SQUIRE PATTON BOGGS

Phonographic Performance Ltd v Raymond Hagan (aka Raymond Edward Hagan) and Others

Did Someone Just Open the Floodgates?

There is near universal consensus amongst contentious IP practitioners in the UK that the Intellectual Property Enterprise Court (IPEC) has been a great success over recent years. The combination of extremely able and experienced judges together with a set of rules designed to control costs have made the court the option of choice for many litigants with IP disputes where the amount of damages/profits sought is under the IPEC threshold of £0.5 million[1].

The crown jewels of the cost control measures in IPEC are the scale costs provisions[2], which, subject to very limited exceptions[3], impose two types of limit on the amount that a litigant in IPEC can recover from the opponent. The first type of limit is an absolute cap on the total amount recoverable:

i. For all the steps taken in the determination of a claim in relation to liability – £50,000

ii. For all the steps taken in the inquiry as to damages or account of profits – £25,000

In addition, there are limits on the amount recoverable in relation to particular stages of the litigation process. Some examples of the maximum amounts which can be recovered in respect of certain litigation stages in IPEC are tabulated below:

Stage of Claim	Maximum Amount of Costs Recoverable
Particulars of claim	£7,000
Defence and counterclaim	£7,000
Attendance at a case management conference	£3,500
Preparing witness statements	£6,000
Preparing for and attending trial and judgment	£16,000

As anyone familiar with the costs of litigation in general and those of patent litigation in particular will be aware, such costs will often represent only a relatively small fraction of the costs actually incurred by a litigant in taking such steps. Even a winning litigant in IPEC will often be materially out of pocket in relation to the litigant's own costs.

IPEC has proven very reluctant to sidestep the scale costs provisions, which it could do, for example, on the basis that a party's conduct amounts to an abuse of process[4], tending to take the view that (a) the costs cap is in essence the absolute bedrock of the whole IPEC system and (b) the certainty its rigid application gives litigants is a paramount consideration.

Immovable Force Meets an Irresistible Object

It was against this background that His Honour Judge Hacon delivered on 30 November 2016 his judgement in *Phonographic Performance Limited v Raymond Hagan* (aka Raymond Edward Hagan) t/a *Lower Ground Bar and The Brent Tavern and others (Phonographic Performance)*.[5]

Phonographic Performance was a fairly standard copyright infringement action, albeit one with a rather colourful main defendant. Prior to obtaining judgment, the claimants had made a Part 36 offer to Mr. Hagan. A Part 36 offer is, as further set out below, a special type of offer to settle a claim, the non-acceptance of which can open up the non-accepting party to, *inter alia*, certain significant costs sanctions. Mr. Hagan did not accept that offer, although he subsequently tried to pretend that he had. The claimants subsequently obtained a judgment against Mr. Hagan, which was better than the offer they had made to him.

The Question

The question before the court was, therefore, should it punish Mr. Hagan by applying the Part 36 costs (and other) sanctions or were the court's hands tied by the IPEC scale costs rules?

The Legal Background – Part 36 Offers

What is a Part 36 Offer?

A Part 36 offer is an offer that meets certain requirements[6], including but not limited to:

- It is in writing.
- It makes it clear on its face that it is a Part 36 offer.
- It specifies a period of not less than 21 days (the Relevant Period) within which the defendant will be liable for the claimant's costs if the offer is accepted.

1 Set out in the Patents Country Court (Financial Limits) Order 2011.
2 Provided for in CPR 63.26(3), CPR 45.30 – 45.32 PD 63 section IV.
3 See CPR 45.30(2) and note also costs awarded at the conclusion of a hearing where a party has behaved unreasonably do not erode the overall costs cap – see CPR 45.32.
4 CPR 45.30(2)(a).
5 [2016] EWHC 3076 (IPEC).
6 Set out in CPR 36.5.

- It states whether it relates to the whole of the claim or to part of it or to an issue that arises in it and if so to which part or issue.
- It states whether it takes into account any counterclaim.

Costs Significance of a Part 36 Offer

If the defendant does not accept the claimant's Part 36 offer, then if the claimant subsequently obtains a judgment in its favour which is at least as advantageous to the claimant as the proposals contained in its Part 36 offer, then pursuant to CPR 36.14(3)(b)[7], unless it is unjust to do so, the court will order the defendant, *inter alia*[8], to pay the claimant its costs on the indemnity basis from the date on which the Relevant Period expired.

Costs paid on the indemnity basis will often be a very substantial proportion of the winning party's costs and if such costs are assessed by the court, the court will resolve any doubt which it may have as to whether the costs (a) were reasonably incurred and (b) were of a reasonable amount in favour of the winning party. There is no longer any requirement that such costs be proportionate.

What the Court Decided

The court decided that the costs consequences of not accepting a Part 36 offer trumped the IPEC scale costs regime.

The court noted that Lord Dyson had in the 2016 Court of Appeal decision in *Broadhurst v Tan*[9], which concerned the interaction between the fixed cost regime for low-value personal injury actions and Part 36:

i. Referred with approval to a submission from counsel that under the Part 36 scheme, where fixed costs are intended to prevail, that Part 36 says so.

ii. Held that it would have been legitimate as an aid to construction to Part 36 to refer to an explanatory memorandum to certain 2013 changes made to Part 36, which made it clear that if a claimant had made a successful Part 36 offer, it was not to be limited to its fixed costs but was to have its costs assessed on an indemnity basis in accordance with CPR 36.14(3)(b).

The court, in *Phonographic Performance*, took the view that these two grounds could be applied by analogy to the tension between CPR 36.14 and the IPEC scale costs provisions and held that the former overrode the latter. Part 36 did not state that the IPEC scale costs were intended to prevail. Judge Hacon held, therefore, that neither the stage costs nor the overall costs cap applied to an award of costs under CPR 36.14(3)(b). Accordingly, the judge awarded costs on the indemnity basis from the end of the relevant period, which were not subject to the IPEC scale costs caps.

7 This was the rule considered by the court in *Phonographic Performance*. The rules were changed with effect from 6 April 2015 so that the current equivalent rule is set out in CPR 36.17(4)(b).

8 There are other sanctions on the losing defendant who does not accept the claimant's offer – see CPR 36.14(3) – but these are not considered further in this case report.

9 [2016] EWCA Civ 94.

Significance

Claimants

The costs of taking many cases to trial in IPEC will very considerably exceed the scale costs that are recoverable from the other side. A moderately heavily fought patent action could easily cost each side several hundred thousand pounds to fight. Thus, the difference between potentially being able to recover a large portion of one's costs on an indemnity basis rather than only on the IPEC scale cost basis is very significant.

Phonographic Performance is likely to change the optimum strategy in IPEC litigation: savvy professional advisors are likely to ditch the standard letter before action (containing a threat to sue unless undertakings are given) in favour of a full-blown pre-action Part 36 offer.

It may also be advantageous to make a number of different offers during the course of action.

As the costs effects of making a Part 36 offer in IPEC can be potentially so significant, professional advisors who fail to advise their clients about the need to at least consider making a Part 36 offer early on may breach the duty of care they owe their clients and thus, potentially be open to negligence claims.

Defendants

There is a disparity in the Part 36 regime as between the sanctions for failing to accept a claimant's Part 36 offer and a defendant's Part 36 offer. Whereas, a claimant who beats its own offer can have its costs awarded on the indemnity basis, a claimant who fails to obtain a judgment more advantageous than a defendant's Part 36 offer only has to pay the defendant's costs from the date on which the relevant period expired[10].

It is currently an open question as to whether the defendant in such a situation is entitled only to such costs in accordance with the IPEC scale or in accordance with ordinary High Court costs principles (the so-called standard basis[11]). The correct view must surely be the latter, as any other result would frustrate the policy objective behind Part 36, would be inconsistent with *Broadhurst v Tan* and would unfairly stack the IPEC costs rules in favour of claimants. On this basis, there would appear to be every reason for defendants to buy some significant costs protection in IPEC by making their own Part 36 offers.

The question then becomes what kind of offer does the defendant have to make to obtain the advantages of Part 36 and *Phonographic Performance*. As the defendant's offer will have to be "at least as advantageous" as the judgment, then if the claimant IP owner wins (asserted right valid and infringed), the defendant's Part 36 offer will surely, in most cases, have had to have included, *inter alia*, an offer to cease infringement for it to benefit from Part 36 and *Phonographic Performance*.

10 CPR 36.17(3)(a).

11 Under which a typical litigant would expect to recover about 65 – 75% of their legal costs from the other party.

A more interesting question is whether a defendant, who for example thinks the claimant's patent is hopelessly invalid, can buy the cost advantage of making a Part 36 offer merely by offering the claimant patentee a nominal sum (perhaps £5,000) plus the claimant's costs very early on? This may not work, as IPEC, like other courts, can always refuse to award costs under CPR 36.17(3) where it considers it unjust to do so and it might well consider that such a nominal money only offer without an offer to cease infringing the patent was not a genuine attempt to settle the action [12], which should attract the Part 36 cost consequences. How the court will deal with such nominal money only offers remains, for now at least, unclear.

Information

It is inevitable that another aspect of the Part 36 regime, which is likely to become a fertile battleground going forward, is going to be the information available to the person receiving the offer. This is because CPR 36.17(5)(c) provides that when a court is considering whether or not it is unjust to make an order for costs or indemnity costs under Part 36, it shall take into account "the information available to the parties at the time when the Part 36 offer was made", as well as "the conduct of the parties with regard to the giving of or refusal to give information for the purposes of enabling the offer to be made or evaluated". Thus, lengthy requests for information are also likely to become part of the standard response to a Part 36 offer.

A Step Forward or a Step Backward?

The entire raison d'être of Part 36 is to encourage parties to litigation to settle. His Honour Judge Hacon's brave decision in *Phonographic Performance* should further that policy objective and is to be welcomed on that basis. It should make it more difficult for defendants, faced with a strong claim, to use the hitherto near impossibility of recovering anything other than scale costs in IPEC as a bargaining tool to cut a better deal.

Phonographic Performance should also provide defendants, who admit infringement and are prepared to stop but are faced with a claimant seeking a wholly unrealistic level of damages or account of profits, with a powerful tool to bring the claimant to his senses.

It is unclear that the decision will help those who perhaps suffer the most as a result of IPEC's scale costs regime – defendants, who did not chose IPEC, but have a winning case which cannot be transferred out of IPEC. If such defendants want to carry on the acts complained of, it is unclear, absent some further development of the law in this area, that Part 36 can help them even after *Phonographic Performance*, unless they have some kind of counterclaim.

At this stage, it is too early to talk of floodgates having been opened. One thing is certain, however: those that practise in IPEC are going to have to become much better acquainted with the complexities of Part 36 of the Civil Procedure Rules.

12 See CPR 36.17(5)(e).

Contact

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