EXPLANATORY MEMORANDUM TO

THE PATENTS COUNTY COURT (FINANCIAL LIMITS) ORDER 2011

2011 No. [XXXX]

1. This explanatory memorandum has been prepared by the Department for Business, Innovation and Skills and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 The purpose of the instrument is to limit the value of claims which may be heard in the Patents County Court ("PCC") to £500,000.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None

4. Legislative Context

4.1 The instrument implements for the first time the power in section 288(1) of the Copyright, Designs and Patents Act 1988 (c.48) to set financial limits in relation to proceedings within the special jurisdiction of a PCC.

5. Territorial Extent and Application

5.1 This instrument applies to England and Wales.

6. European Convention on Human Rights

The Parliamentary Secretary for Business, Innovation and Skills, Baroness Wilcox, has made the following statement regarding Human Rights:

In my view the provisions of the Patents County Court (Financial Limits) Order 2011 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 Following the Oulton Committee's Report (1987)[1] the PCC was created by Parliament to serve the interests of small and medium-sized enterprises ("SMEs") by providing an affordable forum for intellectual property litigation.

[1] 'Patent Litigation: The Report of a Committee, November 1987' by Sir Derek Oulton, Permanent Secretary to the Lord Chancellor.

7.2 The PCC has not functioned as intended. In 1996 the Woolf reforms[2] removed the procedural distinctions between the County Court Rules and those governing patent cases in the High Court. This left little scope for using the enhanced case management powers under the Civil Procedure Rules ("CPR") to reduce costs. Research detailed in the attached Impact Assessment ("IA") shows that, partly as a consequence, intellectual property ("IP") litigation in the UK is three times more expensive for small to medium cases than in other European states. Further evidence indicates that SMEs have, as a result, been deterred from protecting their innovation by enforcing/defending their IP rights through the courts.

7.3 There has been a long standing call from the Judiciary, the IP legal profession, industry and business to reform the court and cast it in the form that was intended. This was reflected in the responses from all of these sectors during the course of the numerous consultations (please refer to sections 8.1 and 8.2 below).

7.4 As part of Lord Justice Jackson's Review of Civil Litigation Costs (2010)[3] the Government also asked him to make recommendations to improve access to justice at proportionate cost. Lord Justice Jackson endorsed the Intellectual Property Court Users Committee ("IPCUC")[4] proposals to reform the PCC as a means by which to achieve this in relation to IP disputes.

7.5 The Ministry of Justice ("MoJ") implemented the first of the proposals in relation to court procedures and the costs regime through amendments to the CPR on 1 October 2010. The streamlined procedures include new rules on the process and timings of filing claims, defence, counterclaims etc and a maximum duration of two days for the main hearing. These changes are coupled with a recoverable costs scale which stipulates maximum charges for each stage of the process up to a limit of £50,000.

7.6 The Patents County Court (Financial Limits) Order implements a further IPCUC proposal and will limit the value of claims heard in relation to patents and designs disputes to £500,000 excluding interest. Further secondary legislation will be necessary to impose a financial limit in relation to the other IP rights e.g. copyright and trade marks.

7.7 The Order will further differentiate the PCC from the High Court and will ensure that lower value, less complex cases, which would typically involve SMEs, will automatically fall within the jurisdiction of the lower, cheaper court. It will bring greater clarity and certainty for SMEs as to the appropriate court to hear the case and should ensure that costly and lengthy pre-action disputes, which front-load litigation costs and continue to deter them from defending/enforcing their rights, will be avoided.

- ***Consolidation***

7.8 N/A

8. Consultation outcome

8.1 The IA lists the extensive previous consultations on, and associated research relating to, reform of the PCC (table of references page 4). Over a period of 14 months,

[2] 'Access to Justice: Final Report to the Lord Chancellor on the Civil Justice System in England and Wales, July 1996' by The Right Honourable the Lord Woolf, Master of the Rolls
[3] http://www.judiciary.gov.uk/publications-and-reports/reports/civil/review-of-civil-litigation-costs/
[4] The IPCUC includes the High Court IP Judiciary and the Judge of the PCC.

Judges, legal practitioners, court users, industry and business had numerous opportunities to comment on the issues of IP litigation costs and PCC reform (including the principle of the damages limit in the court).

8.2 Opportunities included two full public consultations by Lord Justice Jackson as part of his review (Intellectual Property Office ("IPO") interests including business and industry were notified of these). In addition, the IPCUC Working Group undertook a short (four week) public consultation to enable it to reach final proposals for the Jackson Review. Finally, Jackson LJ tasked the Strategic Advisory Board for IP with further research on SME views on the proposals.

8.3 The proposals to reform the PCC received widespread support from all sectors, including from the Federation of Small Businesses and Confederation of British Industry, and at every stage of public engagement.

8.4 The IPO held a further six week consultation in order to seek views on the proposed IPCUC limit on damages of £500,000 (the Better Regulation Executive considered this proportionate in light of the previous public engagement and support for the measure.) The consultation also sought further evidence in relation to IP disputes in order to better inform the IA.

8.5 Views were again sought from all sectors including industry and business. Responses were received from the legal profession and industry representative bodies. Ten of the thirteen respondents (77%) supported the IPCUC proposal that £500,000 should be the appropriate limit on the value of all types of IP claims heard in the Patents County Court. Three (23%) suggested that the limit should be higher. None of the responses supported implementation of any lower limit. Further details on the consultation and analysis of the consultation responses can be found in the IA at pages 10-12.

9. Guidance

9.1 At the time the Order is made the IPO will publicise the effect and benefits of the measure through its e-notice system. The system is used to communicate with over 400 stakeholders on key IP issues. Stakeholder lists include representative bodies from the legal profession, industry and business.

10. Impact

10.1 The impact on business, charities or voluntary bodies is: that in relation to enforcing their IP Rights it will improve access to justice at proportionate cost.

10.2 The impact on the public sector: none.

10.3 An Impact Assessment is attached to this memorandum and will be published alongside the Explanatory Memorandum on www.legislation.gov.uk . Please see p. 12 for Impacts.

11. Regulating small business

11.1 The legislation does not regulate small business. However it will reduce costs and burdens for SMEs when protecting their innovation.

12. Monitoring & review

12.1 The success criteria are: that SMEs feel confident in using the PCC to resolve disputes since they will have certainty as to financial exposure; that there is eventually an increased deterrent to infringement with the improvement in access to justice, i.e. right holders would more easily be able to take enforcement action. This will be demonstrated through the increased use of the PCC and/or an increase in the proportion of disputes settled without litigation. It will also be gauged through stakeholder feedback.

12.2 The Government will hold a post implementation review ("PIR") 3 years after the order is made. The objective of the review will be to ensure that the limit that has been set still represents the optimum outcome i.e. that the limit for lower value IP litigation is ensuring that the less complex cases involving SMEs are being heard in the PCC and that transfer disputes have been minimised.

12.3 The Government has agreed to work with the Judiciary to monitor the use of the PCC and High Court by compiling appropriate statistics and will periodically interview the Judiciary on the workings of the two courts. The Government will also consult with SME stakeholders on the functioning of the measure.

13. Contact

David J. Evans at the Intellectual Property Office [BIS] Tel: 01633 813831 email: DavidJ.Evans@ipo.gov.uk can answer any queries regarding the instrument.