Everyone's a winner

While litigation brings substantial risk and requires significant investments of time and money, mediation offers the opportunity to achieve a win-win outcome for both sides – and at a fraction of the cost

By **Jack Ellis**

Even before entering the White House, venerated US president Abraham Lincoln revealed himself to be a man ahead of his time when, while working as a lawyer, he extolled the virtues of negotiation. "Discourage litigation," he urged his fellow practitioners. "Persuade your neighbours to compromise whenever you can. Point out to them how the nominal winner is often a real loser – in fees, expenses and waste of time."

When intellectual property hits the headlines these days, the stories inevitably seem to centre on smartphone wars, patent trolls, trademark bullies and high-stakes court battles. Disputes are a fact of life for all IP owners; but, as Lincoln emphasised, litigation is by far the most costly and time-consuming way of trying to resolve them. And since lawsuits play out in the full glare of the public, press and competitors, they inevitably bring added reputational and strategic risks.

Litigation is often the first recourse for rights owners that believe their intellectual property is being infringed. But it should rather be seen as just one option among a whole range of methods that can be deployed when things go awry. "There is a spectrum of possibilities, from highly evaluative and highly formal – which is litigation – to completely unstructured and informal, which is negotiation," says Jeremy Lack, an IP lawyer and alternative dispute resolution (ADR) neutral. For Lack, mediation – essentially negotiation facilitated by a neutral third party as part of a social process – has clear and numerous advantages over litigation. "It is faster and cheaper, and better outcomes are possible," he explains. "The parties in dispute retain far more control over the outcome and can manage relationships and risks better." Furthermore, mediation tends to come with hidden opportunities that are not possible in litigation. "Once the business principals from both sides are in the room, it is possible to reorient their attention to what they are interested in: increasing revenues and profits, reducing costs, preserving and gaining market share, building brands and positive use of time and energy in general," he continues.

It is for these reasons that 3M opts to mediate as many of its IP disputes as possible. "We are energetic about enforcing our IP, but we also recognise that the vast majority of IP cases – just like the vast majority of litigation generally – are settled," says Hildy Bowbeer, assistant chief IP counsel at 3M. "It is an expensive proposition to litigate and it diverts the business's time and attention as well, so we are always open to the opportunity to have an intelligent business conversation with our opponent at any point in our dispute to see if there is a way to resolve it."

Mediation is often more likely to result in a lasting commercial solution to the dispute, she explains: "That is particularly important if you are likely to be dealing with the opponent as a business partner in the future. Mediation is more likely to salvage a relationship or even further a relationship which might otherwise be damaged by litigation."

Another advantage of mediation is that it happens behind closed doors, out of

the public gaze. This means that some of the potential negative reputational impact of lawsuits can be avoided. "Information that comes out in litigation – whether it is revealed by testimony or documents presented in court – can make a company look bad in the eyes of shareholders, employees and customers," says arbitrator and mediator Harrie Samaras. "The privacy afforded by mediation offers an attractive alternative to litigation." And while litigation is tied to a court in a particular jurisdiction with some link to the dispute, mediation can take place on neutral ground, wherever the parties agree. "Nobody wants to be sued in a country outside of their own," he continues. "For a mediation, the parties can choose to meet anywhere. This means that neither party has the difficulties and risks associated with litigating in a foreign jurisdiction, or in multiple jurisdictions when the parties have each sued one another in different jurisdictions."

Scant interest?

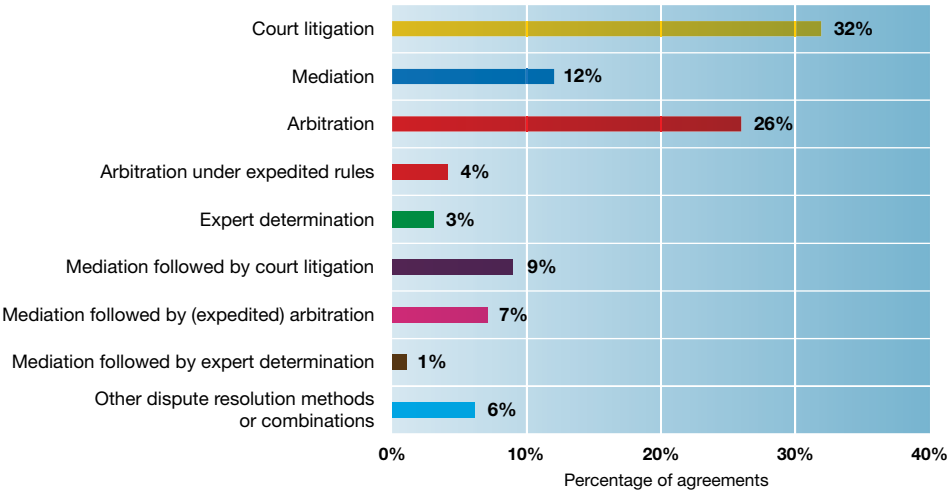
Despite these benefits, a significant number of rights owners still gravitate towards litigation whenever a dispute arises. The World Intellectual Property Organisation (WIPO) Arbitration and Mediation Centre's International Survey on Dispute Resolution in Technology Transactions – the findings of which were released in March 2013 – revealed that 47% of respondents resolved 30% or more of their non-contractual technology-related disputes through litigation in their home jurisdiction, while 33% resolved 30% or more of their disputes in foreign courts. On the other hand, only 14% of respondents used mediation to settle 30% or more of their non-contractual disputes.

Lack believes that these trends can be ascribed to persistent misperceptions on the part of IP owners and their external legal counsel. "It is fear of the unknown," he says. "A great many IP professionals – both in-house and in private practice – don't really know about mediation yet or are not comfortable with it. They are uncertain of their roles – but they tend to catch on immediately once they understand the process."

Samaras suggests that counsel are conditioned to steer dispute resolution towards processes that are adversarial and evaluative in nature – such as litigation and arbitration – rather than interests-based methods such as mediation, due in large part to their professional training. "When counsel are knowledgeable about and comfortable with mediation, this can influence whether they encourage their clients to pursue it," she explains. "Consider the fact that, when you step into law school in the United States, one of the first things you learn as an aspiring attorney is the federal rules of civil procedure, which govern litigation. Any kind of alternative to that – including mediation – is covered only in an elective course."

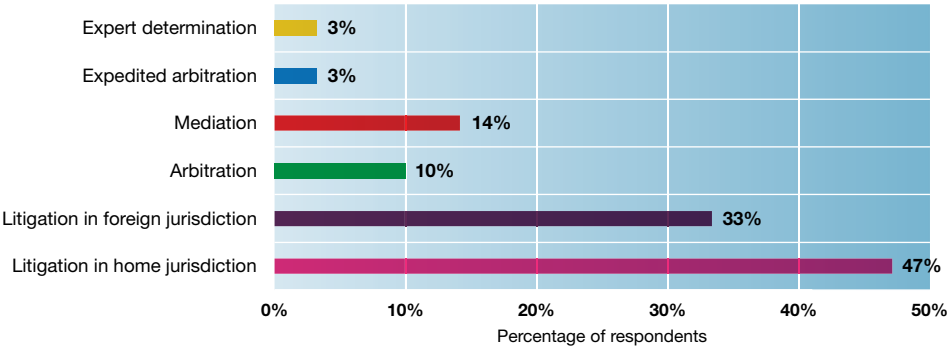
This lack of awareness among many rights owners and their lawyers means that even where a company is willing to mediate, there is an additional hurdle to overcome in bringing the other side to the table. "Most people, when faced with the choice of either negotiating or litigating their way out of a problem, would prefer the control, speed and efficiency offered by negotiation. Litigation entails an adjudicator taking the control and imposing a resolution," says Michael Leathes, a director at the International Mediation Institute and former in-house counsel at companies including British American Tobacco, Gillette, International Distillers & Vintners and Pfizer. "But there is a complicating factor in IP disputes, where there are very precise rules for how disputes are processed – particularly those

Figure 1. **Dispute resolution clauses included in agreements concluded in the past two years**



Source: WIPO Arbitration and Mediation Centre, International Survey on Dispute Resolution in Technology Transactions

Figure 2. **Methods used to solve 30% or more of non-contractual technology-related disputes**



Source: WIPO Arbitration and Mediation Centre, International Survey on Dispute Resolution in Technology Transactions

Hildy Bowbeer, assistant chief IP counsel, 3M
"In mediation, the world is open to the parties to fashion a resolution that… can benefit both businesses more than the outcome of litigation"

Harrie Samaras, arbitrator and mediator
"Even the biggest company with the deepest pockets simply cannot afford to litigate everything"

that are handled by IP offices. These types of proceedings consist of a multiplicity of predetermined steps that are designed to lead, ultimately, to a decision that can then be appealed, and further appealed, until a final and binding decision is reached. Because these 'railroad lines' exist, IP professionals are naturally conditioned to travelling along those railroad lines on behalf of their clients in order to achieve the results that they are looking for. That inhibits many from looking sideways at the possibility of negotiating earlier outcomes."

It becomes even more complicated when trying to determine how to get the other party on board, says Leathes: "Inherent in that are the concerns about expressing weakness. If you are the first to propose settlement negotiations, there is an understandable fear that this can imply weakness to the other side — and that often stops them from seeking early settlement options."

Table manners

Rights owners thus need to help create an environment in which they can suggest mediation without compromising their own position. In the context of contractual relationships, such as licensing or joint development arrangements, mediation can be enshrined in the terms of the agreement. "Many of our IP agreements have a resolution clause built in that calls for notice first that there is a dispute, then business-to-business negotiations, and then provides for mediation as the next step before either party can bring litigation," says Bowbeer. "Similarly, if two parties have already been involved in litigation in the past, mediation of future disputes can be written into their settlement agreement," Samaras adds. Such agreements will typically include an exception for situations where the actions of the other side could cause immediate irreparable harm.

However, it is a different story for other types of dispute, such as those involving infringement and validity, which typically arise outside a contractual relationship. The party bringing the action will often file suit initially, as an approach to the opposing party suggesting mediation may be seen as a green flag to file for declaratory judgment. "We will sometimes look at the possibility of filing our litigation complaint, but not serving it right away on the opponent," says Bowbeer. "Instead, we will send a copy of the complaint to a relevant decision maker on the other side — it may depend on what contacts we might have at that other company — to make sure they know about our IP and to let them know that we would be interested in trying to resolve the matter early without both sides having to invest large amounts of money and resources in litigation first." Initially, that may involve the two parties or their outside counsel getting together for a business-to-business conversation. At that stage, they can decide whether it might be helpful to involve a neutral third party. "We will often suggest that as a way to bridge whatever gaps in communication or in business understanding there may be," Bowbeer continues.

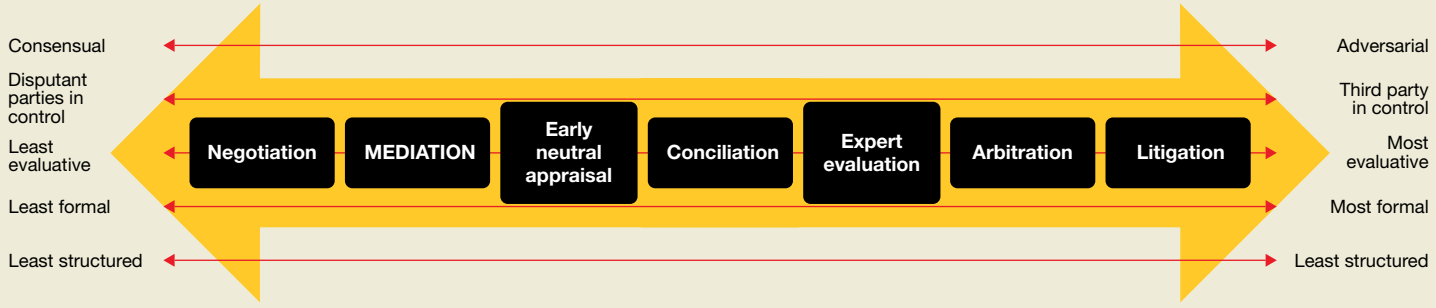
In some jurisdictions, the courts actively encourage parties to consider mediation before or during litigation. Many US federal district courts have formal alternative dispute resolution programmes, and judges will typically ask parties whether they have discussed the possibility of resolving their dispute outside the courtroom during pre-trial scheduling and at different points during the judicial process. But most of the time, parties keen to explore this option will have to try to coax their opponents into mediation where a contractual relationship does not already exist between them.

One way of doing this is to make a public commitment to mediate IP disputes whenever possible. If mediation is framed as the default option, there is less reason for potential opponents to suspect weakness in an IP owner's position. "IP owners can make a public statement or pledge — an expression of preference, rather than a commitment — to the effect that, as a matter of policy, they prefer mediation to an adversarial, litigious approach to resolving their IP disputes regardless of the merits of the case," says Leathes. It is important to make clear that there will be exceptions to this policy, he adds — such as where a precedent needs to be created or where the other party cannot be relied upon to abide by any negotiated settlement. But, suggests Leathes, having a published policy statement or subscribing to a pledge to consider mediation in most cases is a good way to propose settlement negotiations without implying weakness.

Some dispute resolution organisations have developed pledges to this effect that companies and law firms can subscribe to. One such example is provided by the International Institute for Conflict Prevention & Resolution (its pledge can be viewed at www.cpradr.org).

Yet despite the sizeable time and cost savings that mediation can offer, disputing parties may nonetheless feel compelled to press ahead with litigation. "One reason for this may be that one of the parties doesn't want to keep the dispute private," suggests

Figure 3. **Selecting a process**

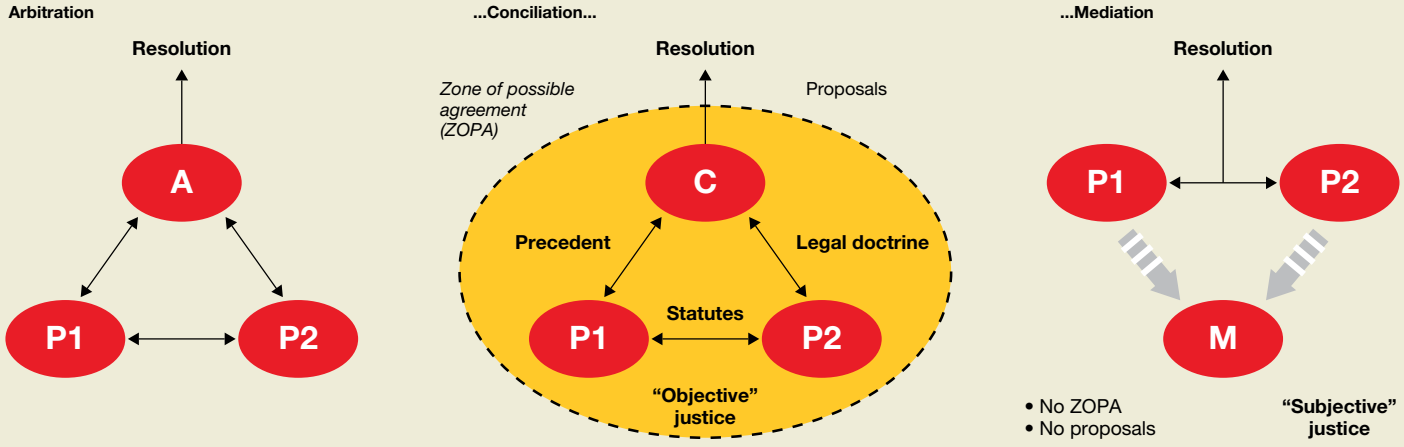


Source: J Kalowski, JOK Consulting

Disputing parties involved in mediation for the first time may expect the neutral to present them with possible outcomes based on legal principles and precedent, just as would happen in litigation or arbitration. But mediation differs from these more evaluative dispute resolution methods in that the outcome is not reached primarily through the application of legal principles by the mediator. Rather, an outcome can be reached by the disputant parties that is based mainly, or wholly, on their respective business objectives.

Conciliation, for example, is a process very similar to (and often confused with) mediation. Both processes involve the two parties working with a neutral. "In conciliation, the neutral acts as an expert who will know the precedents, the applicable laws and what is happening in the industry," explains IP lawyer and alternative dispute resolution neutral Jeremy Lack. "With these elements, the conciliator will help the parties to understand a zone of possible agreement that is based on legal or industrial norms – for example, based on the decision a court might make in litigation," he says. "And if the parties are still stuck, the conciliator can make proposals, such as a range in which to settle. But in mediation, the process is not based on legal norms, there is no zone of possible agreement and the mediator does not make proposals that are substantive. Mediation is a subjective, interests-based process – so it matters less what the law says. What matters more are your business interests."

Figure 4. **A comparison of arbitration, conciliation and mediation**



Source: J Kalowski, JOK Consulting

Samaras. "A defendant may want to make public the fact that it has invalidated a competitor's patent, for example. Or the plaintiff may feel that it has to litigate in order to make a statement about its business and its belief in its own IP. But even the biggest company with the deepest pockets simply cannot afford to litigate everything."

This is a sentiment that may be familiar to many rights owners. When Steve Jobs declared that he would spend every cent that Apple had in the bank to go "thermonuclear" on Google's Android, he may well have been thinking along the same lines. "No one is happy if their IP is infringed, but disputes and decisions about them are ultimately driven by human beings," says Samaras. "And human beings have strong feelings about what has happened, so it can take time to decide: 'OK, it's best to settle.'"

Raw emotion

This emotional aspect means that attempts to resolve a dispute through bilateral negotiations run a high risk of breaking down. Mediation can maximise the chances of success by introducing a neutral third party to the mix – the mediator. "A face-to-face meeting between representatives from the two companies in dispute may be one entirely appropriate way of resolving," says Leathes. "But when parties get involved in any negotiation, the situation invariably becomes positional, particularly when they have already started litigation or opposition proceedings. Once they are

Jeremy Lack, IP lawyer and alternative dispute resolution neutral
"A great many IP professionals – both in-house and in private practice – don't really know about mediation yet or are not comfortable with it"

locked into their positions, it is very difficult for the parties to extract themselves — and bipartite negotiations often fail because of that." In IP disputes especially, the stakes are typically very high. "Usually, it boils down to somebody wanting to do something with an IP right that another party doesn't want them to do," Leathes continues. "So in a negotiation, you've got this situation where there is an emotional disconnect between the parties around the table, because they are in a highly competitive environment. That makes it very hard for anything other than a conventional negotiating 'dance' to take place around the parties' respective positions."

With an impartial mediator in the frame, by contrast, the parties can discuss how they want the process to work, such as how much time to spend in joint meetings and how much to spend privately in caucus. "The advantage of having a neutral person involved is that they can meet privately with each of the parties to reality-test their positions and, perhaps for the first time, also their interests," says Leathes. "Once the mediator has a handle on what each side needs — as opposed to what they say they want — the mediator can present the parties with options for mutual gain and ask them if they have thought about solution options that neither party feels comfortable about tabling itself. The neutral person is in a stronger position to get the parties to move away from their positions and address their interests."

The mediator can take information from either side and, without disclosing anything confidential, use this to pursue certain avenues for settlement that may not previously have been explored. Samaras explains: "A mediator can help the parties consider: if you were in the other side's shoes, would you accept the offer that you're making them? Oftentimes, when people are face to face and there is emotion involved, it closes down their creative juices. Using a mediator who is not emotionally involved in the dispute can focus the parties on the future, rather than past action, and on generating creative solutions. Creative thought processes may not prevail when adversaries are negotiating on their own."

Mediation can thus overcome the tensions of conventional negotiation and reframe the discussions into an interests-based dialogue. "A mediator can help the parties do something that can be difficult for them to do themselves: to broaden the scope of the negotiation into areas that are outside the narrow confines of the dispute," says Leathes. For example, after Company A has filed suit for trademark infringement against Company B, a mediator might discover that Company B believes that Company A may itself be infringing one of its own trademarks. "This may not have come up in the litigation filed by Company A, or it may be a separate item of litigation," he continues. "The mediator can explore whether bringing that additional issue into the negotiations might form the basis of a possible solution, such as a cross-licence or other kind of reciprocal arrangement."

Leathes also suggests that the presence of an impartial third party can have a transformative effect on the behaviour of the disputants. "In negotiation, a lot of people are inclined to use language which implies allegation or levelling of blame, rather than thinking a little more carefully about how to convey their point without sticking it to the other side," he says. "When there is a neutral in the room, you are much more likely to frame what you say more appropriately and less aggressively. People tend to respond to you the way they perceive you behaving towards them, and just changing how things are expressed can have a dramatic impact on outcome generation."

Choosing the right mediator

The mediator's role is thus crucial to the process — and parties that have agreed in principle to mediate their dispute will want to ensure that their chosen neutral has the necessary skill and experience to help secure the best possible outcome. The mediator must be able to establish a rapport with the disputing parties and their counsel, and gain their trust and respect. In addition to specialist training in mediation and experience in handling IP disputes, flexibility is one of the key attributes that Bowbeer looks for in a neutral. "I want a mediator who doesn't approach every mediation in the same way," she explains. "They need a variety of approaches, tools and skills that they can pull out as appropriate. If we've got a case where there is potentially a lot of anger between the parties — such as a business relationship that went south — then we'll select a mediator who has experience in dealing with those emotion-laden disputes and has ideas about how to diffuse those situations."

Other circumstances may call for a mediator with a particular professional background — such as a retired judge or a recognised expert in the patent field — to give them greater credibility when talking to the parties about the strengths or weaknesses of their case. "If it is really more about getting through the emotion or sorting out potential business options, then we'll be less interested in a mediator that can evaluate the case and more interested in one

that has some business savvy and can help the parties along to some creative problem solving," Bowbeer adds.

Lack agrees that IP matters require a neutral with extensive knowledge and experience of mediation, who can work with the parties to build a dispute resolution process that is tailored to their needs. "As a neutral, you've got to think really hard about process design," he says. "You've got to understand what the parties want, why they want it, what their time and budget constraints are, what discussions they have had with each other in the past, and whether they want to resolve their dispute on business terms, legal terms or a combination of the two. An interests-oriented process leads to different outcomes from a rights-based process."

In order to ensure that the mediation best reflects the parties' wishes, there may be reasons to involve more than one neutral in the process. "For example, you could have one conciliator and one mediator working together as a team," Lack continues. "The first can provide evaluative, norms-based feedback, and the other can give procedural advice, keeping the parties' discussions focused on their business interests."

They may also suggest separating out some of the matters in dispute and resolving them through an alternative process, as Lack goes on to explain: "The neutral needs to first ask the parties: 'Do you want to do everything in mediation? Do you want to carve out some issues and have early neutral evaluation on those? Do you want to have mediation and arbitration combined — to get an internationally enforceable award, for example?' I think that's where the future is headed, with more combining of different processes and different neutrals to try to get the optimal outcome with the least amount of money spent."

Permutations and combinations

The statistics confirm that such hybrid dispute resolution processes are proving increasingly popular among IP owners. WIPO's survey on dispute resolution in technology transactions found that while 12% of respondents included mediation clauses in their technology-related contracts (as compared to litigation, 32%; and arbitration, 26%), another 17% opted for clauses calling for mediation combined with another dispute resolution method. This is useful should the parties in mediation find themselves deadlocked on one particular sticking point. "In that situation, the parties could then ask for a non-binding opinion from a suitable expert and see if that will help unblock it," says Leathes. "They could go to an arbitrator on that one point, and the arbitrator's decision could be binding or non-binding — it could even just be a hint."

Sometimes, multi-skilled neutrals are called on to expand their role from that of a facilitative mediator and use their arbitration or conciliation expertise to provide an evaluation, should the parties wish. "For example, I mediated a dispute where the parties said, 'We've gotten together and negotiated a number of times and we've narrowed the obstruction down to this one issue that really seems to be the problem," says Samaras. "They asked me to give them an evaluation in the context of the mediation. This was orchestrated carefully so that the corporate representatives at the mediation knew what to expect. Also, counsel and I agreed on what information I would study to make the most thoughtful evaluation possible. Because the parties were destined for arbitration if the mediation did not settle the dispute, I delivered the evaluation with my arbitrator's hat on. I was able to give them an evaluation that they could think about as the mediation continued."

International dispute resolution

Mediation and IP value

The aim of mediation is to allow disputing parties to reach a settlement through neutral-facilitated negotiation that both sides can agree to. One of the criticisms of mediation is that, unlike litigation and binding arbitration, its outcomes are not necessarily enforceable. So is the value of IP assets adversely affected as a result?

Michael Leathes, a director at the International Mediation Institute, thinks that such concerns are misplaced. "I would argue that mediation can actually preserve the value of IP assets – because as soon as you start litigating, you start to run the risk of losing – either totally or partially," he says. "That risk is inherent in filing a writ, and however strong you think your position might be, there is no such thing as a watertight case. As a result of that misconception, so many patents and trademarks have been lost, weakened or diluted by over-exuberant litigation. Surely it is far better to negotiate an end to an infringement on your IP without running the risk of losing that right in the courtroom?"

Even if a dispute is successfully resolved through litigation, a mediated outcome still has the potential to create added value for the IP owner. "The court only has so many remedies that it can choose from," says Hildy Bowbeer, assistant chief IP counsel at 3M. "In mediation, the world is open to the parties to fashion a resolution that, as long as it is consistent with the law and principles of fair competition, can benefit both businesses more than the outcome of litigation. You also have to factor in the money you have saved by mediating instead of litigating. That's money that can be invested in more innovation, in more marketing and in other things which actually advance the business."

Those on the receiving end of an infringement suit can also maximise corporate value by opting to mediate. "I remember a situation where a company was making a medical device, but wasn't really making much money from it and was planning on ceasing production" says arbitrator and mediator Harrie Samaras. "The company had a patent covering the device, but then an infringement complaint was made against it by a competitor that manufactured a similar device and was marketing it successfully. However, both parties mediated an agreement whereby the defendant company could continue production for a set period of time under licence, after which it would assign its patent to the plaintiff." In the end, the defendant managed to leverage its intellectual property to its advantage while the plaintiff also got the outcome it had hoped for.

IP lawyer and alternative dispute resolution neutral Jeremy Lack suggests that mediation can be a key strategic element in enhancing the value of an IP portfolio, since it affords greater control over a dispute to the parties involved and is therefore more interests-based. "Overall, I think we need to think about the real objectives of IP owners," he says. "I don't think IP owners exist to win IP cases. They exist to make profitable returns on their investments, and IP litigation is currently a huge transactional cost, that is not cost effective and does not lead to optimal economically efficient outcomes."

Action plan

Mediation can provide rights owners with far greater control over the outcome of their disputes than litigation and can lead to business-oriented solutions that benefit all parties. IP owners should:

- Build clauses into IP-related contracts such as licences, co-development agreements and end-of litigation settlements to provide for mediation as the dispute resolution method of choice should a dispute arise between the contracting parties.
- Make a public pledge that the company intends to mediate all of its IP disputes where appropriate.
- If necessary, file for litigation at the same time as initiating mediation with a disputant to avoid the risk of it filing for declaratory judgment, starting invalidation proceedings or similar.
- Select the right mediator for the situation. For a more evaluative, norms-based process, a neutral with legal professional experience may be chosen. If the dispute has an emotional aspect – for example, a business relationship gone sour – then a neutral with extensive conflict resolution expertise may be needed. Technical expertise may also be a consideration for complex patent cases.
- Consider the possibilities offered by combining mediation with other dispute resolution techniques in order to increase the chances of settlement.

organisations have estimated that between 70% and 85% of mediations result in settlement. But despite these impressive success rates, mediation can sometimes fail to produce a satisfactory outcome for disputants. "Sometimes, it is because the time just isn't right," explains Leathes. "For example, the whole facts might not be known at a particular point in time, or one or both of the parties may be unwilling to accept certain things in the absence of evidence or a factual base." Nevertheless, by combining mediation with other dispute resolution methods where appropriate and getting expert neutrals on board, IP owners can significantly improve the chances that a dispute ends positively. Leathes quotes the satirist Malcolm Muggeridge: "'No dispute is ever about what it's about.' There is always scope for negotiation and mediators enable negotiators to do their jobs better."

"We're in a transitional stage at the moment, where many corporate users are only just discovering ADR for the first time," sums up Lack. "Right now, ADR stands for 'alternative dispute resolution' – where litigation is seen as the norm. But I think that most in-house IP professionals who have done this for a while now think of litigation as being the alternative, and that ADR – or using mediation hybrids – is much more mainstream. When you start using hybrids, you start to get close to 100% settlement rates and satisfaction ratings, because you can structure the process to make sure you have an outcome." *iam*

Jack Ellis is a reporter for *IAM* magazine