JUDGMENT : Mr. Justice Mann : Chancery. 26th May 2006.

Introduction

1. This is an application made by the defendants for a costs-capping order against the claimant, who is instructing lawyers under a conditional fee agreement ("CFA") without after the event ("ATE") insurance cover for such costs as he would have to pay the defendants if he were unsuccessful. They seek an order which prospectively puts a limit on the amount of costs for which the defendants would be liable were the claimant to succeed in this action and get an order for costs against him. While such orders have been made in relation to other areas (notably defamation actions and certain personal injury actions) this is, so far as counsel are aware, the first time such an order has been sought in an intellectual property action. Miss May appeared for the defendants; Mr Brandreth appeared for the claimant.

The claim

2. The action is a passing off action. The claimant claims to have created a series of books, television pilots and television programme proposals all relating to the investigation of myths and all under and by reference to the sign mythbusters. He claims that by virtue of his activities the relevant UK public have come to understand the name mythbusters, when used in relation to books and television programmes concerning the investigation of myths, to mean exclusively the business and goods of the claimant. The first two defendant companies are television production companies who have produced a television series called "Mythbusters", which is said to cover the same ground, or some of the same ground, as the programme proposal of the claimant. The third defendant is a UK subsidiary of the second defendants; the fourth defendant is a television broadcaster and distributor. The claimant maintains that the activities of the defendants amount to passing off and seeks an account of profits or an inquiry as to damages, and injunctive relief. It has been agreed between the parties that the trial of this action will relate to liability only, with damages being determined on a separate inquiry so far as may be necessary.

3. The claim form was issued on 11th January 2006. Amended particulars of claim were served on 9th February 2006 and a defence was served on 24th February 2006. Further amendments have been made to the particulars of claim but they do not matter for present purposes. By a notice dated 11th January 2006 the claimant gave notice that his costs were being funded by a conditional fee agreement dated 1st December 2005. It has since been established that that agreement provides for a 100% mark up. On 27th March 2006, each of the claimant and the defendants completed allocation questionnaires which gave statements of their then current costs and the estimates of the costs of taking the matter to trial. The claimant's then current estimated costs were (in round terms) £48,000 and his estimate of the total costs of getting to trial were £200,000. The defendants' then costs were estimated at £35,600 and their estimated costs of the whole action including a trial were £115,000. In due course some of those costs were broken down, and estimates have been refined, but those costs estimates are said to be the starting point for the defendants' case for the making of a costs-capping order. It is that application which now comes before me. In broad terms, the order is sought because:
   i) The claimant has instructed his lawyers under CFA;
   ii) He has no ATE insurance (which is apparently the case);
   iii) It is said that there has been extravagant expenditure in this case, a strong indication that it will continue and no reason to suppose that it will stop.

The principles applicable to applications for costs-capping orders

4. There can be no doubt that the court has jurisdiction to make the sort of order sought by the defendants. Orders of this kind were considered by the Court of Appeal in ***King v Daily Telegraph Group Ltd*** [2004] EWCA (civ) 6.3. In that case (a defamation action), Brooke LJ pointed out a number of "*striking features about the way in which the claimant's solicitors conducted [the] litigation*". He then set out various factors which demonstrated an extravagant attitude towards costs and in paragraph 61 he refers to the "*extravagant manner*" in which the claimant's lawyers were running the case. At paragraph 75 Brooke LJ set out the dangers of such conduct where there was a CFA without ATE cover:

   "75. [Mr Caldecott's] main complaint, however [was] that this was another area in which, in the context of litigation conducted by a claimant on a CFA without ATE cover, conduct of this kind was wholly out of place. His clients would be put to irrecoverable expense in instructing their lawyers to consider [a very long witness statement], and in the event of any settlement into which they might be forced, not by the merits of the case but by commercial considerations, the claimant's solicitors would probably be seeking twice their already high hourly costs for the work they did in connection with the statement.

   76. He said that extravagant conduct of this kind could not be effectively policed by robust orders made by a trial judge (if the action ever went to trial) or by drastic surgery by a costs judge, because by then the defendants had already incurred the irrecoverable costs of having to respond to it. Experience, moreover, had shown that recourse to the wasted costs jurisdiction was an unsatisfactory, unpredictable and expensive means of bringing such conduct under control."

   Although Brooke LJ does not say so here in terms, the thrust of his judgment is that he accepted those submissions – see in particular paragraph 104 when he referred to the evils of which Mr Caldecott was right to complain.

5. In paragraph 89 Brooke LJ referred to references made in ***Callery v Gray (Nos 1 and 2)*** 2002 1 WLR 2000 by the House of Lords. In particular he referred to remarks by Lord Bingham which recognised the scope for imposing unfair burdens, and which Brooke LJ went on to identify as twofold:

i) First there is what Miss May, who appeared for the defendants in this case, called the "blackmailing" aspect. It arises because, assuming a claimant has the benefit of a CFA, a defendant is faced with a claimant who is likely to be impecunious. If there is no ATE cover, then the defendants would have little chance of recovering their own costs. Faced with that fact, and the fact that if they were to lose they would have to pay the claimant's costs with a significant uplift (sometimes as much as 100%) that can provide an unfair pressure on the defendants to settle a case on an unfavourable basis on which they would not otherwise have settled.

ii) Second, there is what Miss May described as the "arms race" point. If one has a case like *King* in which the claimant incurred excessive costs by, for example, putting in excessively long witness statements, the other party cannot safely ignore the excessive activities. He will have to at least consider the "extra" material and, for the sake of safety, in many cases spend money meeting it, because the risk cannot be taken of not doing so (particularly bearing in mind the costs consequences of failure – see point (i)).

6. The way of dealing with these points as it emerges from *King* is to make a costs-capping order, i.e. an order which puts a ceiling on the recoverable costs of the CFA party, if the circumstances are appropriate. That is what the Court of Appeal held in *King*. The case stands as clear authority for the proposition that such orders can be imposed in appropriate cases. Brooke LJ acknowledged that the jurisdiction must be exercised with care in CFA cases because, by allowing CFAs, Parliament has decided that it was appropriate to order the counter-party to pay costs at a level which would not ordinarily be regarded as reasonable or proportionate (i.e. the uplift). However, there is no exclusion of CFA cases from this jurisdiction.

7. At paragraphs 105 and 106, Brooke LJ considered the three main weapons available to a party concerned about "*extravagant conduct by the other side, or the risk of extravagance*". The first is a costs-capping order. In paragraph 106 he said: *"In my judgment, recourse to the first of these weapons should be the court's first response when a concern is raised by the defendants of the type to which this part of this judgment is addressed. The service of an over-heavy estimate of costs with the response to the allocation questionnaire may well trigger off the need for such a step to be taken in future."*

It is apparent from this that extravagant costs, or the risk of incurring extravagant costs, is something that Brooke LJ considered to be an important factor, if not an essential factor, in deciding whether to make a costs-capping order. The second weapon was a tough post-trial costs assessment and the third was a wasted costs order.

8. Miss May submits that the thrust of what Brooke LJ says in this case is that the existence of a CFA-assisted party without ATE cover is sufficient, without more, to create risks to the other party so that a costs-capping order becomes justified, or at least justifiable. But she also says that in any event she has evidence of extravagant or excessive expenditure. All this is said to trigger the deployment of Brooke LJ's first weapon.

9. It is important to place Brooke LJ's remarks in their context. They were made in the context of a defamation action. It does not necessarily follow from that context that his principles are not applicable to other litigation – unfair risks as to costs are of the same quality whatever label one is able to put on the litigation in question. However, time and again in his judgment Brooke LJ refers to the particular problems of defamation litigation and the interaction with ECHR Article 10. In paragraph 87 he refers to that case being the first occasion on which the court had had to consider CFAs in the context of defamation actions, referring to their previous deployment in personal injury cases. In paragraph 90 he refers to the particular interaction between the situation in that case and Article 10. In paragraph 93 he says: *"If defamation proceedings are initiated under a CFA without ATE cover, the Master should at the allocation stage make an order analogous to an order under section 65(1) of the 1996 [Arbitration] Act [ie a costs capping order]."* (emphasis supplied.)

Paragraph 95 contains another express reference to defamation actions, and paragraph 96 refers to the *"particularly sensitive"* approach required in relation to costs issues where Article 10 is engaged. Paragraph 101 says: *"It cannot be right to submit defendants in these cases, where their right to freedom of expression is at stake, to a costs regime where the costs they will have to pay if they lose are neither reasonable nor proportionate and they have no reasonable prospect of recovering their reasonable and proportionate costs if they win."* (emphasis supplied).

Paragraphs 102 and 103 again refer to specifically to defamation cases.

10. I emphasise this feature of Brooke LJ's judgment because of the strong reliance Miss May places on it as laying down principles which she says I should apply, and because of the need to consider the difference between its approach and what was said in an earlier decision of Gage J, which I come to below.

11. The views of Brooke LJ were approved by Lord Hoffmann in ***Campbell v MGN Ltd*** [2005] 1WLR 3394. At paragraph 31 he refers to the "*blackmail effect*" of defamation litigation conducted under a CFA without ATE insurance: *"The blackmailing effect of such litigation appears to arise from two factors. First, the use of CFAs by impecunious clients who do not take out ATE insurance… the second factor is the conduct of the case by the claimant's solicitors in a way which not only runs up substantial costs but requires the defendants to do so as well. Faced with a free-spending claimant solicitor and being at risk not only as to liability but also as to twice the claimant's costs, the defendant is faced with an arms race which makes it particularly unfair for the claimant afterwards to justify his conduct of the litigation on the ground that the defendant's own costs were equally high. That was particularly evident in [**King**]."*

And in paragraph 34 he endorsed the sentiments expressed by Brooke LJ in ***King***. However, it must again be borne in mind that Lord Hoffmann was making his remarks in the factual context of defamation and freedom of expression cases. The case before him was a breach of confidence case, but at paragraph 21 of his judgment he moves to consider the effect of CFAs in defamation cases. At paragraph 29 he says: *"I cannot however part with this case without some comment upon other problems which defamation litigation under CFAs is currently causing and which have given rise to concern that freedom of expression may be seriously inhibited."*

It is in that context that he utters his approval of Brooke LJ's remarks.

12. Those cases deal with the particular vices of CFAs in defamation actions. However, the costs-capping jurisdiction has been exercised in other areas, notably personal injury litigation. Guidance as to the exercise of the jurisdiction in that area can be had from one such case, namely the decision of Gage J in ***Smart v East Cheshire NHS Trust*** [2003] EWHC 2806. That was an application made in the context of an inquiry as to damages in a clinical negligence case. At paragraph 17 of his judgment, the learned judge rejected the submission that costs-capping orders should be made only in the case of GLOs. He said they could be made in other cases. At paragraph 22 he considered the question of whether a test of *"exceptional circumstances*" should apply before the jurisdiction is invoked. He held it should not. He said:

> *"22. Having considered all these factors, my conclusion is that whilst each case must be dealt with on its own facts, the test for the court when exercising its jurisdiction on whether to make a costs-cap order in cases such as the instant one is closer to that proposed by Mr Moran QC than that proposed by Mr Hutton. In my judgment, the court should only consider making a costs-cap order in such cases where the applicant shows by evidence that there is a real and substantial risk that without such an order costs will be disproportionately or unreasonably incurred; and that this risk may not be managed by conventional case management and a detailed assessment of costs after a trial; and it is just to make such an order. It seems to me that it is unnecessary to ascribe to such a test the general heading of exceptional circumstances. I would expect that in the run of ordinary actions it would be rare for this test to be satisfied, but it is impossible to predict all the circumstances in which it may be said to arise. Low value claims will inevitably mean a higher proportion of costs to value than high value claims. Some high value claims will involve greater factual and legal complexities than others."*

From this extract I can and do extract two propositions:

i) It must be established on evidence that there is a real risk of disproportionate or unreasonable costs being incurred; and

ii) It must be shown that that risk cannot be satisfactorily provided for by more conventional means (and in particular the usual costs assessment after the trial).

13. Those propositions demonstrate that there is a potential conflict between Gage J's principles and those of Brooke LJ. Brooke LJ apparently regarded the costs-capping order as being a weapon to be deployed rather than the tough post-trial assessment, whereas Gage J considered that a costs-capping order should only be used if the post-trial assessment was not a satisfactory solution. The essence of Miss May's submissions was that Brooke LJ's line should be followed, so that a costs-capping order should be presumed to be the first line of attack on the problem in the present case.

14. Gage J's decision preceded *King* but is not referred to in it. I do not know whether it was cited in *King* (though another decision of Gage J was, as was other personal injury authority). I do not consider that I should find that Brooke LJ was impliedly over-ruling it, or (perhaps a more accurate metaphor) indicating that the general game had moved on. Brooke LJ's remarks were uttered in the particular context of a defamation action, and on the basis that such actions potentially gave rise to special features, and it is plain from the extracts that I have referred to above that his remarks about the order of deployment of weapons were uttered in that context. I do not consider that he was laying down wider principles applicable to all litigation in paragraph 106.

15. I consider Gage J's indication that costs-capping should be done if the normal post-trial costs assessment would or might not achieve justice (my paraphrase) to be important, and a guideline that is applicable to me in this case. It is something that must not be lost sight of. It is the normal role of the costs judge to filter out the sort of extravagant costs which have in fact, in some cases, led to the making of a costs-capping order. One should continue to expect them to be able to do that. Lord Hoffmann referred to the risk that the position could be distorted by the fact that the non-CFA party felt it had to counter the unnecessary costs with costs of its own, on a safety-first basis. That factor obviously exists, but it must still be the case that costs judges can be expected, in many if not most cases, to be able to sort that out. In a large number of cases one would have thought that the exercise of doing that retrospectively (the costs judge's job) would be easier than doing it prospectively (the function of the costs-capping judge). Lord Hoffmann also referred to other difficulties of costs judges in assessing the reasonableness of costs posed by the fact that they have inadequate comparisons – see paragraph 17 of his speech. That, however, was addressing a different aspect of the matter.

The application of those principles to this case

16. The present case is one in which there is a CFA with a large mark up, and with no ATE cover. That, by itself, is not enough to justify costs-capping at this stage. Applying Gage J's principles, it is necessary to go further and demonstrate the risk of excessive or extravagant expenditure, and that such expenditure cannot be controlled by case management techniques or post-trial detailed assessments. I do not think that Brooke LJ was intending the jurisdiction to operate without some evidence of such risks, or that if he was that that should apply outside defamation cases, and I have given my reasons for following Gage J's guidelines on the latter point (control).

17. The first question in this case is therefore whether or not there is evidence of actual or threatened excessive or extravagant expenditure. The defendants seek to demonstrate that there is by relying on the statements of expended costs and estimated future costs in the allocation questionnaire, and certain particular matters arising out of the apparent risk of duplication of costs in relation to other proceedings. The claimant has provided a breakdown of historic costs in a separate document.

18. The information provided by the claimant shows the following, which is said to be relevant to the extravagance of costs:
(i) The claimant's allocation questionnaire states that its presently incurred costs are £47,800.
(ii) The total costs of getting to trial are said to be £200,000. That includes provision for leading counsel.
(iii) The breakdown of existing costs shows "Attendances on documents" of over 80 hours.
(iv) The breakdown of existing costs shows "Attendances on client" of over 35 hours.
(v) Future costs show "Attendances on Witness of Fact" of 61 hours.
(vi) Future costs show "Attendances on Documents" of over 80 hours.
(vii) The partner charging rate is £360 per hour to April 2005 and £370 per hour thereafter.

19. There are parallel proceedings in other jurisdictions and courts. Parallel proceedings have been brought in Singapore and Australia. The former were stayed for a time pending an application for security for costs, but I was told that that security has now been provided and the stay has been removed. The Australian proceedings are more advanced than these. They involve the sort of issues and facts that are central to the present proceedings. A large number of witness statements (from 25 witnesses) have been served. In addition there are proceedings in OHIM between the claimant and one of the defendants, relating to a trade mark, in which the same sort of issues are apparently in issue, and 4 witness statements have been served in those proceedings, and they are witness statements of individuals who have been identified as witnesses in these proceedings.

20. For the defendants Miss May relies on the following features as demonstrating excessive or extravagant expenditure, or a risk of it:
i) £48,000 is a very large sum of money to have spent to the stage of the allocation questionnaire.
ii) She says the partner's charge-out rate is high when compared with her own solicitors' of £315 per hour.
iii) The figures for attendances on documents and on the client look excessive for activity at this stage in this action.
iv) If the explanation of the present figures for attendances on documents and clients is explicable on the basis that it is work which might have been done later but has been done at this stage, then the estimated costs for the same work and for attendance on witnesses in the future costs are excessive. The work described in both sets of figures must contain some duplication.
v) The future figures for attendances on documents and witnesses are in any event very high. The latter, in particular, is high bearing in mind the fact that the evidence has already, to a large extent, been gathered for the purposes of the OHIM proceedings and the Australian proceedings. Those proceedings involve the same facts and issues as arise in the present proceedings. It cannot be necessary to do this work again, and if that is right then 80 hours is inexplicable and unjustifiable.
vi) There is a disparity between the costs of, and predicted by, the two parties in this case. The defendants' current costs as set out in their allocation questionnaire were £35,000, and their estimate of the total costs of the action was £115,000. The differences between those costs and those in the defendants' questionnaire are unexplained or not explained satisfactorily.
vii) Some explanations of individual items have been offered that are not credible. Thus, for example, the claimant's solicitor has said that "considerable time and effort" has been spent dealing with a security for costs application which was foreshadowed at one time (it was not in fact made) and with this application, when only one letter was received from that solicitor about security. The defendants themselves spent considerable time on those issues (including spending £11,900 on the putative security application), those costs are included in the defendants' disclosed figures, and those figures are still significantly below the claimant's.
viii) There is a disproportionality between the sort of figures proposed for costs and the value of the claim made in this action. Miss May sought to argue that the way the case was pleaded showed unrealistic expectations as to the financial benefits to be obtained, and the costs were out of proportion to that. The disproportionality remains even if one takes the injunctive relief into account.
ix) In response to a direct question from me, Miss May said it would be disproportionate for the claimant to employ a leader in addition to Mr Brandreth for the purposes of the trial. The cost of doing so was therefore a specific matter which should be taken into account in assessing the right amount for cost-capping, and presumably in assessing whether any proposed expenditure is excessive or extravagant.
x) The merits are weak.

21. The defendants deny actual or prospective extravagant spending. They claim that their expenditure is proper and their estimates are genuine and not extravagant. They also relied on the following more specific points:
i) The exercise of ascertaining the reasonableness of costs incurred and to be incurred in a case such as the present involves a degree of speculation which means the exercise has to be approached with great care. In the present case the dangers of the exercise are demonstrated by the mistakes which the defendants themselves made in estimating their own costs. Their first attempt at estimating future costs showed a total to

the end of the trial within a range of £81,100 to £108,000. Their next estimate took the range to a figure between £129,000 and £135,000. Then at the date of this hearing the estimate had to be revised upwards by several tens of thousands of pounds to reflect an increased trial length (from 3 days to 5 days), expert evidence and other activities. Similarly, the first estimates for solicitors' costs of this costs-capping application put them at £3000 - £5,000. They have turned out to be £14,000. All this shows how speculative, difficult and dangerous prospective estimating can be. Logically the same applies to criticisms of estimates.

ii) If one looks at the figures, and strips out the figures for leading counsel, the difference between the two sets of estimates for the cost of the whole proceedings is said to come down to £20,000. That is not a surprising difference, and means that the figures do not demonstrate extravagance.

iii) A witness statement provided by the claimant's solicitor seeks to meet some of the criticisms of existing costs by relying on such things as the need to co-ordinate the various sets of litigation which are proceeding in the various jurisdictions, and the need to consider the threatened application for security for costs and an extensive request for further information.

22. Looking at the overall picture, and even allowing for Mr Brandreth's general remarks about the speculative element of predicting costs and assessing the propriety of costs at this stage, I think there are clear enough suggestions of potentially extravagant costs expenditure. Certain matters do not assist the defendants. I do not think that there is anything in Miss May's criticism of partner's charge out rates. Nor is it possible to get much out of a comparison of the two solicitors' sets of charges. I do not accept that it will necessarily be extravagant to engage leading counsel in this case (though I do not actually determine that point should it ever matter for the purposes of determining the reasonableness of costs). There may be trials for which that would be an extravagance which can be determined as such before the trial itself, but this case is not one of them. Nor do I consider that I can take a view as to the merits of this claim which would assist her, or as to the value of the claim. Those are things on which a sufficiently reliable view cannot be taken at this stage. However, there is much in Miss May's criticism of the figures for costs relating to documents and witnesses bearing in mind that some of the work involved in those areas could well be duplicative of costs incurred in the other litigation (particularly the trade mark litigation and the Australian litigation). These points were, in part, taken in the witness statement in support of this application and were not satisfactorily dealt with in the evidence in answer. They were fully and clearly deployed by Miss May in her submissions, and not dealt with at all by Mr Brandreth in his submissions in answer. No attempt was made to justify the proposed time and expenditure involved. There is therefore in my view a serious question-mark over these two heads of expenditure, and some evidence of excessive or extravagant expenditure in the past and a risk of it in the future.

23. That, however is not an end of the matter. Under the principles as expounded by Gage J the risks have to be such as cannot be dealt with by the normal means of case management and post-trial detailed assessment. I would respectfully agree with that. Capping costs in advance does indeed involve a degree of speculation which, though it can be carried out when necessary (just as the courts have to assess proper sums for the purposes of security for costs applications) is not easy and has its dangers. The consequences of getting it wrong are in fact more serious that getting the sum wrong in a security application because costs outside the cap are irrecoverable. Costs outside the amount of the security remain recoverable. It is only a partial answer to say that insufficiencies can be dealt with under a liberty to apply. It is possible to remedy insufficiencies at that stage, but it is likely to increase costs if it has to happen (the costs of the defendants in relation to this present application should be noted in this respect - £14,000), and to require a party to explain and justify its future conduct in the litigation to the counter-party, which it would not normally wish or be required to do. If such matters can properly, fairly and reliably be left to detailed assessment post-trial then, on the whole, they should be. Retrospective judgments about such things are likely to be more reliable than prospective judgments.

24. That being the case, I have to determine whether the matters complained of are matters that cannot be dealt with by conventional case management or after-trial costs assessment. I do not think that the former is capable of dealing with such risk as there is. However, the two specific risk areas that have been identified do seem to me to be matters that are likely to be satisfactorily dealt with by the review that would be conducted by the costs judge on an after-trial costs assessment. Whether or not time was actually spent will be apparent from the material presented. If it turns out that the time was not actually spent then obviously there will be no costs attributable. It will also be apparent what it was spent on. If it was spent on efforts that were wasteful and unnecessary, either in absolute terms or because they were duplicative of matters already done elsewhere, then an informed judgment can be made about that on the basis of real material. I do not see why the costs judge cannot do that in relation to such matters, and on the facts of this case I consider that he will be able to carry out the necessary tasks more reliably and fairly after the event than I can before it. Bearing in mind the nature of the work likely to be involved under those heads, I think it unlikely that the defendants will find themselves trapped into doing matching unnecessary work which will make it difficult for them to argue that the claimant's work was extravagant. I therefore think that if one looks at the two specifically identified matters then they represent items which can be satisfactorily dealt with by the normal post-trial costs assessment.

25. However, I should not necessarily stop there. The defendants have demonstrated a significant risk of excessive or extravagant expenditure in two specific areas. I still have to consider whether that indicates a sufficient possibility of other excessive expenditure in other areas which cannot be dealt with satisfactorily by the more normal processes. I have considered this carefully, and have come to the conclusion that they do not. Even if I assume that

those two identified areas demonstrate a propensity for excessive expenditure, I am not satisfied that other excessive expenditure (if any) cannot be adequately dealt with by detailed costs assessments in due course. One cannot predicate the exercise of this jurisdiction on some sort of misgiving that costs judges cannot be relied on to get things right. They are very experienced, and will doubtless be particularly alert in CFA cases to make sure that they are not allowing excessive expenditure. I do not think it is sufficiently proved in this case that the risk of danger to the defendants in the process is such that I should take the course of costs-capping in this case on the basis of the present evidence.

26. I shall therefore make no order on this application. This should not, of course, be taken as some form of encouragement or blessing of the claimant's proposed expenditure. The defendants have raised genuine questions about costs expenditure which have not been fully met. Any costs judge hearing a detailed assessment at the end of the day will have to be particularly alert in relation to the expenditure on the two matters which were central to this application bearing in mind the findings that I have made about the potential for extravagance shown by the figures. This may also be a case in which the trial judge will find it appropriate to give guidance or directions as to particular costs, though that will, of course, be a matter for that judge.

MR. B. BRANDRETH (instructed by Field Fisher Waterhouse LLP) for the Claimant.
MISS CHARLOTTE MAY (instructed by DLA Piper Rudnick Gray Cary LLP) for the Defendants