



Neutral Citation Number: [2021] EWHC 954 (Ch)

CLAIM NO.IL-2018-000105

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INTELLECTUAL PROPERTY LIST (ChD)

Royal Courts of Justice, Rolls Building
Fetter Lane, London, EC4A 1NL

Date: 28 April 2021

Before :

DAVID STONE
(sitting as a Deputy Judge of the High Court)

Between :

(1) ORIGINAL BEAUTY TECHNOLOGY
COMPANY LIMITED
(2) LINHOPE INTERNATIONAL LIMITED
(3) RETAIL INC LIMITED

Claimants

- and -

(1) G4K FASHION LIMITED
(2) CLAIRE LORRAINE HENDERSON
(3) MICHAEL JOHN BRANNEY
(4) OH POLLY LIMITED

Defendant

Ms Anna Edwards-Stuart and Mr David Ivison (instructed by Mono Law Limited) for the
First and Second **Claimants**

The Third Claimant was not represented

Mr Chris Aikens (instructed by Fieldfisher) for the **Defendants**

Hearing date: 1 April 2021

APPROVED COSTS JUDGMENT

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment
and that copies of this version as handed down may be treated as authentic.

**Covid-19 Protocol: This judgment is to be handed down by the deputy judge remotely by circulation to
the parties' representatives by email and release to Bailii. The date for hand-down is deemed to be 28
April 2021.**

David Stone (sitting as a Deputy Judge of the High Court):

1. Does the existence of a genuine Part 36 offer prevent the Court from dealing with the costs of a liability trial prior to quantum being determined even when the “losing” party’s conduct has been egregious? When this question arose at the form of order hearing in this matter, I reserved costs and, because counsel could not refer me to any recent detailed consideration of the issue, said I would give my reasons in writing. For the reasons below, in my judgment, CPR 36.17 prevents the Court from dealing with costs at this stage of the litigation. Costs must therefore be reserved until the outcome on quantum is known.

Background

2. I gave judgment in these proceedings on 24 February 2021 in relation to the alleged infringement of UK unregistered design rights (**UKUDR**) and Community unregistered design rights (**CUDR**) in 20 selected garments (the **Selected Garments**) out of a total of 91 garments which the Claimants say are infringed by the Defendants. I found that seven of the Selected Garments infringe both UKUDR and CUDR and 13 do not. I also dismissed the Claimants’ passing off action. That judgment (the **Main Judgment**) can be found at [2021] EWHC 294 (Ch).
3. A form of order hearing took place on 1 April 2021, when I made orders for dealing with the remaining 71 garments which have not yet been adjudicated (the **Remaining Garments**). I provisionally listed the account of profits/damages enquiry before me in October 2021. I gave a short *ex tempore* judgment (which can be found at [2021] EWHC 836 (Ch)) on the Defendants’ request for declarations of non-infringement. An issue arose after the form of order hearing in relation to the various colourways of some of the infringing garments sold by the Defendants, and I dealt with that in a judgment which can be found at [2021] EWHC 953 (Ch).
4. At the form of order hearing, the First and Second Claimants sought their costs in the sum of £934,943.98, considering themselves to be the “winners” to date. They sought payment on account of those costs in the sum of £842,000, being 90% of the total costs claimed. The Third Claimant has gone into liquidation since the trial, and was not represented at the form of order hearing. For the purposes of this judgment, where I refer to the “parties”, I mean the parties represented before me now, and hence I exclude the Third Claimant.
5. The Defendants resisted a costs order, submitting that costs should be reserved, because of the existence of a Part 36 offer they had previously made to settle the proceedings.
6. If I were to make a costs order in spite of that, the parties disagreed significantly on what that costs order should be, and filed lengthy written submissions. As I have concluded that costs must be reserved, those arguments can now be saved for another day.

Part 36

7. It was common ground between the parties that I should assume that:
 - i) a genuine Part 36 offer had been made by the Defendants to the Claimants to attempt to settle the litigation;
 - ii) that Part 36 offer related to issues which have not yet been decided; and
 - iii) the relief ultimately obtained by the Claimants may be less favourable than the terms of the Part 36 offer.
8. It was also common ground that the Court could be told of the *existence* of the Part 36 offer, but not its *terms* (see CPR 36.6 and 36.16(4)).
9. Further, it was common ground that in the circumstances of this case, the *usual* order would be for costs to be reserved until after the determination of quantum. However, the First and Second Claimants submitted that the usual order ought not apply in *this* case, whereas the Defendants submitted, on the contrary, that the usual order is the only order open to me.
10. Both sides relied on CPR 36.17, which provides:

“Costs consequences following judgment

36.17

(1) Subject to rule 36.21, this rule applies where upon judgment being entered—

(a) a claimant fails to obtain a judgment more advantageous than a defendant’s Part 36 offer; or

...

(3) Subject to paragraphs (7) and (8), where paragraph (1)(a) applies, the court must, unless it considers it unjust to do so, order that the defendant is entitled to—

(a) costs (including any recoverable pre-action costs) from the date on which the relevant period expired; and

(b) interest on those costs.

...

(5) In considering whether it would be unjust to make the orders referred to in paragraphs (3) and (4), the court must take into account all the circumstances of the case including—

(a) the terms of any Part 36 offer;

(b) the stage in the proceedings when any Part 36 offer was made, including in particular how long before the trial started the offer was made;

(c) the information available to the parties at the time when the Part 36 offer was made;

(d) 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; and

(e) whether the offer was a genuine attempt to settle the proceedings.

11. As set out above, the First and Second Claimants acknowledged that the effect of CPR 36.17 is that in cases where the trial of liability and quantum is split (as this one was), the *usual* order would be to reserve costs until quantum had been determined. But counsel for the First and Second Claimants submitted that it is not the *only* order available, and that I should proceed to make a costs award because of the Defendants' dishonest and unreasonable conduct to date. She relied on two submissions. First, she cited the qualification in CPR 37.17(3) whereby a claimant which does not do better than the defendant's offer ought to pay the defendants' costs (with interest) unless it is "unjust to do so" and, second, she relied on comments of Jackson J (as he then was) in *Multiplex Constructions (UK) Limited v Cleveland Bridge UK Limited and Anor* [2007] EWHC 659 TCC at paragraph 26.

12. I deal with each in turn.

"Unjust to do so"

13. Counsel for the First and Second Claimants submitted that the qualification to award costs to the defendant unless "unjust to do so" gives the Court a very wide discretion, even where a claimant's judgment is less favourable than a defendant's Part 36 offer. She submitted that in an exceptional case, CPR 37.17(3) enables the Court to make an award prior to determination of quantum against a defendant which has made a Part 36 offer, because the defendant offeror does not have an automatic entitlement to its costs. Thus, she said the conduct of the Defendants in this case makes it exceptional, such that the Court could exercise its discretion to make a costs order now, even though not all issues have been decided.

14. It does seem to me that the language of CPR 36.17 is very clear on its terms, and prevents the Court from making a costs order on the (agreed) facts of this case for the following reasons:

i) CPR 36.17 on its terms clearly envisages that the case has been determined. It refers to "judgment being entered" and requires, for its operation, that the "claimant fails to obtain a judgment more advantageous than a defendant's Part 36 offer" (CPR 36.17(1)(a)). In this case, the parties accept that that remains a possibility – as it must,

because liability has only been determined in relation to the Selected Garments and a further 71 Remaining Garments need to be agreed or adjudicated. Once that is done, a damages enquiry or account of profits needs to take place (unless the parties can agree quantum). So the parties are some months from knowing whether or not the Defendants' Part 36 offer has been beaten;

- ii) CPR 36.17(3), on which the First and Second Claimants rely, only becomes relevant "where paragraph (1)(a) applies". As noted above, paragraph (1)(a) cannot apply here, because it cannot be known whether the Claimants have beaten the Defendants' Part 36 offer;
- iii) In any event, in considering whether it is "unjust to do so" within the terms of CPR 36.17(3), CPR 36.17(5) lists those things "the court *must* take into account". I emphasise the word "must" – not the discretionary "may". That (non-exhaustive) list includes:
 - a) "the terms of any Part 36 offer" (CPR 36.17(5)(a));
 - b) "the stage in proceedings when any Part 36 offer was made, including in particular how long before the trial started the offer was made" (CPR 36.17(5)(b));
 - c) "the information available to the parties at the time when the Part 36 offer was made" (CPR 36.17(5)(c));
 - d) "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" (CPR 36.17(5)(d)); *and*
 - e) "whether the offer was a genuine attempt to settle the proceedings" (CPR 36.17(5)(e)).

I have highlighted the conjunctive "and" between the fourth and fifth factor to take into account. As will be clear from the operation of CPR 36.16(4), only the last of these is currently before the Court. Whilst the Court has been informed of the existence of the Part 36 offer, it is expressly prevented from being told of its terms, when it was made, what the parties knew at the time, and how the parties exchanged information for the purposes of evaluating the offer. Without that information, the Court cannot take it into account, and so cannot comply with CPR 36.17(5). As Briggs J (as he then was) pointed out in *Lilleyman v Lilleyman and Anor (No 2)* [2012] EWHC 1056 (Ch) at paragraph 16:

"the four specific considerations identified in para [(5)(a) to (d) – Briggs J was actually considering a predecessor version] disclose a common thread which focuses the injustice analysis upon the circumstances of the making of the offer and the provision or otherwise of relevant information in

relation to it, rather than upon the general conduct of the proceedings by the parties”.

This serves to emphasise the importance of knowing the terms of the Part 36 offer etc, prior to determining costs.

15. In practical terms, it is easy to understand why CPR 36.17 operates as it does. Say, for example, that before the CCMC, the defendant offers under Part 36 to settle all the proceedings by paying the claimant £1 million. Following a long trial and then a further damages enquiry, and £800,000 in costs on each side, the Claimant obtains judgment for only £50,000. That is the very circumstance in which Part 36 aims to encourage parties to settle disputes, and the Court may well consider that the Defendant ought to have its costs, even in circumstances where its conduct was poor. I do not seek to draw any parallel between that fictional example and this case – other than to demonstrate that it is impossible for the Court to make an informed costs award at this point when quantum is unknown, and the details of the Part 36 offer cannot be shared with the Court.
16. The Defendants accepted that if and when the Court needs to decide whether or not to make the default order, the Court is required to consider the five factors listed in CPR 36.17(5) and, because of the obligation to consider all the circumstances of the case, may consider the Defendants’ other conduct: *Lilleyman v Lilleyman and Anor (No 2)* [2012] EWHC 1056 (Ch) per Briggs J (as he then was) at paragraph 16; *Webb v Liverpool Women’s NHS Foundation Trust* [2016] EWCA Civ 365; *Smith v Trafford Housing Trust* [2012] EWHC 3320 (Ch) at paragraph 13 per Briggs J (as he then was). But, counsel for the Defendants submitted, that enquiry is simply not open to me now.

Multiplex Constructions

17. Counsel for the First and Second Claimants’ second point relied on the following extract from the judgment of Jackson J (as he then was) in *Multiplex Constructions (UK) Limited v Cleveland Bridge UK Limited and Anor* [2007] EWHC 659 TCC at paragraph 26:

“I deduce from the authorities which have been cited that, following the trial of a preliminary issue, the court may make an order for costs in favour of the party that has won that issue. Before doing so, however, the claimant must consider all the circumstances of the case. If the judge is told that the unsuccessful party on that issue has made a payment into court, or a Part 36 offer, the normal order should be to reserve costs. Nevertheless, in an exceptional case, despite such a payment in or offer, the judge may still make an immediate order for costs if the circumstances warrant such a course.”
18. I do not consider that Jackson J’s comments assist me here, because CPR 36.17 in its current form was not in operation at that time. Counsel for the First and Second Claimants accepted that the then equivalent – numbered 36.20 at the time – read as follows:

“(1) This rule applies where at trial a claimant-

...

(b) fails to obtain a judgment which is more advantageous than a defendant’s Part 36 offer;

...

(2) Unless it considers it unjust to do so, the court will order the claimant to pay any costs incurred by the defendant after the latest date on which the payment or offer could have been accepted without needing the permission of the court.”

19. As will immediately be apparent, there was no equivalent then of CPR 36.17(5). As Jackson J was considering very different wording, I am unable to carry over from his judgment a general discretion to ignore CPR 36.17(5) in circumstances where the language of that sub-paragraph was not before him. As the commentary in the White Book (2021 edition) notes (at 36.17.1 on page 1291): “[t]he rule differs in some significant respects from the pre-2007 rules and earlier authorities have to be read in light of the amendments then made.” I am conscious that Jackson J’s comments have recently been cited with approval, for example, by Mr Adam Johnson QC (sitting as a Deputy Judge of the High Court) (as he then was) in *Dinglis v Dinglis and Ors* [2019] EWHC 2490 (Ch) – but that case was about an offer made in without prejudice save as to costs correspondence, and Mr Johnson was not asked to consider CPR 36.17.
20. As set out above, in my judgment, CPR 36.17(5) imposes a mandatory list of five factors to be considered in making a costs award against a defendant whose Part 36 offer is not beaten. Without being able to know the facts behind those factors, the Court is not able to make an assessment, and costs must be reserved.
21. Despite the number of authorities to which I was referred, only one of them was squarely comparable with the facts of this case – one party seeking costs prior to the quantum trial in circumstances where a Part 36 offer had been made. In *Lifestyle Equities CV and Anor v Sportsdirect.com Retail Limited and Ors* [2018] EWHC 962 (Ch), HHJ Pelling QC (sitting as a Judge of the High Court) said this:

“Costs

26. As will now be apparent, this is a hearing to determine the scope of an order made following a trial as to outstanding issues of liability in relation to a hard-fought claim between the claimants and the defendants in which claims have been made both for trade mark infringement and for inducing a breach of contract. I have resolved all the issues of liability and it is clear that in the light of those findings there will have to be a further hearing, either for an account of profits and/or for an inquiry as to damages. In those

circumstances the claimants seek an order that the defendants pay some or all of their costs to date.

27. The difficulty is that there are Part 36 offers in play the terms of which are unknown to me, but which will depend, for their efficacy, on the findings which are made on any inquiry as to damages and/or account of profits. Although it was submitted on behalf of the claimants that I should make some form of hybrid order which dealt with the costs which had been incurred down to the date when the first Part 36 offer was made, leaving over all the costs which arose after the date of any Part 36 offer, in my judgment that is manifestly a disproportionate, inappropriate and unsatisfactory way of proceeding. If there is a Part 36 offer in play, then it is only following the completion of the quantum stages of this case that it would be possible to discern who has been successful and who has not and whether the Part 36 offer has any impact on the costs order that should be made.

28. In any event, it seems to me that to embark upon a methodology which involves imposing an order for costs for part of the trial of liability, then addressing the issues of costs that arise after the date of a Part 36 offer, so far as liability is concerned, and then also to attempt to deal with costs in relation to any quantum inquiries is a recipe for complexity, prolixity and avoidable expense, both in terms of costs for the parties and resources so far as the court is concerned. Where there has been a Part 36 offer made and the parties have either been ordered to or agreed to split the trial between liability and quantum, the appropriate course is to wait until after the quantum issues have been resolved before attempting to address questions of costs.”

22. I respectfully agree with His Honour’s conclusion. Indeed, it seems to me on the facts of this case that not only is reserving costs the “appropriate course”, it is the *only* course open to me.

Other submissions

23. Counsel for the First and Second Claimants made a number of other submissions as to why I should make a costs order against the Defendants now:
- i) To do so would reflect the seriousness of the Defendants’ conduct and send a signal to other litigants that similar behaviour will not go unpunished. Whatever the merits of this argument, it will have to wait. I have set a timetable for the parties which should see the entire case determined before the end of this year, at which time the Claimants can make their costs application.
 - ii) “There will never be a better time, nor a better-placed tribunal, to grasp the nettle and make an appropriate order in respect of the costs incurred in the litigation to date”; this appeared to be a suggestion that another

judge would not be as well placed to make a costs order. I do not accept that that is true – but in any event, I have listed the damages enquiry/account of profits before me, so the issue does not arise. The First and Second Claimants’ skeleton argument for the form of order hearing set out their allegations in depth, and can be re-used at the appropriate time.

- iii) “It cannot have been the intention [of the drafters of the CPR] to shackle the Court in this way and to do so would provide an enormous loophole for dishonest defendants who can make genuine, yet entirely disingenuous, offers simply to avoid an adverse costs order”. Counsel for the First and Second Claimants also noted that what she described as a loophole is particularly acute in intellectual property cases, where liability and damages are often determined at separate hearings. There are two answers to this submission. First, on the situation set out by counsel, the defendant does not avoid an adverse costs order – it only does so until liability is determined. Second, the submission belies the requirements in Part 36 for the offer to be genuine. I will not attempt to draw a bright line, as she has, between an offer that is genuine yet disingenuous – because in this case, the First and Second Claimants agreed that I should assume that the Defendants’ Part 36 offer was genuine. That requirement acts as a filter to avoid abuse of Part 36. And whilst it is true that many intellectual property cases are heard in what are referred to as split trials (with liability first, and quantum to follow), it is also true that many settle following the liability hearing, such that accounts of profits and damages enquiries are comparatively rare.
 - iv) “It is unfair to deprive a party of its costs whilst waiting for the determination of quantum.” In this case, there is no suggestion that the Defendants are impecunious – indeed, as I recall the evidence in the main trial, theirs is a successful, profitable business. An award of interest can go some way to ameliorating the delay, which, as I have indicated above, should now only be 7 or 8 months.
 - v) “Making a costs order now will facilitate settlement.” There may be some force to that statement, but I do not consider that it can override the express language of CPR 36.17.
24. If I am wrong in my analysis, and the Court does have discretion to award costs at this stage, I would not have exercised that discretion in this case. As HHJ Pelling QC noted in *Lifestyle Equities*, to do so would be “disproportionate, inappropriate and unsatisfactory”. Even were I to accept that the Defendants’ behaviour in this case was towards the egregious end of the spectrum (which the Defendants’ counsel vigorously disputed), I simply do not have enough facts before me to enable a proper exercise of my discretion. In addition to the first four factors set out in CPR 36.17(5), the question of infringement regarding the Remaining Garments is still to be determined. That determination is likely to make a difference to any costs assessment overall. The court will need to “assess who in reality is the unsuccessful party and who has been responsible for the fact that costs have

been incurred which should not have been”: *Smith v Trafford Housing Trust* [2012] EWHC 3320 (Ch) per Briggs J (as he then was) at paragraph 13 citing *Factortame Ltd and Ors v Secretary of State for Transport* [2002] EWCA Civ 22 at 27 per Walker LJ (as he then was).