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Proceskostenveroordeling en toegang tot de rechter in IE-zaken : regelingen over proceskosten getoetst aan het EU-recht

Vrendenbarg, C.J.S.

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Author: Vrendenbarg, Charlotte
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SUMMARY

Legal Costs Shifting and Access to Justice in IP Disputes.
Rules on legal costs shifting tested in accordance with EU law.

The costs of intellectual property (IP) litigation are often said to be high, if not excessive. In particular, the costs of legal representation can be high. In the Netherlands, as a general rule, the successful party is able to recover these and also the extra-judicial costs from the losing party only up to a limited (liquidated) amount. The reasoning behind the system of awarding liquidated costs is that higher judicial and extra-judicial costs would not be compatible with the fundamental right of access to justice. However since 1st May 2007, the alternative costs shifting rule laid down in art. 1019h of the Dutch Code of Civil Procedure (DCCP) has been applicable to cases concerning the enforcement of intellectual property rights. On the basis of article 1019h DCCP, legal costs including the costs of legal representation may be shifted in full to the losing party. This article reflects the broad implementation of art. 14 of the Intellectual Property Rights Enforcement Directive (IPRED), which requires Member States to ensure that "reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this". The notion underlying this rule is that the prospect of a substantial recovery of costs ought in fact to broaden access to justice, especially for IP rights holders. Additionally, the risk of having to pay substantial legal costs ought to have a deterrent effect on potential infringers. The extensive, if not full costs shifting and the choices that have been made in respect of the implementation and interpretation of the rule in the Dutch context, have important consequences for parties involved in intellectual property disputes. This thesis addresses the various issues that have arisen in the context of the implementation, the interpretation and the application of art. 14 IPRED in the Dutch IP practice. Additionally, this thesis addresses the broader and current issues of increasing European influence on national procedural law, the practical consequences of the use of open norms in procedural rules and the link between costs shifting rules and the accessibility of the courts in civil proceedings more generally.

At the heart of the thesis is the question whether the Dutch implementation, interpretation and application of art. 14 of the IPRED are compatible with the fundamental rights and principles of EU law. In order to be able to assess the

compliance with EU law, a normative assessment framework has been created to enable testing of the transposition and application of art. 14 IPRED in the Netherlands.

Chapter two addresses, primarily, that the requirement of *effectiveness* has to be met. This requirement means that the national (transposition) legislation must ensure that both the objective and the content of the Enforcement Directive are realised. In order to be in a position to assess the adherence to the requirement of effectiveness, the general objective of the Enforcement Directive is determined first of all. The general objective of the Enforcement Directive is to ensure the protection of IP rights by improving and harmonising national legislation in the context of civil enforcement of IP rights in the Member States. With regard to the costs incurred for the enforcement of IP rights, the Enforcement Directive stipulates that the measures, procedures and remedies to ensure the enforcement of the intellectual property rights covered by the directive shall not be *"unnecessarily complicated or costly"* (art. 3(1) IPRED). In the context of the application of the costs shifting rule detailed in art. 14 IPRED, account also has to be taken of the specific characteristics of the individual case, including the specific features of each intellectual property right and, where appropriate, the intentional or unintentional character of the infringement (17th recital). Besides proportionality, costs shifting in IP enforcement cases also requires to be both dissuasive and effective (art. 3(2) of the IPRED). According to the European Court of Justice, the aim, as well as the intended effect of the costs shifting rule of art. 14 IPRED, is that parties who would initially have refrained from initiating legal proceedings due to the irrecoverable legal costs, are now encouraged to go to court, enhancing the overall level of protection of IP rights within the EU. Furthermore, the risk of substantial costs shifting should have a deterrent effect on potential infringers. In the United Video Properties v. Telenet judgment of 28 July 2016, the European Court of Justice ruled that the definitive meaning of the foregoing is that the successful party should have the right to reimbursement of, at the very least, a significant and appropriate part of the reasonable costs actually incurred by the unsuccessful party.

The transposition and application of art.14 IPRED not only need to comply with the requirement of effectiveness. The Enforcement Directive expressly aims to respect the fundamental rights and principles of the European Union (32nd recital). The obligation of an EU-compliant transposition and interpretation of the Enforcement Directive flows in primarily from the principle of loyal cooperation stipulated in art. 4(3) of the Treaty on European Union (TEU). The framework in which art. 14 IPRED requires to be transposed and applied is therefore also shaped by the relevant fundamental rights and principles of the EU. In chapter three, the fundamental rights and principles which require to be met in the transposition and application of art. 14 IPRED into national law, are identified. First of all, clearly important are the fundamental right of access to justice laid down in art. 6 of the European Convention of Human Rights (ECHR) and the corresponding right to effective judicial protection of art. 47 of the Charter of Fundamental Rights of the European Union (Charter). Limitations in the exercise of the right of access to justice in the form of procedural

rules, such as costs shifting rules, are permitted in so far as they (i) are sufficiently accessible, clear and foreseeable (the principle of legality), (ii) respect the "essence" of the fundamental right of access to justice and finally, (iii) are appropriate, necessary and proportionate to satisfy the legitimate objective pursued (the principle of proportionality). In the case of conflicting (fundamental) rights, a *fair balance* between these rights needs to be found. Further, the transposition and application of art. 14 IPRED require to be consistent with the principle of legal certainty and the principle of equality of arms. The Member States are subject to a positive obligation to ensure that these fundamental rights and principles are complied with, also in horizontal (private) relations. With respect to the legal cost issue, the abovementioned means that national legislation, in short, ought to provide safeguards to prevent exposure of parties to high, prohibitive (legal) costs as well as to provide legal aid to those who do not have sufficient financial resources to meet the costs of legal representation.

Prior to the assessment of the conformity of art. 1019h DCCP with EU law, an outline is provided of the national context within which the costs shifting rule of art. 14 IPRED required to be transposed and interpreted. Discussed in chapter 4 is that, for years in the Netherlands, a costs shifting mechanism has been deployed that puts the public interest in an affordable and accessible judicial process above individual interests in attaining more realistic costs awards. In general civil procedures, the successful party commonly receives reimbursement of no more than a fraction of the expenses incurred. Conversely, in the case of loss, an amount of no more than the applicable liquidated tariff is due. Underpinning the Dutch costs shifting rules limiting both the judicial costs as well as the extra-judicial costs (art. 237 *et seq.* DCCP and art. 6:96 of the Civil Code, CD), is the fear that full costs shifting would jeopardise the freedom to bring proceedings against another party. This fear is so strongly anchored that departure from current liquidated tariffs rarely occurs and the court even has the authority to mitigate costs awards, which have been agreed upon by the parties. The system of mitigated costs shifting has been criticised due to both the lack of foundation and the lack of any evidence whatsoever to substantiate that more generous costs awards would indeed impede the access to justice. At the end of chapter 4, the compatibility of the system of mitigated costs shifting is tested on the basis of the European principles of effectiveness and effective legal protection – principles that apply equally to costs shifting rules in general civil proceedings. The conclusion is that the prospect of compensation for costs based on liquidated tariffs is just as likely to discourage the initiation of proceedings. In light of the system's lack of foundation it cannot be excluded that the *rule of reason* that is to be applied in the context of the test of effectiveness may tip the balance in favour of the importance of effective protection of EU law, setting the mitigated costs shifting rules aside.

The research needed to assess this question on the extent to which the interpretation and application of art. 1019h DCCP comply with the principles of legality, proportionality, legal certainty and equality of arms, is conducted in chapters 5 and 6. Chapter 5 focuses on the choices that the Dutch legislator made for the

implementation and interpretation of art. 14 IPRED. It appears to be the case that the combination of the obligation to expedite the transposition of the directive on the one hand and the pressure on the Dutch mitigated costs shifting rules, on the other hand, has led to choices, the practical consequences of which were not calculated. On the basis of an analysis of the bottlenecks in the case law on art. 1019h DCCP, it can be concluded that it cannot be said that its application meets the requirements of quality in respect of clarity and predictability and the principles of proportionality, legal certainty and equality of arms. An important cause is to be found in the fact that that there is not sufficient clarity regarding the content and the definition of the open standards "reasonable and proportionate" of art. 14 IPRED c.q. art. 1019h DCCP. In order to be better able to assess the reasonableness and proportionality of the costs claimed, so-called Indicative tariffs (*Indicatietarieven)* have been set up. It has been argued that, having regard to the way in which the Indicative tariffs were applied at least until 1st April 2017, it could not be said that there was a sufficient degree of predictability of the outcome of the decision to award costs according to art. 1019h DCCP. This is particularly due to the fact that before 1st April 2017 the Indicative tariffs allowed to deviate towards the *actual* (and thus indefinite, unmanageable) litigation costs. At the same time this provided scope for taking the specific characteristics of the case into account – the nature and attributability of the infringement or any procedural or financial inequality such as required by the principle of proportionality and the principle of equality of arms. It appears however that such circumstances were rarely taken into consideration in reaching a decision on litigation costs. The question as to whether the system is compatible with these principles cannot be answered in the affirmative either.

Chapter six explores the question concerning the extent to which the court is required *ex officio,* to examine the claim for litigation costs in terms of the open standards of art. 1019h DCCP and to test the application of this provision in light of the Charter. Based on the civil decision model set down in art. 23-25 DCCP, the court is, in principle, bound by the scope of the arguments put forward by the parties. Also addressed is the fact that, as yet, no obligation exists for the court, in the event that the debate between the parties does not cover this, to officially examine the question of the claim for costs in terms of the open standards of art. 1019h DCCP and the application of this in light of the requirements of art. 47 of the Charter. Relying on an analysis of the relationship between the civil decision-making model of the judge in art. 23-25 DCCP and EU law, it can also be concluded that the principle of effective judicial protection does not require that the court adopts a more active approach where art. 1019h DCCP is applicable. It does however require that the court makes use of the discretion it has within the scope of the arguments, for instance, to take into account the financial (in)equality between the parties. The conclusion is that a (even) more proactive approach in respect of the costs decision ex art.1019h DCCP however, is not desirable in the interests of legal certainty and predictability of the outcome of decisions on costs awards.

The research necessary to assess the *effectiveness* of art. 1019h DCCP features primarily in chapters 7 and 8. In chapter 7, which focuses on comparative law, the

cost systems in England and Wales, Germany and Belgium are explored. Traditionally, the English system has, as its starting point, a broad approach to costs shifting and is, in many ways, similar to the costs shifting rule of art. 1019h DCCP. In 2013, however, rigorous measures were taken in England to limit the extent of both the debate between the parties and the court's discretion regarding costs shifting. The direct reason for these changes were the negative effects, which manifested there, resulting from generous and unpredictable costs awards on *access to justice* for a large group of party litigants. Since then, the *Intellectual Property Enterprise Court* (IPEC) has been working with *cost caps* and there have been calls for a comparable system to be introduced to apply in all civil procedures. In addition, initiatives have been developed that are designed to contribute to better insurability in procedures (including in IP cases). In Belgium and Germany, costs awards are calculated on a standard basis using minimum, basis and maximum tariffs. In Belgium, the tariff system even applies as public policy right: agreements regarding costs awards that deviate from the fixed tariffs are null and void. In Germany, both the cost of legal representation and the costs awards are bound by fixed rates. At the end of chapter 7, the systems are, in so far as is possible, tested in accordance with the normative assessment framework in chapters 2 and 3. In conclusion, it cannot be said that the relatively rigid regulation of costs shifting in Belgium and Germany is incompatible with EU law and that the flexible English costs shifting rules are compatible. Besides proportionality, it is required that the system complies with the principles of legal certainty and equality of arms. Here, it appears that the Belgian and German costs shifting rules do indeed score high. As far as the principle of proportionality is concerned, it can be argued that in the Belgian system, contrary to the German system, account can be taken of the gravity, extent and impact of the infringements. This is however limited by the absolute minimum and absolute maximum rates and, furthermore, seems to be little used. In England, the system of cost caps in IPEC proceedings aims, primarily, to offer legal certainty. The principle of proportionality seems to be recognised to the extent that minor infringements can proceed by way of a *small claims track* and the more complex and comprehensive procedures are adjudicated upon by the (Patent) High Court. The latter are however, again subject to the general costs shifting rules of the Civil Procedure Rules, within which there is a lot of scope for a tailor-made approach but little legal certainty. From this perspective, there does not appear to be a system that meets all the requirements and conversely, it seems difficult to unite the requirements of proportionality, equality of arms and legal certainty all in one system.

Crucial to the question of the compatibility of the cost systems investigated in this book with EU law are the respective "scores" in respect of the requirements of effectiveness and effective legal protection. In chapter 8, the limitations of (empirical) research into the effects of costs shifting rules on the behaviour of the parties are highlighted. In order to be able to conduct a well-reasoned investigation into what the effects of art. 1019h DCCP are, a number of studies have been discussed regarding the influence that costs shifting rules have on the decision to litigate or to settle, according to *law and economics.* Here, particular attention has been paid to the *English rule,* given the similarities with art. 1019h DCCP. The (theoretical and

empirical) studies into the effects of the English rule have been connected with the anecdotal evidence from the Dutch intellectual property practice. The anecdotal evidence was collected by means of a survey of 170 intellectual property lawyers. An important conclusion of the research is that, based on the theoretical and empirical studies, no findings can be made with regard to the *overall effect* on the number of procedures and settlements. The relative significance of many different factors ultimately determines the influence of the *English rule* on the decision to litigate or to settle. Certain theoretical effects however, appear to be plausible where the anecdotal evidence supports the theory. The link between theory and practice has brought the following plausible effects of art. 1019h DCCP to light. In the first place, it is feasible that art. 1019h DCCP discourages cases which are weak (i). Also, there are indications that art. 1019h DCCP reinforces the tendency of risk-averse parties to settle rather than to litigate, irrespective of the prospects of success of their claim (ii); an effect that is strengthened if the opposing party is expected to have greater legal expenditures (iii).

A confrontation with the *intended* effects of art. 14 of the Enforcement Directive and 1019h DCCP reveals a number of significant discrepancies. While the provision aims to extend access to justice for intellectual property rights holders (especially SME's), the research indicates that it is indeed also IP rights holders, if they are risk-averse, who may be deterred from bringing a case or from defending their rights in court. This effect would be further exacerbated in the event that the other party is expected to have greater legal expenditures. Research shows that under such circumstances, it is unlikely that IP rights holders will take action against the infringement, which undermines the other objective of art. 1019h DCCP – that of dissuasion. If access to justice has already been extended by art. 1019h DCCP – a scenario which could occur in the case of a wealthy and at any rate, not risk-averse claimant with a strong case – the reciprocity of art. 1019h DCCP brings about that the access is unduly impeded for the other party. In this case, there is a considerable risk that this other party may be ordered to pay potentially high, but in any event unpredictable litigation costs. Under these circumstances, as is evidenced by the research in chapter 8, it is possible that this party will agree to a settlement at an earlier stage or will decide not to defend the claim raised against him. Notably, the principles of EU law apply equally to the other party, for whom the exercise of their right of access to justice cannot be detrimentally affected.

In chapter 9, the last chapter, the transposition, interpretation and application of art. 14 of the Enforcement Directive in the Netherlands are analysed in light of the requirements and principles of the normative assessment framework. An abstract legality test is considered particularly appropriate given the *positive obligation* imposed on the Dutch state to guarantee a costs shifting system in IP cases that complies with EU law. With due consideration of the reservations, discussed in para. 9.2, in respect of such a test of legality, the conclusion is that the manner in which art. 1019h DCCP was interpreted and applied at least until 1st April 2017, does not satisfy the terms of the normative assessment framework. Therefore, in para. 9.3, concrete recommendations have been made to achieve a more EU-compliant

interpretation of art. 1019h DCCP. These result in important tasks to be fulfilled by the (i) the European legislator, (ii) the European Court of Justice, (iii) the Dutch legislator and (iv) the judiciary. At the level of the European legislator (i) it has been argued that, from the perspective of coherence, there should be more reluctance regarding the imposition of procedural rules applicable exclusively to subsectors of national law. Where (minimum) harmonisation of procedural rules ought to be necessary and the rules in question have consequences for the access to justice, as much concurrence as possible with the requirements and limitations that are set down by art. 47 of the Charter and art. 6 ECHR should be sought. Furthermore, the European Court of Justice (ii) requires to fulfil its most important task of bringing the interpretation of such procedural rules into line with relevant fundamental rights and principles of EU law. The role of the Dutch legislator (iii), if faced with a European procedural rule, should be threefold. First of all, the legislator should take responsibility for ensuring coherence within national procedural law rather than offloading this responsibility to practice. The legislator can achieve this by providing as much information as possible in respect of the background and origin of such procedural rules and by providing guidance on the interpretation and application. In addition, the legislator should investigate the extent to which broader harmonisation is possible, in the sense that the specific procedural rules are granted a wider application scope. Adjustment of, for example, the cost shifting rules across the whole of civil procedural law could have prevented unwanted fragmentation of national procedural law, to a significant extent. Finally, if necessary, the legislator should take measures to ensure justice remains accessible to all litigants, for example, by guaranteeing that legal aid can be claimed and/or that costs protection is offered. The judiciary (iv) should ultimately apply a tariff system based on absolute maximum rates, which cannot be waived.

Various possible tariffs systems are explored at the end of para. 9.3. The research conducted in chapter 8 clearly illustrates that tariffs can eliminate many of the negative effects of costs shifting, provided they are clear and are applied strictly. Only then can the parties make an accurate assessment, of the total cost of litigation before the commencement of these proceedings. This has a beneficial effect on the possible insurability or financing of litigation. Furthermore, fixed tariffs remove, to a significant extent, the incentives for incurring high(er) legal expenditure and may even have a moderating effect on this. Another important feature of fixed tariffs is that they limit both the scope for discussion of the parties and the court's discretion to, at most, the determination of the tariff to be applied, which can save time and costs. The extent to which the Indicative rates, amended on 1st April 2017, will actually contribute to the intended predictability of the costs and access to justice in IP disputes depends on the extent to which awards that depart from the tariffs will nevertheless be made. In this thesis, the legitimacy can be found for strict application of the tariffs as *absolute maximum rates*. In addition, the results of the research provide justification for the introduction of a similar system in patent cases, for which the Indicative rates, do not yet apply.

Finally, it is argued that this research should provide an impetus for an evaluation of the (highly out-dated) liquidated tariffs that apply in general civil procedures and, if necessary, to adjust to the actual, average costs of legal representation. By the introduction of minimum, basic, and maximum rates, account can be taken, where necessary, of the financial position of the parties and their mutual relationship (*b2b, b2c or c2c*).