rationale being that the attitude of the parties to an unsuccessful mediation may be relevant to exercise of the Judge's discretion on costs.** This Report would, of course, only be available after judgment.

4.4.5 We have considered Prof. Kingston's proposal that patent disputes should be subject to Compulsory Arbitration, rather than litigated in Court. We have given careful thought to the basis for this proposal but we believe that it would not improve access to justice in contested patent matters. It is just another adjudicative process but one which is restricted *inter partes* rather than *erga omnes* where issues of validity and infringement are adjudicated by the Court. We say this subject to one qualification, which is that **there may well be a role for the arbitration in international patent disputes.** Indeed, with the present procedural disparities between the common law and civil law procedures in Europe and a tendency towards inconsistent outcomes where the same substantive law is applied, international arbitration on a Pan-European level may be useful as an alternative to litigation before the national courts of the Member States.

4.5 PATENT OFFICE INVOLVEMENT - PATENT VALIDITY

Re-examination

4.5.1 If, subsequent to grant, further material comes to light which is relevant for assessing patentability, there is currently no mechanism whereby the patentee can have it taken into account at the Patent Office level unless the patentee wishes to amend the claims. In the same way as the Patent Office considers patentability in the light of material available during prosecution, there seems no good reason why it should not carry out a fresh "substantive examination", with the result that either the Examiner agrees that the existing claims are still patentable, or raises objections which, as prior to grant, the patentee can answer by way of amendment and/or argument. Once the Examiner is convinced that the requirements for patentability are (re)met, the patent continues, possibly in amended form. While the actual chance of ultimate validity of the emergent patent may be no higher or lower than the patent as originally granted, third parties would at least know (as, indeed, would the patentee) that patentability has been reassessed in the light of material which was not considered during the original examination. The details would be open to public inspection on the open file. **IPAC recommends that the UK Patent Office should provide such a parallel procedure and that it should be tabled by Government in international discussions on patent practice harmonisation.** While the use of the procedure might not be frequent, it could become a useful tool for patentees and would-be infringers alike and might avoid litigation. This could be particularly effective if the potential or actual infringer took part in the re-examination proceeding, whether as a mere intervener or more actively. It would not appear to place on the Patent Office any material extra burden, or require any further examiner training.

Amendment

4.5.2 IPAC welcomes the move to remove from consideration of a proposed claim-limiting amendment the need to enquire as to motives or background, or indeed to provide reasons. So long as any proposed amendment is, as a matter of

construction, one which limits the scope of the claims, it should simply be allowed on payment of a fee to cover the cost of assessment and printing of a revised set of claims or specification. The rectitude of the amendment can still be subsequently challenged in a re-examination or court action. Amendment could be the subject, accordingly, of two types of proceeding, a less expensive one as just outlined, in which no consideration would be given to any material other than the specification and claims in unamended and amended form, and a more interactive one as set out in the preceding subsection. **We agree with the proposal in the Patent Office Consultation on the proposed Patents Act (Amendments) Bill that opposition should no longer be allowed in amendment proceedings, but only on the understanding that a re-examination procedure would be introduced in the form outlined above. We recommend this be implemented.**

Effective, Timely Procedures

4.5.3 The Patent Office should be required to conduct re-examination and amendment proceedings according to strict timescales, to avoid patentees' or users' rights being prejudiced for extended periods. The object of these suggested procedures is to reduce uncertainty about validity. This, in turn, should have a knock-on effect of helping to reduce the incidence of litigation and promote resolution by ADR.

4.6 UPDATED PATENT VALIDITY ASSESSMENT (LEGALLY NON-BINDING)

4.6.1 If a patentee elects not to submit his patent to re-examination or believes there is no new material prior art which has emerged since grant, it is nevertheless "good practice" to carry out an internal review before enforcing a patent. To encourage this, IPAC suggests that consideration should be given to mandating in a pre-action protocol a requirement that such an independent and objective review has been conducted prior to issue of proceedings. **We recommend that The Patent Office**

should consider offering such a service. The judge would then be obliged to investigate this when costs are being adjudicated after judgment on the substantive issues of infringement and validity. An unsuccessful Claimant, who was found not to have conducted such a review, would, in the absence of exceptional circumstances, be penalised on costs.

4.6.2 Such an updated patent validity assessment service by the Patent Office would also be of potential benefit to the Patentee when seeking insurance cover or company finance, both of which could facilitate enforcement of patents.

4.7 PATENT COST INSURANCE AS A MEANS OF ENABLING ENFORCEMENT

4.7.1 **We recommend that Government monitors progress in this area, both nationally and at an EU level,** and considers participation in any EU-wide projects designed to explore whether an effective system acceptable to both patentees and users can be developed, particularly in relation to the forthcoming Community Patent.

4.7.2 **We also recommend the setting up of a Working Party to investigate whether an Insurance Scheme for Patents can be commercially viable.** The proposals advanced in this Paper, which are designed to reduce costs and reduce the present uncertainty as to validity, may enable greater commercial viability for such a scheme than is possible with the prevailing high-cost, high-risk system.

4.8 ALTERNATIVE FEE ARRANGEMENTS

Maintenance

4.8.1 Generally speaking, provision of legal fees by a third party to assist a party to litigation is permitted. There is, however, what others term “the English Rule”, where the successful party recovers its costs from the unsuccessful party. As a rule of thumb, the recoverable element is about two-thirds of the winning party’s actual costs, that is to say the costs of barrister, solicitor and expert witnesses; but seldom the costs of that party’s own lost time occasioned by the litigation. Costs awards are at the discretion of the Court. This, not unnaturally, gives rise to some inconsistencies. On the other side of the coin, where a party has been financed by Legal Cost Insurance, the Insurance Company - in the event of a decision adverse to the insured - will be liable to pay costs up to the limit of the insurance cap.

Conditional Fee Arrangements

4.8.2 Another possibility is an agreement between a party and his solicitor that the solicitor will either not charge fees at all or will charge only at an agreed lower rate in return for payment of fees at a higher level (subject to a cap of a 100% uplift of the fees actually charged) in the event of success. This is a relatively new development and has been most used in personal injury litigation. It is still in somewhat of an evolutionary state, with decisions of the Court currently issuing as to what is properly recoverable under such agreements, for example, where a very early settlement of the claim occurs and the solicitor’s exposure to the contingency risk has been minimal.

Contingency Fees

4.8.3 The US-style Contingency Fee is a bargain between the party and his lawyer that the lawyer will either charge no fee or a reduced fee in return for a percentage of the damages received either upon settlement or at trial. Presently, this is not

permitted in this country. An exception occurs in relation to insolvent companies, where the Liquidator can agree to fund an action in return for a share of the proceeds. It is also possible to sell the right to bring an action, known as assignment of a chose in action. A patentee can, therefore, sell its right to sue for infringement of its patent(s) to a third party. A variant of this would be an assignment of the patent for the purpose of bringing a specific action, with provision to re-assign the patent to the proprietor at the conclusion of the litigation.

The Community Patent

4.8.4 To date, we have three registered Community IPRs, the Community Design, the Community Trade Mark and the Community Plant Variety Right. In the future, we will have the Community Patent, where infringement and validity will be judged for all Member States. The stakes - injunction and damages - will be correspondingly higher than at present where only national patent rights exist, namely a nationally registered GB patent or a patent registered under the European Patent System, an EP (UK). With the advent of the Community Patent, consideration should be given now to legalising US style contingency fees. Questions which should be addressed include:

- i) Is it an unjustifiable relic of the past that such arrangements are not permitted at present?
- ii) Are such arrangements appropriate only in the US where patent enforcement costs are significantly higher than in this country?
- iii) Does US experience suggest any drawbacks of which a British system should take account?

Conclusions

4.8.5 The debate surrounding alternative fee arrangements is, we suspect, in large measure the result of the high cost of patent enforcement in the English Patents

Court. To permit US style contingency fee arrangements would not remedy the present shortcomings of the English system. The real issue to be faced is improving access to justice for patent enforcement in terms of the existing procedure. It is those procedures which, as stated, the Enforcement Group consider require fundamental reappraisal. But, in the immediate term, **we recommend that the current ban on adoption of US style contingency fee arrangements for patent disputes is relaxed or abolished on a trial basis.** This would enable a more in-depth assessment to be made of the rules of other EU Member States in this respect and of the differences (if any) which those rules produce. It would also produce data from which a considered re-evaluation could be made of the benefits/disadvantages of contingency fees.

4.9 CORPORATE GOVERNANCE

4.9.1 Voluntary or compulsory procedures of Corporate Governance in relation to IP would automatically raise awareness of IP in the minds of company directors and shareholders and, vice-versa, an IP awareness campaign will assist Corporate Governance in the knowledge economy. **We recommend that consideration should be given to the proposal that an audit of IP should form part of any company's annual audit. Such an IP 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. This 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. A maximum of 3 years to consider and decide on suitable measures is recommended.**

4.9.2 The DTI has recently completed a consultation on the proposed contents of an 'Operating and Financial Review' (OFR) which would detail the strategies and issues facing a company. The handling and management of IP could usefully form part of such a Review in due course.

4.10 PROPOSED EU DIRECTIVE

4.10.1 Appendix 4 summarises the proposed "Measures and Procedures to ensure the Enforcement of Intellectual Property Rights", including patents.

4.10.2 IPAC broadly welcomes and supports the proposals which, if enacted, would dramatically improve the enforceability of patents in Europe. **We hope that Government will support finalising and then quickly implementing the proposed Directive**, with the proviso that the Criminal Law provision (Article 20) should only be applied in the most extreme circumstances of patent infringement.

4.11 INTERNATIONAL

4.11.1 Appendix 2 reviews some overseas patent systems and identifies areas for improvement. IPAC appreciates that Government's ability to influence practice in other countries is limited but, given the importance of this to British business, IPAC recommends that it brings what influence it has to bear on enforcement issues.

4.11.2 As previously stated, we believe that, ideally, disputes concerning the validity or infringement of a national patent right granted by the EPO should ultimately be resolved by a single European appellate court (see 4.2.3 above). Indeed, infringement and validity of Community Patents will eventually be decided by a Community Patent Court of First Instance with a right of appeal to a Community Patent Appeal Court. However, implementation is unlikely before 2010. In the meantime, national courts will have jurisdiction over Community Patents as local registries for the Community Patent Court until it is established in Luxembourg.

4.11.3 **We propose that Government should press for the creation now of a European Court for Patent Appeals, similar to the US Court of Appeals for the Federal Circuit.** The rationale for this would be to develop precedential case law, which would provide guidance for, and would be binding upon, the Member State Courts of First Instance. The obvious benefit should be to avoid the inconsistency of outcome which is currently too often experienced where the National Courts are applying harmonised substantive patent law but reaching different decisions.

4.11.4 This Court could be the special chamber of the Court of Justice, Luxembourg to which Appeals from the Office for Harmonisation of the Internal Market (OHIM) are already available in Community Trade Mark and Community Design cases.

4.11.5 The European Patent Organisation has already proposed a European Patent Litigation Protocol (EPLP) [see paragraph 4.1.1 above] and, given the generally accepted failings of the existing national processes, **Government should encourage the European Commission to co-operate with the EPO in this respect.** Indeed, it could provide a useful test-bed for the proposed Community Patent Litigation system. As already noted, in terms of procedure, the EPLP provides an attractive middle way between the existing common law adversarial, and civil law inquisitorial, processes.

4.11.6 In such a system, it is recommended that, as in the inquisitorial system, the judiciary exercise firm control of the management of cases so that issues are clarified early and steps necessary to resolve them are identified. That would allow for a form of disclosure and of cross-examination proportionate to the issues being tried. Also in such a system, validity should be available as a defence to infringement and should be triable alongside infringement by the court as it presently is in this country.

4.11.7 In certain parts of Asia (especially PRC) the UK should promote to opinion formers the positive role of IP in a modern economy.

4.11.8 Globally, the UK should promote more consistent enforcement systems for handling multi-jurisdictional disputes which, in turn, should assist in establishing more harmonised procedures at the national level, both in Europe and other jurisdictions of particular importance to British industry.

4.12 FILE WRAPPER ESTOPPEL

Consideration should be given to finding a way of preventing the enforcement of a patent on the basis of arguments which are inconsistent with representations made in the course of the prosecution of the application. **We recommend that Government consider either some form of declaration or disclaimer which would ensure that failure to disclose the existence of material affecting the claims would adversely affect an infringement action. We do not believe that the American procedure of file wrapper estoppel is, in the long term, a desirable approach to the problem.**

4.13 PATENT DEFENCE UNION

IPAC has considered the proposal for a Patent Defence Union. While not dismissing or endorsing the idea, IPAC does not consider this a priority for government support in relation to the enforcement of patents ahead of the implementation of the recommendations made in this report.

4.14 PATENT ENFORCEMENT FUND

It has been suggested that a Fund should be established into which a percentage of all patent fees (application, grant, renewals) is contributed. This contribution would be mandatory. Companies who could demonstrate a good *prima facie* case on both validity and infringement (supported, for example, by a Re-Examination patent or at least an opinion from a patent lawyer) could apply for grants from the Fund to enforce/defend their patents. We do not recommend exploring this further at this time ahead of implementation of the recommendations made in this report.

4.15 TAX INCENTIVES

Tax incentives to inventors and SMEs to obtain and exploit registered IPRs (whether directly or by licensing) in the form of reduced corporation or income tax have been suggested. For example, Ireland offers such tax incentives. IPAC notes that tax benefits do apply in some IP related areas, including films and Research and Development.

4.16 LICENCES OF RIGHT

We have observed that the fact that renewal fees may be halved for voluntarily endorsing the patent may not be fully recognised by patentees, particularly SMEs. **We recommend that the ability to halve renewal fees by endorsement of the patent “licences of right” should be more vigorously promoted.**

4.17 DATA AND EVIDENCE

The lack of hard data and evidence on IP issues inhibits good analysis. As we have previously recommended, in January 2003, this needs to be remedied.

APPENDIX 1

STREAMLINED PROCEDURE

(www.courtservice.gov.uk/using_courts/guides_notices/notices/pats/pats_guide.htm)

The following is copied from the above website with some typographical corrections.

1. Nature of a streamlined procedure

A streamlined procedure is one in which, save and to the extent that it is otherwise ordered:

- (i) all factual and expert evidence is in writing;
- (ii) there is no requirement to give disclosure of documents;
- (iii) there are no experiments;
- (iv) cross-examination is only permitted on any topic or topics where it is necessary and is confined to those topics;
- (v) the total duration of the trial is fixed and will normally be not more than one day;
- (vi) the date for trial will be fixed when the Order for a streamlined trial is made and will normally be about six months thereafter.

A streamlined procedure also includes minor variants of the above (e.g. disclosure confined to a limited issue).

2. Criteria for a streamlined procedure

The court will order a streamlined procedure by agreement or, in the absence of agreement, where application of the overriding objective indicates that it is appropriate. Particular emphasis will be placed on proportionality, the financial position of each of the parties, degree of complexity and the importance of the case.

3. When to apply for streamlined procedure

Any party may apply at any time after commencement of the action for a streamlined procedure. Any such application should be made at the earliest time reasonably possible, which will generally be at the case management conference required by [PD63](#)⁴ within 14 days after service of the defence.

4. How to apply for a streamlined procedure

A party wishing for a streamlined procedure should, in the first instance, invite the other party(ies) to agree, setting out the proposed procedural steps in a draft Order. If there is agreement, the court will normally make the Order on a written application signed on behalf of each party. The parties should liaise with each other and the clerk to the Patents Court or the Patents County court concerning a date for trial so that this can be fixed.

If there is no agreement, the party wishing for a streamlined procedure must make an application for it, setting forth the proposed procedural directions in his application notice and requesting that the application be determined on paper. He should support the application by a witness statement addressing the criteria in [CPR Rule 1\(2\)](#)⁵. The opposing party must, unless he obtains an extension of time (by consent or from the court) make and serve on the opposite party a witness statement in response within 10 days of service upon him of the application notice.

⁴ http://www.dca.gov.uk/civil/procrules_fin/contents/practice_directions/pd_part63.htm

⁵ http://www.dca.gov.uk/civil/procrules_fin/contents/parts/part01.htm

The court will determine the matter provisionally on paper alone and make a provisional judgment and order accordingly. Unless either side seeks an oral hearing the provisional order will come into effect 7 days after its service on the parties.

If a party is desirous of an oral hearing, it must, within 7 days of service upon it of the provisional order, seek an oral hearing in the immediate future by contacting the clerk to the Judge in charge of the patent list. Such an oral hearing will fixed as soon as is practicable, either by way of a telephone hearing or a short application.

5. Duty to inform clients

The parties' legal advisers must draw their clients' attention to the availability of a streamlined procedure in the Patents Court and the Patents County Court.

APPENDIX 2

OVERSEAS PATENT SYSTEMS

(including Compare and Contrast Table)

1. USA

- 1.1 IP Litigation is especially expensive in the US. Costs of the order of US\$3-4 million are typical for both parties in an infringement case in which validity is challenged. As costs are not awarded other than in exceptional cases, litigation is an economic strain on the patentee unless the potential for recovery of damages exceeds the costs involved.
- 1.2 In the USA, a granted patent is presumed to be valid and there are no revocation proceedings. With the decline in examining standards, some patents are being granted which should be refused. Patents can be challenged by "Re-examination" or by "Protest" in the original examination prior to grant (now that US patents are published after 18 months), in a "Re-examination" or in a "Reissue" requested by the patentee. Validity can also be questioned as a defence in infringement proceedings.
- 1.3 Owing to their complexity, Patent cases should be heard before specialist judges. In the US, patent actions are tried before a non-specialist district judge and normally a jury. The specialist jurisdiction (the Court of Appeal for the Federal Circuit) is reserved for appeals. This increases the costs and uncertainty of the process since it calls for instructing the judge and jury about the technical principles that the case involves and requires non-experts to make determinations of fact for which they are ill equipped.

- 1.4 Other factors increase costs and complexity. First, the pre-trial process frequently involves extensive depositions and discovery disproportionate to the value of the issue. Secondly, collateral issues often become prominent, eg, forum shopping, allegations of wilfulness, fraud or other inequitable conduct. Proving such allegations calls for discovery, cross-examination and a defence, all of which adds further to the cost burden and delays early resolution.
- 1.5 Jury trials are likely to remain a feature of IP litigation. Recent decisions (Markman, Warner Lambert and Festo) seem in principle to have limited the influence of juries and would pave the way for a specialist first instance judiciary. The enforcement position could be improved by the introduction of a more rigorous opposition procedure for patents, as is already the case for trade marks, and a single specialist federal court to try IP matters at first instance. The appointment of specialist judges would reduce forum shopping particularly if there were rotation of the judges between courts and judges' conferences were encouraged to harmonise standards. A harmonised standard would allow arguments about jurisdiction to be set aside robustly.
- 1.6 Owing to the size of the US market and the overall levels of damages that can be awarded, it is likely that US patent litigation will always be more complex and expensive than elsewhere. However the advent of a global market and the assimilation of national and regional economies into a global economy will call for more globally consistent patent enforcement systems. The possibility of initiating direct changes to the US system even taken at EU/WIPO level may be over-optimistic. Change might be sought by degrees by supporting at EU and WIPO levels, developments such as the American Law Institute draft Principles for handling multi-national IP disputes, which develops the Hague Convention on Enforcement. The promulgation of such common principles might spin-off common principles and processes the courts might adopt for national patent disputes that might be adopted across Europe and the US.

2. Asia

- 2.1 Attitudes to copying and counterfeiting by local businesses and administrations seems to be ambivalent. Some regard it as reasonable competition whilst others regard it as criminal. There is also an ambivalent view about the desirability of patent rights. Many regard them as a means by which European and US companies inhibit the introduction of new technologies into the region and maintain high margins for imported products. Others regard them as necessary to promote and protect technical innovation.
- 2.2 China is, for most businesses, the biggest single Asian market with a rapid growth rate and substantial growth potential. As some priority setting is called for in this region, it is recommended that the PRC administration should be chosen as the first priority for diplomatic influencing.
- 2.3 In compliance with its TRIPs obligations, the PRC has recently updated its substantive law on enforcement and has increased the number of IP Judges to enforce IP rights. However, British industry suffers substantial damage arising from patent infringement. These losses are in greater proportions than those suffered in other jurisdictions. Sector related reports concerning the impact of such infringement and calling for stiffer penalties (e.g. IPR Issues for UK Chemical Companies in China; 2 July 2002) have been submitted to the DTI.
- 2.4 China, in common with other Asian economies, may be at a stage where indigenous innovation is limited and copying is regarded as the accepted means by which knowledge is transferred and competition is developed. It is thought that respect for and enforcement of IP rights will remain an issue until indigenous Chinese industry and the national administration appreciate how their economy can benefit from such rights and go on to appreciate how such rights operate.

2.5 Diplomatic efforts at WIPO/EU levels supported by the UK Government to explain the positive role of IP to the administration together with the education of opinion formers in industry and the judiciary via seminars, training and exchanges are called for to improve the situation.

3. Compare and Contrast

A Compare and Contrast review of patent enforcement systems in the UK, France, Germany, Holland and the USA is summarised in the table below.

Procedure	England	France	Germany	Holland	USA
Number of lawyers attending trial	High Court: 2 solicitors, 2 barristers and, often, 1 patent agent PCC: 2 to 3 (barrister and/or solicitor and/or agent)	1 lawyer and 1 patent agent	1-2	1-2 Lawyers and patent agents	A trial team of at least 4 lawyers and in heavy cases many more.
Document production discovery	Yes, subject to direction from the Court at First Case Management Hearing	No, but saisie common	No, but increasing scope for seizure	No, but orders for specific documents possible	Yes, very extensive document production and wide ranging depositions, both in relation to potentially discoverable documents and subsequently on the substantive issues..
Experiments	Yes, with leave. Complex and costly procedure	No	No	No	Yes
Expert Witness	One per party, unless additional experts agreed at Case Management Hearing	No	No – normally appointed by the Court	No	Yes
Court appointed Experts	Very rare	Not usually	Yes	Possible, but rare. Patent Office may also be asked for advice	

Procedure	England	France	Germany	Holland	USA
Preliminary Pre-trial injunctions	Rare, except where Def's cross-undertaking in damages inadequate		Rare, as in England & Wales	Yes, both in full proceedings on the merits and in separate summary proceedings (<i>kort geding</i>)	Yes, but rare
Time to trial	High Court: 9-15 months PCC: 8 months	Fast Track – 2-3 months First Instance – 12-18 months	9-18 months infringement in District Court 2-3 years validity in Federal Patent Court	Full procedure 12 to 18 months Accelerated - 10 to 12 months, no delay possible Summary – depending on urgency, from 1 day to 2 or 3 months	1-2 years upwards.
Length of trial	1 to 5 days	2 hours	1 day	½ day	2 – weeks upwards.
Cost	High Court: £1m PCC: £150 - £250K	Euros 30/50,000	Depends on Scale fees but, typically, a quarter or less than in England. E.g. Euros 25-50,000 First Instance.	Euros 10,000 – 20,000 for summary proceedings, Euros 40,000 for a simple action	US \$ 2 to 4 Million upwards.
Specialist Court	Yes High Court: 3 Judge PCC: 1 Judge	In Paris only	Yes both in the principal District Court jurisdictions of Dusseldorf, Mannheim; Munich and Hamburg and also in the Federal Patent Court.	Yes	Not at first instance, only on appeal.
Appeal from First Instance	With leave but, typically only a formality	Yes	Yes	Yes, District court, 3 judges (simple matters or summary proceedings, 1 judge)	Yes

Procedure	England	France	Germany	Holland	USA
Appeal to Supreme Court	With leave of Court of Appeal or House of Lords and rarely granted	Yes	With leave of Court of Appeal but usually granted	Yes	Yes, with leave.
Award of Costs	Successful party should obtain 2/3 actual costs but subject to appointment between the parties on issues won/lost	No	Loser pays scale costs - approx 5% of value of claim	Loser pays administrative fees of court proceedings, usually low, 2,000 – 10,000 Euros	No except in certain limited circumstances
Actions filed p.a.	N/A	300-400	500-600 many SMEs	Est: 100 plus	N/A
Actions tried p.a	c.25	200-300	300-600	Est: 50 to 100	N/A
Documents produced for trial	Typically, bundle(s) agreed between the parties	Documents included in parties statements.	Documents all included in parties statements. All produced at trial	Briefs and exhibits, consisting of the documents referred to in the party's statement	Extensive documents produced for use in trial
Availability of injunction	Discretionary, but usually awarded to successful party	yes	Yes	Yes, including cross border	Yes
Availability of damages	Account of Profits or Loss of Profits. No exemplary/punitive damages	Yes, but low	Yes, usually royalty based	Yes, may be calculated on the basis of lost profits or royalty based. No punitive damages. Usually to be calculated in separate proceedings, usually settled out of court	Yes, punitive (triple) damages available

APPENDIX 3

FURTHER ABBREVIATED PROCEDURE

We support the "Patents County Court – IP Court User Group's Proposal" of 6.1.03, which may be referred to as a "Further Abbreviated Procedure". This proposal provides an outline for a simpler and cheaper IP litigation in circumstances where the parties want it or where the court directs it.

- (a) The choice of forum would be claimant driven although there would be a safety valve so that Judges could transfer cases where it was plainly sensible to do so.
- (b) The Patents County Court proceedings would start with three rounds of written argument (akin to EPO practice) with strictly controlled time-limits.
- (c) A Case Management Conference (CMC) with the Judge would then take place very shortly thereafter where one of three decisions would be taken (1) to go forward directly to a hearing without further fact finding, (2) to order a limited amount of fact finding based upon specifically identified issues clearly material to the trying of the case or (3) order transfer to the Patents Court for a full exploration of the evidence consistent with the current practice under Woolf. Options (2) and (3) would be at the discretion of the Judge but the parties would have the opportunity to present arguments in support of their position.
- (d) In the case of option (1) the Judge would also decide, based upon argument by the parties, upon whether expert evidence was needed on any particular point. Such evidence would be submitted in the form of witness statements before the hearing. The parties would have the opportunity to cross-examine any experts.

- (e) It is envisaged that the evidence submitted under (1) or the fact finding enquiry under (2) would be relatively simple and very focused. Cases requiring a significant collecting of evidence (e.g. proving prior use or the conducting of anything other than very simple experiments where there was no real scope to make a challenge) would be candidates for transferral to the Patents Court.

- (f) A written decision of the CMC would be produced which would form part of the record for appeal.

- (g) A procedural step would be needed in the Patents County Court procedure to allow transfer of appropriate cases to the Patents Court at an early stage. The Court could use its discretion to put a cap on the defendant's costs if an SME claimant used the PCC.

APPENDIX 4

SUMMARY OF THE PROPOSED "DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON MEASURES AND PROCEDURES TO ENSURE THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS." Commission of the European Community.

The proposals in the Directive draw on best practice in the Member States and include:

General provisions (Articles 3-6) - provision of proportionate measures and procedures to enforce IPR so that infringements are punishable by penalties. There would be recognition of rights management or professional defence bodies as entitled to apply for enforcement measures on behalf of rights holders and presumptions for copyright.

Evidence (Articles 7-8) - measures to enable judicial authorities to order the communication or seizure of bank, financial or commercial documents together with supporting evidence protection measures.

Right of information (Articles 9) - provisions of a right of information regarding the origin of goods or services that are thought to infringe an IPR.

Provisional and precautionary measures (Articles 10-11) - make available provisional measures, such as injunctions, to prevent the infringement of IPR based on reasonable evidence from the applicant. These to include, in appropriate cases, injunctions to freeze the assets of the alleged infringing party.

Measures resulting from a decision on the merits of the case (Articles 12-16) - without prejudice to the damages due from an IPR infringement, the judicial authorities may order

various measures such as the recall of infringing goods, their disposal or destruction and preventive measures.

Damages and legal costs (Articles 17-18) - judicial authorities shall order an infringer to pay the right holder adequate damages in reparation for an IPR infringement. These damages set at double the royalties or fees if the infringer had been an authorised user of the IPR, or compensatory damages corresponding to the actual loss with the legal costs borne by the offending party.

Publicity measures (Article 19) - the judicial authorities may order, at the request of the right holder that a judicial decision is published at the expense of the infringer.

Criminal law provisions (Article 20) - serious infringements of IPR should be treated at criminal offences and appropriate criminal sanctions including imprisonment should be provided.

Technical measures (Articles 21-22) - without prejudice to particular provisions applicable to copyright, related rights and sui generis right of the creator of a database, appropriate legal protection should be provided against the manufacture, import, distribution and use of illegal technical devices. Codes of conduct aimed at the enforcement of IPR shall be encouraged.

Administrative cooperation (Articles 23-24) - three years after its implementation, there shall be an assessment of the effectiveness of the Directive and national correspondents shall be designated to encourage co-operation and communication.