

**EXPLANATORY MEMORANDUM TO  
THE PATENTS COUNTY COURT (FINANCIAL LIMITS) (No 2) ORDER 2011**

**2011 No. 2222**

1. This explanatory memorandum has been prepared by the Department for Business, Innovation and Skills and the Ministry of Justice.

**2. Purpose of the instrument**

2.1 This instrument imposes a limit of £500,000 on certain claims that may be heard in a Patents County Court (“PCC”). The claims in question relate to a wide range of intellectual property disputes, including copyright and trade marks, but excluding patents and design matters (in relation to which a £500,000 limit has already been imposed by the Patents County Court (Financial Limits) Order (2011 No. 1402) which came into force on 14 June 2011).

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

3.1 None

**4. Legislative Context**

4.1 Section 287 of the Copyright, Designs and Patents Act 1988 makes provision for the Lord Chancellor to be able to designate any county court as a patents county court and to confer on it “special jurisdiction” in relation to patents and designs. This has been done by the Patents County Court (Designation and Jurisdiction) Order 1994 (S.I. 1994/1609).

4.2 Section 288 of that Act enables Her Majesty by Order in Council to provide for limits of amount or value in relation to special jurisdiction. This has been done by the Patents County Court (Financial Limits) Order 2011 referred to above.

4.3 Section 1 of the Courts and Legal Services Act 1990, under which this instrument is made, provides powers, among others, to allocate proceedings as between the High Court and county courts. When this instrument comes into force, the same financial limits will apply to the bringing of relevant claims on intellectual property matters in a patents county court, regardless of whether the claim is part of the special jurisdiction of such a court.

**5. Territorial Extent and Application**

5.1 This instrument applies to England and Wales.

**6. European Convention on Human Rights**

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## 7. Policy background

- *What is being done and why*

7.1 Following the Oulton Committee's Report (1987)<sup>1</sup> 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. Presently there is one court designated as a PCC which is situated in London.

7.2 The PCC has not functioned as intended. In 1996 the Woolf reforms removed the procedural distinctions between the County Court Rules and those governing patent cases in the High Court<sup>2</sup>. 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 independent Review of Civil Litigation Costs (2010)<sup>3</sup> the then Master of the Rolls, asked him to make recommendations to improve access to justice at proportionate cost. Lord Justice Jackson endorsed the Intellectual Property Court Users Committee ("IPCUC")<sup>4</sup> 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 or £25,000 in respect of claims for an inquiry as to damages or account of profits.

7.6 The Patents County Court (Financial Limits) Order (2011 No. 1402) implemented a linked IPCUC proposal and limited the value of claims heard in a patents county court in relation to patents and designs disputes to £500,000 excluding interest. It is legally necessary to introduce this further secondary legislation to impose a financial limit on claims in relation to other intellectual property e.g. copyright and trade marks.

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

<sup>2</sup> '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

<sup>3</sup> <http://www.judiciary.gov.uk/publications-and-reports/reports/civil/review-of-civil-litigation-costs/>

<sup>4</sup> The IPCUC includes the High Court IP Judiciary and the Judge of the PCC.

7.7 The Order will further differentiate the PCC from the High Court and will ensure that other lower value, less complex IP cases including copyright and trade mark cases, may be heard and determined by the lower court where the new streamlined process and scale costs apply. Such cases would typically involve SMEs. The Order 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 reduced.

- **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, 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 a lengthy public consultation process as part of Lord Justice Jackson's review. Intellectual Property Office ("IPO") interests, including business and industry, were notified of this. 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 In relation to the previous Order the IPO is undertaking a comprehensive awareness-raising campaign with business and the legal profession. This has included publicising 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. The IPO will issue a further e-notice in relation to the current Order and will again issue a press release. It will continue to raise awareness of these changes through its ongoing seminars (over 3000 SMEs attend these p.a.).

## **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](http://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 micro-businesses and 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**

Adam Williams, IPO Tel: 01633 813880 email: [adam.williams@ipo.gov.uk](mailto:adam.williams@ipo.gov.uk) can answer any queries regarding the instrument.