Alternative Dispute Resolution and IP Arbitration

Expertise

Hat Ihr Unternehmen einen Vertrag mit einer Schiedsklausel unterzeichnet und droht ein Rechtsstreit in dieser Vertragssache – womöglich in englischer Verfahrenssprache? Rentsch Partner verfügt über Erfahrung auf dem Gebiet von Schiedsverfahren in Zusammenhang mit geistigen Eigentumsrechten.

Viele private oder andere Institutionen, wie z.B. die Swiss Chambers Arbitration Institution, die Weltorganisation für Geistiges Eigentum (WIPO) oder die International Chamber of Commerce (ICC) u.v.a.m. bieten institutionalisierte Schiedsverfahren an.

Haben sich die Parteien für den Fall eines Rechtsstreits auf ein Schiedsverfahren geeinigt, dann schliesst dies die ordentliche staatliche Gerichtsbarkeit regelmässig aus.

Schiedsverfahren haben, im Vergleich zu staatlichen Gerichtsverfahren Vor- und Nachteile: Schiedsverfahren sind zeitlich meist schneller als staatliche Gerichtsverfahren und können oft auch nicht über mehrere Instanzen weitergezogen und damit verzögert werden[1]. Der Schiedsort, die Schiedssprache können von den Parteien im Voraus festgelegt werden. Das Verfahren ist flexibler als stattliche Gerichtsverfahren. Bei der Wahl des oder der Schiedsrichter können spezifische Erfahrungen berücksichtigt werden. Schiedsurteile sind v.a. im aussereuropäischen Ausland auch oft besser vollstreckbar als nationale Gerichtsurteile. – Allerdings sind Schiedsverfahren meist teurer als staatliche Gerichtsverfahren (ausser in den USA und England, wo die staatlichen Gerichtsverfahren ausserordentlich teuer sind und Schiedsverfahren womöglich sogar eine günstigere Alternative darstellen).

Alternative dispute resolution (ADR) is a term used to cover a range of non-litigation solutions to disputes between parties.

A wide range of ADR options are available to parties and the suitability of each will depend on the circumstances of the particular dispute. The most common forms of ADR encountered in patent disputes are **mediation** and **arbitration.**

Mediation

Mediation is a non-binding, voluntary negotiation between disputing parties facilitated by a neutral third party mediator.

Arbitration

Arbitration is a process where parties refer a dispute to one or more arbitrators– instead of a national court–

Introduction

The importance of ADR has increased significantly in recent years also following a series of reviews and reforms suggested by the European Council and

[1] Einzelne Schiedsinstitutionen, wie z.B. jene der WIPO verfügen sogar über Regeln für ein beschleunigtes (ordentliches) Prozessverfahren. Rentsch Partner verfügt auch über praktische Erfahrung z.B. bezüglich der WIPO Expedited Arbitration Rules.

Commission aimed at facilitating access to justice across the member states. One of the results of these reviews was Directive 2008/52/EC on certain aspects of mediation in civil and commercial matters (the *"EU mediation directive"*), aimed at harmonising the rules applicable to cross-border mediations in the EU.

and agree to be bound by the arbitration decision.

ADR Options

Aside from a conventional negotiation between parties, which typically involves no intervention from a third party, all of the remaining ADR options involve varying degrees of intervention form a third party and can be divided into those which are non-binding and those which are binding on the parties.

Non-binding ADR options

The most common non-binding option is **mediation**, a voluntary negotiation between disputing parties facilitated by a neutral third party mediator.

Executive tribunal

A representative from each side makes a formal presentation to a panel consisting of senior executives from the disputing parties. The panel is chaired by an independent third party who subsequently acts as a mediator between the senior executives.

Conciliation

Similar to mediation but the third party actively assists the parties in resolving the dispute, by suggesting settlement options, for example.

Binding ADR options

The most common binding form of ADR is **arbitration** a process where parties refer a dispute to one or more arbitrators, instead of a national court, and agree to be bound by the arbitration decision ("award"). The arbitrators may be chosen by the parties or nominated by an arbitration institution; they are usually legally trained and highly experienced in the handling of arbitration proceedings and the special field of the dispute, such as patent infringement disputes etc. The decision of the arbitrator(s) is legally binding on both sides and enforceable almost worldwide, based on an international convention, if necessary, with the support of national enforcement authorities (usually courts).

Mediation

Mediation/arbitration

Overview

Directive 2008/52/EC

The EU Mediation Directive came into force on 13th June 2008.

Mediation is a form of negotiation between disputing parties facilitated by a neutral third party (the mediator). Its aim is to provide a flexible, voluntary and confidential settlement by placing the fate of the dispute into the hands of the parties, rather than a court or other tribunal,

allowing them to reach a mutually satisfactory conclusion. Unlike a judge or arbitrator, a mediator does not have the power to decide a case but works with the parties to agree terms for settlement. Accordingly, the mediation itself is non-binding but a successful mediation will typically lead to a binding legal agreement.

The EU mediation directive

Directive 2008/52/EC was enacted with the aim of harmonising the law governing mediation across the EU, specifically to *"facilitate access to ADR and to promote the amicable settlement of disputes by encouraging the use of mediation and by ensuring a balanced relationship between mediation and judicial proceedings"*.

Implementation

The mediation directive has been implemented in nearly all member states with only very slight variances. An overview can be found at the website referenced in the further reading section at the end of this module.

In addition to general provisions promoting mediation within the member states, the directive also provides for the enforcement of agreements resulting from mediation (Article 6), the obligation of confidentiality during mediation proceedings, particularly with regard to the mediator (Article 7) and the relaxation of limitation and prescription periods for disputes which are mediated before judicial proceedings are commenced (Article 8).

There are a number of steps involved in a typical mediation.

- In order to arrive at mediation, the parties will usually enter into a **mediation agreement** (if there is no existing mediation clause in a contract which provides for mediation in the event of a dispute).
- A mediator must be selected and the mediation agreement will typically contain provisions for that selection or for the nomination of a **mediation service provider** (see below) that will govern the subsequent procedure and selection of a mediator.
- Pre-mediation planning is usually required to clear any issues with the mediator and between the parties before the mediation session itself.
- The mediation session will typically last a day or two with the opening statements followed by private discussions between the mediator and the parties and the necessary negotiations.
- The outcome of a successful mediation is usually a settlement agreement signed by the parties. This may be concluded at the end of the

mediation sessions or via subsequent correspondence after the session. If the mediation does not result in a settlement then the parties are free to walk away and to take recourse to alternative solutions for resolving their dispute. Even an unsuccessful mediation may help to narrow the issues between the parties and streamline later litigation.

Timing

The flexibility of mediation means that it can in theory take place at any point before issuing legal proceedings, up until a final decision on the dispute is issued by the courts or an arbitrator. However, in order to maximise the potential time and cost savings, it is preferable for parties to enter into mediation as soon as possible after the parties have exchanged sufficient information and documents to make the negotiations productive and ideally before other legal proceedings have commenced.

It is possible to delay mediation until after other proceedings have commenced and this may be necessary, for example, in a case where interim relief is sought. Another reason for delaying mediation is to allow the parties to understand the case against them, especially if mediation can be delayed until after disclosure during civil litigation, when it will be possible for the parties to see the strength of the evidence against them.

Member state courts generally do not have the power to impose mediation onto the parties.

Pros and cons of mediation

Some of the perceived advantages of mediation are:

Autonomy – the private nature of mediation affords the parties greater control over the process and the outcome. The parties are free to choose the mediator, the applicable rules (e.g. applicable law, location and language of the mediation proceedings) and the terms of any settlement. This flexibility can provide for a more efficient resolution of the dispute in which a wider range of settlement options are available than the remedies available through the courts. For instance, business relationships can be preserved or enhanced via mediation whereas these outcomes may not be possible following litigation.

Pros and cons

The advantages of mediation are best illustrated by contrasting it with other forms of dispute resolution, especially litigation. It is also worth noting that many of the advantages of a successful mediation become disadvantages in the event that the negotiations are unsuccessful.

Neutrality – the mediator is a neutral third party and the mediation itself can be tailored to be neutral to the law, language and cultures of the parties. This makes it possible to adapt the process to assist the parties in working through their dispute whilst avoiding barriers otherwise created by cultural or social differences. The mediator acts as an intermediary and is able to bridge different personalities and negotiating styles and break down communication barriers between the parties.

Confidentiality – one of the key benefits of mediation is the confidential nature of the process. The parties will typically consent explicitly via the mediation agreement to keep the proceedings confidential and this obligation will usually extend to the mediator (see "EU Mediation Directive" below). Even if no explicit provisions for confidentially are set out in the mediation agreement, it is possible that there will be an implied duty of confidentiality given the nature and purpose of mediation. The private nature of the mediation coupled with the obligation of confidentiality provides an environment where the parties can fully explore their case without fear of exposing any weaknesses or setting negative precedents for future litigation.

Voluntary – the process is entirely voluntary meaning that the parties can enter into it, and withdraw from it, at any time. The mediator has no power to continue with proceedings against the will of the parties. The **non-binding** nature of the negotiations along with the fact that they are private and confidential means that mediation is low risk, because the parties are unlikely to be in a worse legal position following an unsuccessful mediation.

Some of the perceived disadvantages of mediation are:

Increased cost and time – whilst mediation has the potential to make dispute resolution more efficient, it can also lead to increased overall costs if a settlement agreement cannot be reached and no narrowing of the issues is possible.

Exposure of strategy – there can be a fear that discussions during mediation will inadvertently reveal strategic points or avenues for further exploration to the other party if the dispute does not settle. However, in practice, the confidentiality obligation placed on the mediator means that any strategic discussions with the

mediator should remain private and not be disclosed to the other party.

Manipulation by uncooperative party – the non-binding voluntary nature of mediation means that it may be open to manipulation by an uncooperative or aggressive party. The extent to which this happens can be controlled by the mediator who can encourage cooperation and ultimately has the power to terminate the proceedings early if it is considered that a party is acting in bad faith.

Will mediation be appropriate for all cases?

No. Both parties must want to try to settle their dispute, and if one party does not or is adopting an overly aggressive position, mediation will likely fail. In some cases, mediation will be unsuitable. For example:-

- If the issues in dispute are so critical to the parties that no compromise is possible and they must be removed by litigation, then mediation is unlikely to be successful.
- Similarly, if the parties are seeking a legal precedent to clear the way for later similar commercial activities then mediation will not be an appropriate substitute for a court decision.
- If publicity is desired then the private nature of mediation makes it inherently unsuitable.
- If the case is clear-cut, with high chances of a summary judgement being awarded, then litigation would be preferable to mediation.

Suitability of mediation

In the UK, the courts have commented that certain types of dispute are unsuitable for mediation, including those where a point of law has to be resolved and cases where interim relief is necessary (*Halsey v Milton Keynes General NHS Trust [2004] EWCA Civ 576*).

The choice of mediator

The parties may agree who should mediate their dispute, or they may engage the services of a mediation service provider. There are various service providers who offer assistance with all aspects of the mediation process from providing a basic frame work of rules to be followed during the session to hosting the session and assisting with the drafting of the settlement agreement, if reached. For example, the **WIPO Arbitration and Mediation Center** is an already established provider. Also, under Article 35 of the Agreement on a Unified Patent Court, a patent mediation and arbitration centre has been established with seats in Ljubljana and Lisbon ("the Centre"). The Centre will provide facilities for mediation

WIPO Arbitration and Mediation Center

The WIPO Center was established in 1994 to offer ADR options for the resolution of international commercial disputes between private parties.

of patent disputes falling within the scope of the Unified Patent Court.

Arbitration

Introduction and Overview

Arbitration related to patent issues plays an important role in agreements such as patent licensing, technology transfer, joint venture agreements etc.

A*rbitration* proceedings are, in almost all cases, related to a contractual relationship in which the parties had previously agreed to arbitration.

Patent infringement issues may therefore arise either in the form of a breach of contractual duties or as a tort, not covered by the specific agreement that includes the arbitration clause.

National courts as well as arbitration courts may be involved in the same dispute, the first for preliminary injunctive relief, the latter – or some-times even both – in parallel ordinary infringement proceedings. This may cause challenging situations, both for courts, arbitral tribunals and parties alike.

Today, most arbitration is “institutionalised arbitration”, i.e. the parties agreed to arbitrate any dispute under specific rules provided by an administrative body or arbitration institution, such as the WIPO Arbitration Rules, the ICC Arbitration Rules or the Swiss Arbitration Rules.

The arbitration proceedings are then based on said rules.

Timing

It may be one of the major advantages of arbitration that the proceedings up to a final and enforceable arbitral award should not take as long as national court proceedings in at least some countries. Some arbitration rules even provide for a timeline, which is to be observed by the tribunal.

Moreover, appeal to higher court instances may be severely limited, which may be an advantage from a pure perspective of timing.

Pros and cons of arbitration

The timing advantage may become a disadvantage when it comes to appeal options. However, most arbitration institutions do have controls in place to ensure that arbitration proceedings are dealt with highly professionally.

Another disadvantage in arbitration is that it may be more burdensome to obtain provisional measures swiftly. In recent years, many institutionalized arbitration organizations have put in place what are called “emergency arbitration” rules, which may allow provisional measures to be obtained swiftly.

Arbitration proceedings are not public. Therefore, the proceedings can be held in confidence if explicitly agreed by the parties.

Is arbitration suitable for all disputes?

Most national jurisdictions consider patent infringement disputes to be arbitrable.

Do national courts have exclusive jurisdiction in patent validity matters?

Most jurisdictions consider the issue of patent validity to be a matter of exclusive national sovereignty. This is why most national laws or case law do not allow the enforcement of arbitral awards, which declare a patent to be invalid (exceptions are e.g. Belgium and Switzerland). Arbitral Tribunals may avoid this pitfall by obliging the patent owner to withdraw his patent from the respective patent registries and/or forbidding the inter partes enforcement of a patent (considered to be invalid by the arbitral tribunal) against the alleged infringer.

For more details see p.72-76 of Halket, cited below in the Summary and Further References

Jurisdiction of Arbitral Tribunals in infringement matters

Patent *infringement questions*, especially when related to a contract containing an arbitration clause, are generally suitable for arbitration.

Conflicting Jurisdictions?

There are disputes where both national courts and arbitral tribunals are called upon by either party to decide an issue. This is not a problem, as long as the issues at stake are clearly different, e.g. if a national court is called

to issue provisional measures only, and the arbitral tribunal is called to decide the case on the merits.

It becomes more challenging, if both courts are called by one of the two (or more) parties to decide on the same issues. The national court as well as the arbitral tribunal will then have to decide whether the case filed is within their jurisdiction.

Legal basis - Applicable Substantive and Procedural Laws

If no choice of law is made, challenging questions of international private law (law on code of conflicts) may have to be resolved in the arbitration dispute.

Contractual rights and obligations are generally at the parties' discretion to decide which substantive law applies. It may be important in patent disputes, however, to keep in mind that some national laws may have special rules when it comes to formal legal requirements relating to the patent registry etc., which are not at the disposition of the parties.

If the parties agreed on some institutionalised arbitration, the procedural laws are generally clear and can further be clarified by the arbitral tribunal in the course of setting out the process. Often, the parties can be brought to agree on the IBA Rules on the Taking of Evidence in International Arbitration or further clarification is obtained by making reference to the UNCITRAL Model Law on International Commercial Arbitration.

Cost Implications

Generally speaking, arbitration proceedings are more costly than national court proceedings in civil law countries. On the other hand, arbitration may involve less cost intensive discovery proceedings than any US proceeding. Moreover, lack of appeal possibilities may also have a cost reducing effect when compared to any national proceedings with one or two higher court instances.

Most European arbitration rules provide for reasonable attorney fee compensation for the prevailing party, which generally covers the actual and full attorney fees (which is often not the case in national litigation). Additionally, the losing party may have to bear the court costs.

Final Remark

Parties can only be legally obliged to participate *in arbitration*, if they agreed to an enforceable arbitration clause. They cannot be forced to participate in *other forms of ADR*; however, cost considerations can constitute a significant incentive to do so. The UK courts will consider whether a party acted *unreasonably* in refusing to engage in ADR, when assessing an award of costs. In *Halsey v Milton Keynes General NHS Trust [2004] EWCA Civ 576* the court set out the following non-exhaustive list of considerations for determining whether a party acted unreasonably in refusing to mediate:

- the nature of the dispute;
- the merits of the case;
- the extent to which other settlement methods have been attempted;
- whether the costs of ADR would be disproportionately high;
- whether any delay in setting up and attending ADR would be prejudicial; and
- whether ADR had a reasonable prospect of success.

Enforcement

Most nations worldwide are member states of the so-called New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.
In many states, it might therefore be “easier” to enforce an arbitral award with the help of a local national enforcement agency (mostly courts), rather than to enforce a national court judgement, which is foreign to the country where enforcement is sought. The contracting parties to the New York Convention have to recognize arbitral awards issued in another (contracting) state as binding and to enforce them in accordance with their rules of procedure. There are only very limited grounds that can be invoked against the enforcement of an award.

New York Convention

See the website listed in the further reading section at the end of this module for a list of the states party to the New York Convention

Nexus to UPC Agreement and Rules

The UPC agreement makes provision for the establishment of a patent mediation and arbitration centre in Ljubljana and Lisbon (Article 35 UPCA). The rules of procedure further emphasise that the court is required to explore with the parties the possibility of a settlement, including through mediation and arbitration, using the facilities of the patent mediation and arbitration centre in Ljubljana and Lisbon (Rule 11 UPC ROP).

Summary and Further References

- *Thomas D. Halket (Ed.), The Arbitration of International Intellectual Property Disputes, JurisNet, LLC, Huntington, New York, USA, May 2012*

- An overview of mediation in the EU can be found at:

https://e-justice.europa.eu/content_mediation_in_member_states-64-en.do

- A list of the contracting states to the New York Convention can be found at:

http://www.newyorkconvention.org/contracting-states/list-of-contracting-states

This is a slightly revised text that was co-authored by three members of the European Lawyers Association (EPLAW), Christian Hilti (Rentsch Partner), Bruno Vandermeulen (Bird & Bird) and Ian Kirby with the help of Georgiou Matthew (both Carpmaels & Ransford) to be used as a teaching module of future UPC judges.