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Fees

Update on Costs in English Intellectual Property Litigation

By Tom Carver

Three recent English High Court cases provide guidance on the question of how to determine the amount of the recoverable costs, and emphasize the importance of the costs budgets filed at the initial stages of litigation.

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The general rule, with some exceptions, in English litigation is that the unsuccessful party will be ordered to pay the legal costs of the successful party. It is a valued feature of English litigation, embodying the principle that the vindicated party should be fully compensated, and discouraging poor cases being pursued.

Unlike in the U.S., the term "costs" in English litigation includes lawyers' fees.

However, the system is not perfect, potentially discouraging some parties from bringing or defending a claim for fear of a large costs bill should they not succeed. Two important developments in the past six years mean that in cases valued at under 10 million pounds the potential costs liability of the unsuccessful party is no longer a known unknown, but instead an agreed or approved and, crucially, known sum.

The more familiar, to intellectual property practitio-

ners, development is the use of cost caps since 2011 in the Intellectual Property Enterprise Court. In summary, the unsuccessful party in the IPEC should never have to pay more than 50,000 pounds ($66,000) plus court fees. This principle has been called into question by the recent decision in *Phonographic Performance Ltd. v. Hagan* but continues to apply under normal circumstances.

Anticipated Costs

The development which may be less familiar to intellectual property practitioners, but which has featured in IP litigation, is the introduction of costs budgets for all High Court cases valued at less than 10 million pounds, as seen in the High Court case *Sony Comms. Int'l AB v SSH Comms. Sec. Corp.*

Since April 2013 each party has been required to submit a form, known as Precedent H, detailing the costs they anticipate incurring in the litigation. Those costs, or an amended version, will be agreed by the other party or approved by the court as being reasonable and proportionate. The court is then to "have regard" to and not depart from that figure without "good reason" when assessing costs at the conclusion of a case.

In the absence of any caselaw, it was unclear to what extent the court would "have regard to" those budgets when ordering costs at the conclusion of a case. Were the budgets merely indicative, or were they more prescriptive?

The recent cases support the view that the winning party will be entitled to recover the sum set out in its costs budget, no more and no less, unless there is good reason. This provides litigants with real certainty as to their costs liability.

Summary or Detailed Basis

Before the costs budget rules were introduced, and still for cases valued over £10 million, costs are assessed on either a summary or a detailed basis.

In a summary assessment, used mainly in fast track cases and hearings lasting less than one day, the judge makes no detailed analysis of the costs incurred but will determine a sum to be paid based on the Statement of Costs (a summary of costs incurred) provided by the successful party.

That determination can either be on the "standard basis" or the "indemnity basis." The standard basis means that the judge will allow only costs which are proportionate to the matters in issue and will resolve any doubt as to whether costs were reasonably and proportionately incurred or were reasonable or proportionate in amount in favor of the paying party. The indemnity basis means that the court will resolve any such doubt in favor of the receiving party, and there is no test of proportionality.

A detailed assessment is used in all other circumstances (excepting fixed or capped cost cases) when the parties cannot agree, and can also be on the standard or indemnity basis. The receiving party serves on the paying party a Bill of Costs which can be agreed by the paying party, or assessed at a detailed assessment hearing.

The winning party generally recovers 60 to 70 percent of its costs actually incurred when applying these rules.

Costs Budgets

The costs budget rules were introduced April 2013 to control litigation costs more effectively. For cases valued at less than 10 million pounds, each party must submit a costs budget in advance of the Cost Management Conference at the outset of the litigation. The costs budget must include estimates of costs that each plan to incur for each phase of the litigation, which will be agreed with the other parties or approved by the judge. The court, when assessing costs on the standard basis at the conclusion of the case, is to "have regard to the receiving party's last approved or agreed budget for the each phase of the proceedings" and is "not to depart from such approved or agreed budget unless satisfied that there is good reason to do so."

There was a certain amount of uncertainty over the application of the new rules, and there has been some litigation. Parties who overspent have argued that the budget should be treated simply as a guide and that their costs should be assessed on the standard basis in a detailed assessment. Conversely, paying parties have argued, in cases in which the receiving party did not spend its entire budget, that the costs budget should be treated as a fund and operate as an upper limit rather than as a form of assessment in advance.

Recent Cases

Three recent cases have provided some clarity. They are *SARPD Oil Int'l Ltd. v. Addax Energy SA*, *Harrison v Univ. Hosps. Commentary in Warwickshire NHS Trust*, and *Merrix v Heart of England NHS Found. Trust.*

In *SARPD Oil*, the defendant had applied for security for costs from the claimant (i.e. a payment into court in advance of the litigation to cover the defendant's fees should it succeed). The question relevant to costs budgets was whether the judge should order the claimant to give security for the full amount budgeted in the defendant's costs budget or whether the judge should order some other amount.

The Court of Appeal held that the approved costs budget of the defendant was the appropriate reference point from which to work out the amount which should be provided by way of security. This was because all the parties should have appreciated that the first Costs Management Conference was the appropriate occasion to debate the issues regarding the quantum of costs. If a party did not dispute the reasonableness and proportionality of the sum set out in a costs budget when they had the opportunity to do so and if there had been no relevant change of circumstances, then it would be contrary to the Overriding Objective of the Civil Procedure Rules (CPR) to allow that party to try to reopen costs issues which it had already had a fair opportunity to address.

Merrix was an appeal from a decision by a Costs Judge which had held that costs budgeting was not intended to replace detailed assessment and that the receiving par-

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ty's last agreed or approved budget is just another factor for the court to consider when assessing costs.

The appellant argued that the budget is the starting point in a summary or detailed assessment, and the burden of proof lies with the paying party to show good reason to depart from the budget. For example, an underspend would be a good reason to depart from the approved figure but would, of course, result in an even more reasonable and proportionate amount than the approved amount, the appellant said.

The respondent argued that the good reason rule only applies if the receiving party seeks to recover more than the sums budgeted. The budget is simply one of a series of matters which the court will take into account in assessing whether the costs are reasonably and proportionally incurred and reasonable and proportionate, and in no sense dispenses with the need for an item by item assessment of a party's costs.

The judge held that the words of costs budget rules (CPR 3.18) are clear and that the obvious intention of the new rule was to reduce the scope of and need for detailed assessment. Therefore, the Costs Judge should not depart from the receiving party's last approved or agreed budget unless satisfied that there is good reason to do so, and this applies equally in both underspend and overspend situations. The costs budget does not identify a maximum reasonable and proportionate amount- it identifies what is a reasonable and proportionate amount.

The most recent of the three cases is *Harrison*, which addressed two questions: first, whether CPR 3.18 precluded the judge from subjecting the budgeted costs to a conventional detailed assessment, and second, whether the pre-action costs incurred before the budget was submitted at the Costs Management Conference (which fall outside the costs budget but on which the judge may have commented either with approval or otherwise at the Costs Management Conference) were subject to the same "good reason" to depart requirement.

In answer to the first question, the judge reviewed and said that the conclusion in *Merrix* was correct. The judge did not offer any guidance as to what might be a "good reason," instead commenting that the matter can safely be left to the individual appraisal and evaluation of Costs Judges by reference to the circumstances of each individual case.

In answer to the second question, the judge held that those incurred costs are not within the ambit of the costs budget and CPR 3.18 and so would be subject to detailed assessment.

Conclusion

The Court of Appeal's approval of the reasoning and decision in *Merrix* has confirmed that a successful party can recover the sum agreed or approved in its costs budget, unless there is good reason to depart from it. Both parties will know (a) what they will recover if they win, and (b) what they will pay if they lose.