WIPO | ADR
Arbitration and Mediation Center

WIPO Arbitration and Mediation Center: Mediation of IP Disputes -- The WIPO Experience

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IP Mediation through the WIPO Center

Presentation topics:

- WIPO IP mediation in general
- General IP mediation process
  - Pete Michaelson's WIPO mediation process
- An example of an international patent mediation Pete conducted through the Center

Advantages of Mediating IP Disputes

- **Fast and efficient:** Entire process takes place over a few weeks or a couple of months; session itself is often just a day or two
- **Basically unlimited solution space:** Mediation is about "**finding a deal**" that satisfies parties' interests and does not involve deciding between legal positions; everything can be "on the table", not limited at all to legal remedies
- **Forward-looking process:** preserves and enhances business relationships and promotes future business dealings
- **Very flexible:** parties and mediator design process tailored to the dispute
- **Totally confidential:** two-levels of confidentiality (basic level at joint session, higher level at caucuses)
- **Cost-effective:** far less expensive than litigation or arbitration; perhaps 3-5% of cost of litigation, often less than 1% (including fees of mediator and WIPO Center), high probability of success in patent disputes: 50% (court annexed) to 60-80% (non-court annexed, including ad hoc) settlement rate
- **Parties choose their mediator:** in patent matters, subject matter/industry expertise may be very useful as mediator is familiar with industry practices and "lingua franca" of underlying transaction and technology
- **Discovery, if any, is very limited and focused:** generally just a targeted document exchange
- **Non-binding if settlement not reached:** status quo preserved, parties leave mediation with useful additional knowledge they would not have received any other way; settlement often occurs later

Relative Costs of Dispute Resolution Options

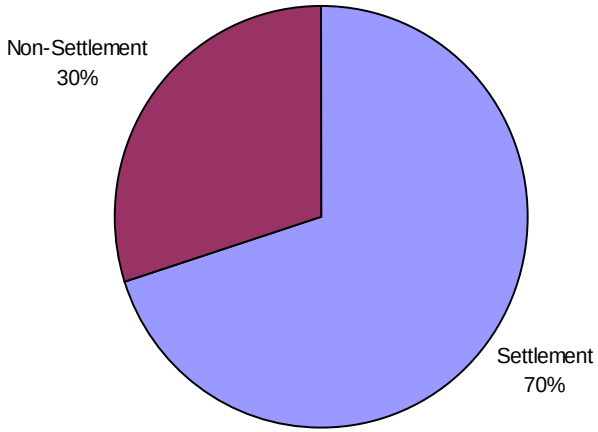
- Court litigation of IP disputes in foreign jurisdictions
  - Average pendency of 3.5 years
  - Cost slightly over US $ 850,000 (in US, costs are substantially higher; particularly for patent disputes, typically $ 2-3+ Million/patent/side)
- Arbitration
  - Average pendency of slightly over 1 year
  - Average cost $ 400,000 (for WIPO cases, $ 165,000)
- Expedited Arbitration
  - Average pendency of 9 months (for WIPO cases, 7 months)
  - Average cost under $ 50,000
- Mediation
  - Average pendency of 8 months (for WIPO cases 5 months)
  - 91% of Respondents stated costs typically under $ 100,000 (for WIPO cases, $ 21,000)

WIPO Center Report on International Survey of Dispute Resolution in Technology Transactions (2013)

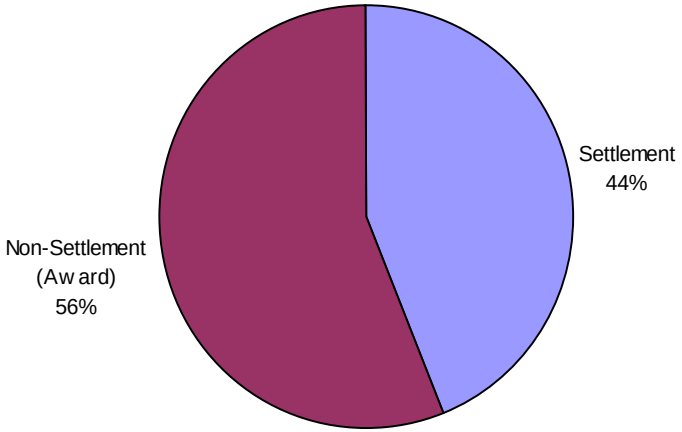
www.wipo.int/amc/en/center/survey/results.html

Settlement in WIPO Administered Cases

Mediation



Arbitration



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Routes to WIPO IP Mediation

- ADR Clauses
  - WIPO Center provides its own; parties can draft their own, though, if they do, pathologic clauses can result that can be quite problematic in practice
  - Usually pre-dispute in nature and included in underlying agreement between parties
  - Through ADR clause, parties may customize the chosen process to their needs
  - WIPO Rules updated in 2014

- Voluntary Decision of the parties
  - After dispute arises (no ADR clause in underlying contract)
  - Disputants can execute post-dispute ADR agreement
  - Clauses govern with parties often tailoring the process to their own needs

- Court annexed
  - Court ordered; though parties can request Court referral to WIPO Center
  - Can use mediator on WIPO list, WIPO can screen and select neutral per parties' requirements

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Core of any IP Mediation Process

Two essential steps:

1. First, a mediation over process
   (i.e. what will the process be?
   --party autonomy: they choose it;
   they have ownership of it)
2. Then, a substantive mediation using the agreed process (same is true for arbitration and hybrid approaches)
   --with iteration back to step 1 and
   then continuing forward with step 2, and
   so forth as appropriate, until conclusion

IP Mediation – Essential aspects to enhance likelihood of success

- Proper timing:
  Mediation must not be too early.
- Proper knowledge:
  Parties need to know enough information to adequately assess their risk calculus (and that of their adversary) to:
  - ❖ make an informed business decision, with reasonable confidence, regarding parameters of any settlement (BATNA, WATNA, options, etc), and
  - ❖ conduct meaningful settlement negotiations to a satisfactory conclusion.
- All stake-holders must participate, with every party having settlement authority either present or readily accessible.

General IP Mediation Process

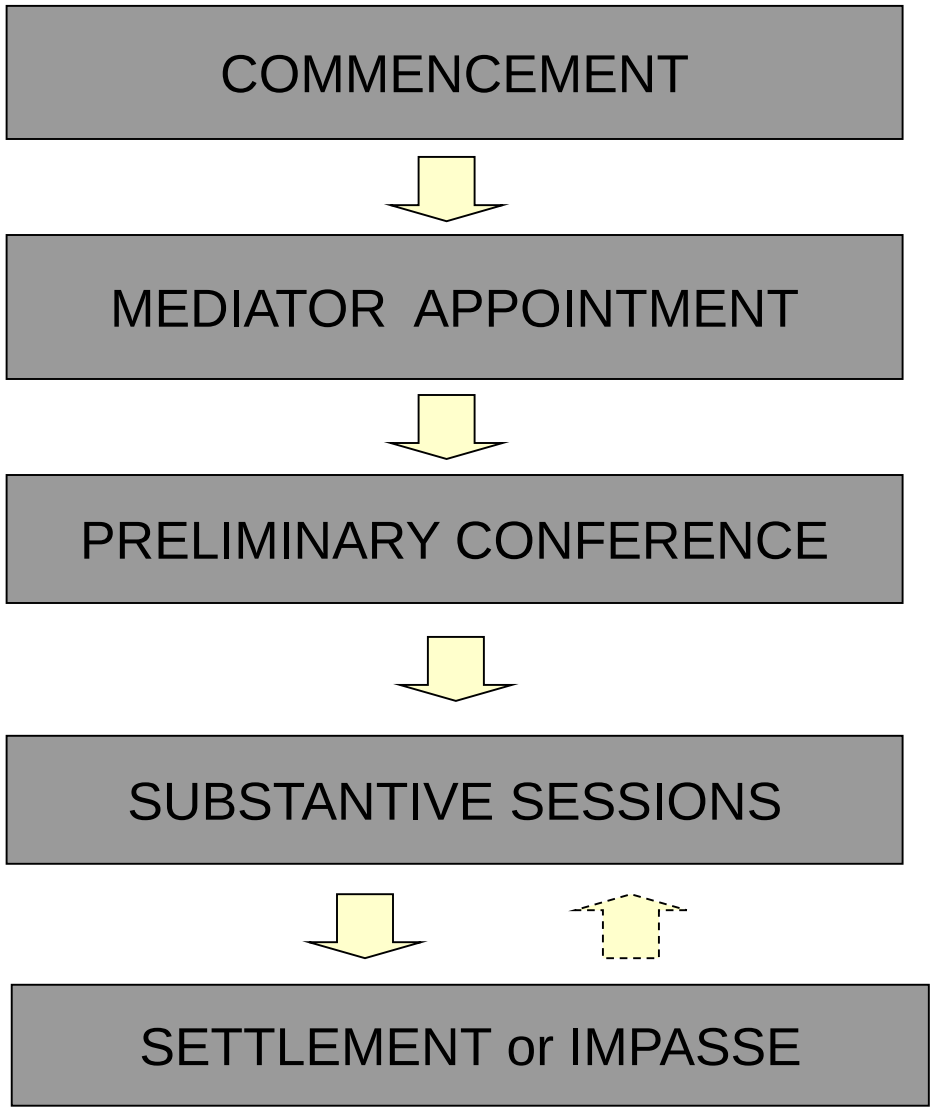
Mediation request filed with WIPO Center, Center contacts prospective mediator directly

Mediator selected by parties, Formal appointment of mediator by WIPO Center

Process mediation (procedural) -- usually ≥1 teleconf; in complex and/or multi-party case, may have actual conf(s) with reps of all stakeholders present

Substantive mediation -- Usually initial joint session, then separate caucuses, further joint sessions as needed, and so forth; possibly pre-session caucuses

Often post-session pre-settlement activity (telephone calls, etc); if impasse, parties may adjourn session and re-engage later



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Pete Michaelson's WIPO IP Mediation Process

Pre-session activities:

- Preliminary teleconference with all counsel (discuss logistics, discuss and agree on process going forward – "process" mediation)
- I will discuss amount of deposits and necessary logistics with WIPO case manager
  - Be sure all deposits are received before I expend any appreciable time
- Separate confidential pre-session teleconference (or in-person meeting) with each party and its Counsel
- Targeted exchange of docs and very narrowly focused discovery (to extent necessary)
  - Basic purpose of mediation is not to find truth, but to make a business deal that meets the parties' needs. Relatively little documentary discovery, if any, is required for mediation. Depositions are rarely necessary, if at all. No need for any litigation-style discovery at all.
- Mediation statements submitted to me
  - Highly confidential, not exchanged to encourage openness and candor of parties; "loose" page limit so as not to either overwhelm me or overly constrain parties
- Conduct further separate telephone caucuses (meetings) with each party and its counsel, to the extent needed and useful; Joint teleconference(s) and/or joint meeting(s), if beneficial, etc.

Pete Michaelson's IP Mediation Process (cont.)

Substantive mediation session(s):

- Two days minimally are reserved (difficult to reconvene everyone later, so schedule sufficient time early on; if the mediation session ends early, fine)
- Opening joint session: presentations by business people first (may be first time business adversaries have met and/or discussed the dispute), Q&A of business people, lawyer presentations, Q&A of lawyers (with "no interruption" rule)
- Then, continue in joint session or break into caucuses, and/or subsequently more caucuses and/or joint session(s) as needed – with their selection and timing depending on inter-party dynamics and negotiation context

Conclusion:

- If settlement reached, have counsel prepare and sign written term sheet before session concludes, and parties and counsel leave (counsel can draw up a formal settlement agreement later)
- If settlement not reached, schedule further sessions (telephonic and/or in-person) at a later date, etc. – be relentless until "unbreakable" impasse or settlement reached
- Report back to WIPO Center that mediation session was held and whether or not case was resolved, and other status info

Request WIPO's assistance throughout process, as needed and when needed; keep it fully informed of status and changes to process

A War Story – P v D – an actual WIPO IP mediation

P and D directly compete in the design and manufacture of a specific "application type" of auto parts and supply large auto manufacturers in the US, including Chrysler, Ford and GM, and others overseas. P is American co. D is European co.

Each had numerous patents, in the US and overseas, covering their technology. P is particularly active in obtaining US patents (had 97 US patents and pending apps). D is somewhat less so.

P and D had a prior patent dispute where each asserted patents against the other. During 11/07, they entered into a settlement agr't which established a graduated royalty scheme which (Provision 1.3) "shall motivate the Parties to use best efforts to avoid infringements of the other Party's intellectual property." Parties jointly recognized their need to not: endanger supply of their parts to their end-customers (auto manufacturers) as doing so could be very disruptive to those users, so there is never to be an injunction. Parties did not want to engage in litigation in a US court.

Agreed royalty arrangement:

- products of each side commercialized prior 5/07 – grandfathered, fully licensed worldwide under patents of other side, exempt from royalties;
- parts commercialized after 5/07 subjected to 3-tier royalty:
  a) willful infringement, 6% of net sales of corresponding part(s);
  b) non-willful infringement, 2% of net sales of that part(s);
  c) if willful infringement is alleged, party has 24 months to redesign infringing part so it no longer infringes; but if infringement then continues, royalty increases from 2 to 4% of net sales of that part(s).

P v D (cont.)

Dispute Resolution Clause – 3-level stepped: negotiation, WIPO mediation, WIPO arbitration

Negotiation:

6.1. In case of an alleged Infringement, the Party whose IP is allegedly infringed shall without unreasonable delay from the discovery of the Infringement give notice to the other Party indicating the nature of Infringement (i.e. Infringing part, IP being Infringed). In case of any other breach of the Agreement, the Party shall indicate to the other Party the nature of the breach.
6.2. The Parties' corporate business representatives shall first attempt to resolve the issue within 2 months of the date a notice pursuant to clause 6.1 was given. If within this delay the issue cannot be settled, it will be immediately presented to the CEO's of both Parties' mother companies for resolution.
6.3. If the CEO's of both Parties fail to find a solution within 4 months of the date a notice pursuant to clause 6.1, clause 11 shall apply.

Mediation:

11.1. Any dispute, controversy or claim arising under, out of or relating to this Agreement and any subsequent amendments of this Agreement, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be submitted to mediation in accordance with the WIPO Mediation Rules. The place of mediation shall be Geneva, Switzerland. The language to be used in the mediation shall be English. The mediation shall take place within 30 days from the expiration of the period of clause 6.3.

P v D (cont)

Arbitration:

11.2. If, and to the extent that, any such dispute, controversy or claim has not been settled pursuant to the mediation within 60 days of the commencement of the mediation, it shall, upon the filing of a Request for Arbitration by either Party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. Alternatively, if, before the expiration of the said period of 60 days, either Party fails to participate or to continue to participate in the mediation, the dispute, controversy or claim shall, upon the filing of a Request for Arbitration by the other Party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. However, any Arbitration hereunder shall be conducted expeditiously, so that the proceeding is concluded and the decision of the tribunal rendered within 6 months from the date of submission of the dispute to Arbitration.

11.3. Unless the Parties agree otherwise, as a result of the mediation, the Arbitration Tribunal shall consist of three arbitrators (each of which shall be experienced and licensed patent practitioners in the jurisdiction of the disputed patent), which shall be appointed in accordance with the WIPO Arbitration Rules, within a period no later than one month from date of submission of the dispute to Arbitration.

11.4. The place of Arbitration shall be Geneva, Switzerland. The language to be used in the arbitral proceedings shall be English. The Arbitration Tribunal shall be authorized to decide issues of validity and/or enforceability of a particular patent, but only upon assertion of infringement of such patent. This Agreement confers no right or obligation to arbitrate the validity and/or enforceability of any patent that has not been asserted as being Infringed.

P v D (cont.)

Other provisions in 11/07 agreement:

Notice of infringement:

In case of an alleged Infringement, the Party whose IP is allegedly Infringed shall without unreasonable delay from the discovery of the Infringement give notice to the other Party indicating the nature of Infringement (i.e. Infringing part, IP being Infringed).

Willful infringement defined:

The **Infringement** shall be deemed a **Willful Infringement** if (i) the Infringing Party had knowledge (or should have known because of information being publicly available) of the IP's existence at the time when the Infringement commenced, and (ii) the Infringing Party proceeded to commercialize unless it was reasonably and objectively assumed based upon accurate technical assumptions, that the IP was not Infringed, was invalid or both.

P v D (cont.)

What happened this time?

D manufactures and sells two particular parts (of the "application type") to a big-three US auto co and a major Japanese auto co. P claimed that D willfully infringed 7 of P's patents. Under terms of existing settlement agreement, P claimed additional royalty payments were due. D disputed infringement, let alone willful. Direct, but amicable, negotiations between the parties occurred over 6 months, but ultimately failed. Parties reached impasse.

P filed Request for Mediation with WIPO Arb/Med Center on 5/09

Requested mediator qualifications: "licensed patent practitioner having understanding of United States Patent Laws, being fluent in English, and having experience in mediating patent infringement disputes"
(Pete Michaelson selected by parties and appointed by Center)

P represented by its Int'l Controller (French) and its outside US patent counsel. D represented by its Group GC (Swiss), Head of its relevant business subsidiary, and its outside US patent counsel.

P v D (cont.)

Mediation -- Preliminary Tasks:

- I held a preliminary telephone conference with both parties' counsel to discuss:
  - preliminary matters such as the issues in dispute, the participants and possible dates for the mediation session,
  - the decision-making authority of such participants, my role, as mediator, in the process, and
  - documents to be exchanged before the session.

- Shortly thereafter, I held several teleconference caucus sessions with each party, including exchanges, both directly and through me, of various settlement proposals.

P v D (cont.)

Mediation -- At the Session:

- Each party, in addition to having its counsel present, had a business representative with full binding authority to settle present.

- In joint session:
  - I restated the purpose and steps of the mediation procedure, including the confidential nature of the process, my role, procedural issues such as the use of caucus sessions.

  - Then with the parties, I identified their existing and potential business interests on the basis of earlier exchanges of statements and communications (based on information that I could share). I invited the parties to add to this list. Through subsequent caucus sessions, the parties held very constructive discussions, despite different negotiation styles, and constructed various settlement proposals reflecting future royalty payments and other terms.

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P v D (cont.)

Mediation -- At the Session:

- Though the parties also communicated with their respective headquarters staff, analyzed settlement proposals and put forth further proposals consistent with their business interests, the parties could NOT agree on the specific amount of royalties due going forward. But the parties were moving closer to resolution. Shortly before the end of Day 1, one (first) party proposed a royalty framework which the other party accepted. Resolution looked rather promising. The session then adjourned for the day.

- At the start of day 2, the other party, manifesting “buyers’ remorse”, amended the framework. The first party rejected the amendment. The other party announced its intention to terminate the mediation.

- With an impasse looming, I summarized the results achieved thus far and reminded the parties on how close they had come to resolution. I reminded them of the potentially time-consuming and costly alternatives which could be avoided by finding a solution to their dispute within the remaining hours of the mediation.

- I suggested that the business representatives have a joint caucus session without their counsel present. The parties accepted this proposal. Those representatives finally agreed on royalty rates and general terms for future collaboration.

P v D (cont.)

Mediation -- At the Session:

- I had counsel draft a written term sheet reflecting the agreement reached. Several drafts of the term sheet were produced and exchanged to clarify the terms. The term sheet summarized all salient aspects of the settlement and provided the basis for a final agreement, which the parties agreed to prepare and sign within one month.

- All parties signed the term sheet. A signed original was given to each party.

- Result:
  - The parties negotiated the terms of a future licensing agreement (framework) in a cost-efficient and timely manner.
  - The framework was much more aligned with their business interests than was the 2007 settlement agreement.
  - The parties enjoyed control of the mediation process allowing them to determine, with my assistance, those business aspects relevant to resolving their conflict.
  - The settlement allowed the parties to focus their resources on conducting their commercial activities without distractions caused by future disputes that would otherwise have arisen under the 2007 agreement.

Take-away Thought about IP ADR:

"You can't always get what you want ...

But if you try sometimes well you just might find

You get what you need."

"You Can't Always Get What You Want"

Rolling Stones

http://www.youtube.com/watch?v=mKFsXJbFB_o

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Thank you!