International In-house Counsel Journal
Vol.11, No. 45, Autumn 2018, 1

The Use of Mediation in Settling Patent Disputes

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Abstract
Multinational patent disputes are highly complex as they frequently deal with complicated technical facts and arguments that must be presented in numerous jurisdictions with different legal systems and jurisdictional traditions. Court proceedings are often lengthy and expensive, and frequently there is a considerable risk of obtaining an unfavorable decision in at least one jurisdiction. Alternative dispute resolution (ADR) methods are an attractive and powerful alternative to traditional patent litigation. Mediation, as one of the ADR methods, offers the involved parties the opportunity to settle all related disputes with the assistance of a mediator in one fell swoop, reaching a global settlement and achieving immediate legal certainty in all jurisdictions involved. Despite these obvious advantages, it remains that mediation is not as extensively used in patent matters as it could be. This article aims to illustrate the characteristics of mediation in a patent dispute, as well as the advantages of mediation over traditional patent litigation as well as its limitations.

Introduction

Patent disputes, and in particular multi-national patent disputes, are usually highly complex, very expensive and often involve an extended period of legal uncertainty. Very often, they also involve an emotional component, wherein both sides are (or at least pretend to be) very convinced of their respective legal positions. In the extreme, this may even result in mutual accusations of unfair or aggressive behavior in the market and/or (patent) trolling. The combination of these complexities and emotional factors may often render even the initiation of direct settlement talks difficult or even impossible. Conversely, court proceedings are not always the optimum way to resolve such a dispute, because decisions can only be made within the framework of legal possibilities of the respective national and international rules. Thus, they are inherently narrow and do not offer a solution on an international scale. In addition, court proceedings usually take from one to several years per instance and the respective outcomes are mostly not very predictable and may differ from court to court and country to country. If the lawsuit involves an established and successful product on the market, at least one of the parties may be forced to set aside substantial provisions for a significant period of time, which may bind large amounts of capital. In such situations, early legal certainty can be extremely valuable.

In such a situation, mediation can be a very valuable tool to establish legal certainty early, on a global scale and taking all legal and economic interests of the parties into due account. The advantages of a mediation in such a context are so obvious that one would expect mediation to be used much more frequently than it actually is. We believe that key reasons for this are (i) overconfidence in the parties' own legal position and (ii) a lack of understanding of the nature of the actual mediation process. In some cases, there may also be (iii) a misconception among the parties that mediation must always result in a settlement, even if the outcome is to the detriment of one of them.

While overconfidence in one's own legal position can probably only be cured by a true reality check before court, this article aims to shed some more light into the actual mechanics of a mediation process, its potential and its limitations.

1. Characteristics of Mediation

Mediation can be defined as a voluntary, structured, interactive process where a neutral third party (the mediator) assists disputing parties in confidentially resolving a dispute through the use of specialized communication and negotiation techniques. In mediation, the conflicting parties are trying to come to a comprehensive solution meeting their mutual business needs and interests.

According to Wikipedia, "the mediator uses a wide variety of techniques to guide the process in a constructive direction and to help the parties find their optimal solution. A mediator is facilitative in that she/he manages the interaction between parties and facilitates open communication. Mediation is also evaluative in that the mediator analyzes issues and relevant norms ("reality-testing"), while refraining from providing prescriptive advice to the parties (e.g., "You should do... .")".

In the following, we will discuss the key characteristics of mediation in more detail.

1.1 Voluntary Character

Mediation is essentially voluntary in character, and its outcome is fundamentally open: in the end, the parties may either agree on an amicable solution to their disputes, or they may not agree and then re-enter into litigation or other contested proceedings. Certain national court systems may oblige the parties to undergo mediation proceedings before they can start or continue court actions. Nonetheless, parties are always free to desist from the mediation process at any stage and cannot be forced to settle.

There will also not be any "verdict" of the mediator on the merits of the dispute, which is different from both court proceedings and arbitration.

Viewed in this way, mediation can be seen as a useful "add-on", i.e. an additional opportunity to resolve a dispute, which may, but does not have to, replace contentious proceedings. To some extent, mediation and contentious proceedings may even be run in parallel. Mediation, even if unsuccessful, does not result in any party giving up any rights or opportunities in contentious proceedings.

1.2 Confidentiality

Confidentiality is a very important advantage that mediation proceedings have over patent litigation proceedings in most countries. Prior to the actual mediation process, the parties, their legal representatives, the mediator and all other possible participants such as experts normally sign a comprehensive confidentiality agreement. This guarantees that all information exchanged during this process will not enter the public domain and cannot be used later in court proceedings. It also enables the parties to exchange more information than strictly necessary to resolve the patent dispute at stake; for example, parties may wish to exchange further sensitive business information in order to come to a more comprehensive agreement settling not only the patent dispute in a narrow sense, but possibly also other contentious issues.

Interest-Based Outcome

By nature, a verdict in court proceedings is limited by the applicable (national) law and the remedies that this law allows for, such as injunctions, damages etc. In contrast, mediation can take broader business interests of both parties into consideration and may result in a more forward-looking and business-oriented solution. It is perfectly possible and frequently happens that parties settle more than the actual narrow patent dispute. As such, mediation may help maintaining or even building new business relationships for the benefit of both parties, which rarely happens in a classic lawsuit before court. In addition,

mediation will normally result in a global settlement of the contentious issues, whereas court decisions are usually limited to one territory (even though cross-border injunctions have occasionally been granted in exceptional cases in Europe).

1.3 Autonomous and Flexible Procedure

Mediation is a flexible process with no procedural limits and set terms, unless agreed by both parties. The process can be paused or terminated at any stage at request of one party, and resumed when both parties agree. Parties have full autonomy over the process, as long they agree. This flexibility can be of advantage, particularly if the parties are close to a settlement. While a misuse of this flexibility by one of the parties is possible in principle, the other party may always terminate the mediation process if and when that happens.

1.4 Structured Process

While mediation is flexible and autonomous in character, practice has shown that a structured approach to the dispute settlement in which both parties have agreed upfront has the best chances of success. The classical setup of mediation can be visualized as follows:

1.4.1 Pre-Mediation

Once parties are fundamentally in agreement about entering into mediation, the first steps will usually be to sign a mediation & confidentiality agreement and then to agree on the mediator. The ideal mediator should be neutral and enjoy the confidence of both parties. Particularly if and when the patent dispute is multi-national and complex and/or the parties are quarreling with each other, it may be beneficial if the mediator is experienced and able to deal with difficult situations.

Conversely, it is not necessary and may sometimes not even be beneficial that the mediator is an expert in patent law, since this may easily result in a too narrow focus of the mediation on the actual patent dispute and foregoing other and broader options to find a business solution. The parties should be clear about their expectations to the mediator and his or her qualification(s) upfront.

After the parties have agreed on the mediator, each party will usually be requested to elaborate and exchange a first position paper outlining the constellation that led into the dispute, the history of disputes and settlement attempts between the respective parties, the specifics of the pending patent dispute and a brief evaluation of the party's legal situation. This serves to give the mediator and the other side a first flavor of the parties' respective viewpoints.

Thereafter, the mediator may invite each party to a confidential preliminary discussion and to answer specific questions, e.g. about the scope and value of the dispute, the history of the dispute, attempts to resolve dispute, reasons for the failure of the settlement of the dispute, main negotiator, a risk assessment/chances for success for the underlying dispute, etc.

The mediator will also request the parties to compose their respective teams. While parties have maximum freedom in this composition, it is important that at least one person from executive level management is a member of the team so as to ensure that a legally binding settlement can be agreed in the end. The mediator will also be mindful of the team size so as to ensure efficiency of the process, and make sure that the teams of both parties have an equal size.

1.4.2 Mediation Session

The core of the mediation - the mediation session - is an in-person meeting usually set up for one or two days. It should preferably take place in a secluded location without daily business distraction. When selecting a location, care should be taken that it offers enough space for each party to retire for deliberation (break-out sessions) and at the same time offers an assembly room for plenary sessions.

Prior to the mediation session each party will usually be requested by the mediator to prepare an opening statement, summarizing the reasons for the dispute, describing the previous business relationships, illustrating the impact of the current dispute on the business relationship in the future, and giving each party the opportunity to articulate the behavior of the counterparty ("letting off steam").

After a brief introduction by the mediator into the case, the executive member of each party will present the party's initial opening statement. This part of the negotiation reduces pent-up emotions and in addition allows for a better understanding of the counterparty.

In a second phase the mediator may switch to a so-called shuttle mediation. In a shuttle mediation the two parties are physically separate, i.e. they are located in different rooms and the mediator "shuttles" back and forth between them to discuss the issues at hand. In this setting, the parties speak directly only to the mediator, who will relay each party's proposals, arguments and concerns to the other and report the response. This enables both parties to define issues and possible solutions. It also offers the opportunity for the mediator to challenge specific legal and business questions in order to force each party to draw a more realistic picture of its own situation. The set-up of a shuttle mediation further allows the parties to intensively discuss sensitive business details amongst itself and to trade off different settlement scenarios against each other. In this phase, additional team members in the back-office might be involved if further information or numbers are needed to evaluate the different scenarios.

In a further step, each party will be asked to determine its BATNA. BATNA is a term coined by Roger Fisher and William Ury in their 1981 bestseller, "Getting to Yes: Negotiating without giving in"[1]. It stands for **B**est **A**lternative to **A** **N**egotiated **A**greement. In other words, it is the best you can do if the other person refuses to negotiate with you. BATNAs are critical to negotiation because one cannot make a wise decision about whether to accept a negotiated agreement unless one knows the alternatives. The BATNA "is the only standard which can protect you both from accepting terms that are too unfavorable and from rejecting terms that would be in your interest to accept"[2]. In the simplest terms, if the proposed agreement is better than the calculated BATNA, then one should accept it.

The following examples illustrate the calculation of the BATNA and the impact it should have on your decision:

Scenario 1

Your company has sued a competitor for patent infringement and is requesting damages in an amount of 6.6 m€. The competitor has filed a nullity action against the potentially infringed patent. The chances that the patent will be upheld are estimated at 50:50. The future legal and other expenses are 0.4 m€. The defendant has offered you 2.0 m€ as a settlement.

[1] In 2011, Fisher and Ury published a 3rd Edition of *Getting to Yes*. The updated edition was edited by Bruce Patton and incorporates Fisher and Ury's responses to criticisms of their original 1981 book.

[2] Roger Fisher and William Ury. *Getting to Yes: Negotiating Agreement Without Giving In*, 3rd ed. (New York: Penguin Books, 2011)

Scenario 2

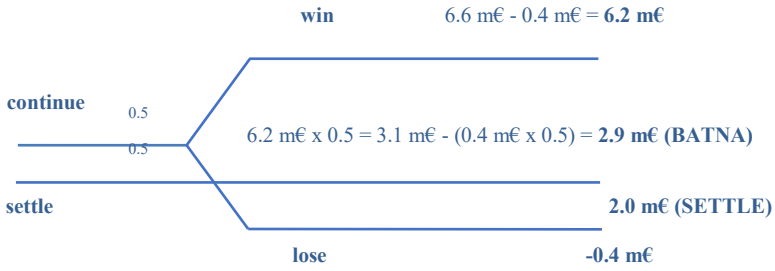
Scenario 2 is similar to Scenario 1 with the only difference that the chances that the patent will be upheld are estimated at 30:70 in your favour.

What is your BATNA? Should you accept the offer?

Calculation Scenario 1:

If you give your consent to the settlement offer, you will obtain 2m€. If your probability to win was 1.0, you would obtain 6.2 m€ (6.6 m€ - 0.4 m€) from the defendant. Your probability to win is however only 0.5. That means that your expected value of continuing is 6.2 m€ x 0.5 = 3.1 m€ – (0.4 m€ x 0.5) = 2.9 m€.

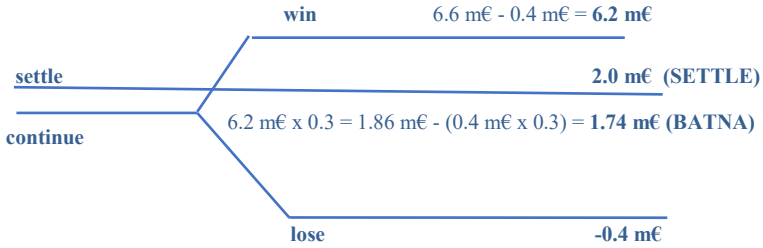
In summary, your BATNA is 2.9 m€ and thus higher than the settlement offer of 2.0 m€. You should try to negotiate a better offer or terminate your mediation and continue your legal actions.



Calculation Scenario 2:

If you give your consent to the settlement offer, you will obtain 2m€. If your probability to win was 1.0, you would obtain 6.2 m€ (6.6 m€ - 0.4 m€) from the defendant. Your probability to win is however only 0.3. That means that your expected value of continuing is 6.2 m€ x 0.3 = 1.86 m€ – (0.4 m€ x 0.3) = 1.74 m€.

The settlement offer with 2.0m€ is above your BATNA of 1.74 m€. You should thus accept the settlement offer.



In multinational patent disputes with complex business relationships the mediation session might not immediately result in a detailed and signed settlement agreement. Instead, the parties will use this intense phase of the mediation to in depth evaluate if a settlement agreement in principle can be achieved. The detailed contract(s) and conditions forming the settlement agreement will usually be discussed in the next phase of the mediation, i.e. the post-mediation session.

It is however crucial that the parties jointly elaborate and sign a Memorandum of understanding (MoU) at the end of the mediation session. This formally binds the parties to their general commitment and willingness to come to an amicable resolution of the

dispute and sets out the general concept and terms of the settlement. Such a MoU is usually not binding and not imposed with any legal obligations upon the parties. The MoU should however contain a section expressively indicating the willingness of the parties to further explore the settlement concept within a defined time frame and their commitment to explore all pending issues with an open and constructive mind. Depending on the complexity of the case, the parties may even agree on a date of a follow-up meeting with the purpose to then negotiate in detail and actually agree upon a binding settlement agreement.

1.4.3 Post-Mediation Session

While the mediation session lays the foundation and sets the general scene of the settlement agreement, the subject of the Post-Mediation Session is to negotiate the details of the settlement agreement. This phase can be very exhausting and lengthy, especially if the parties are basically arguing on the wording of every single sentence of the agreement.

It is therefore highly recommendable to form sub-working groups which deal with different topics at the same time and to organize regular status calls in order to streamline the mediation.

If the business relationship of the parties was already strained prior to the dispute, it is further highly recommended to ask the mediator to supervise the entire mediation process until the settlement agreement is signed. The risk that a settlement agreement fails in the end because the parties could not agree on details of the contract should not be underestimated.

As already mentioned in the previous section, depending on the complexity and the business impact of the settlement agreement on the parties, it might be necessary to set up a second mediation session. This should however be decided on a case-by-case basis. If the negotiation process is moving slowly, a second in-person session might significantly push the process and is especially recommendable, if e.g. time-limited legal actions or other time critical business decision, impacting the settlement agreement are running in parallel.

Time-limited legal actions which are running in parallel and the termination of which might even be subject of the settlement agreement, sometimes also have a positive impact on the speed and willingness of the parties to come to a settlement agreement. Legal actions thus do not necessarily negatively influence the mediation process, but sometimes even foster and speed up the entire process.

1.4.4 Settlement Agreement

If the parties have finally agreed on the details of the settlement agreement and questions such as compliance with antitrust law, tax issues, etc. have been discussed in depth with the respective experts, a management approval to finally sign the settlement agreement will be necessary. Enough time should be scheduled to obtain the necessary signatures. Be reminded that members of the executive board usually have a packed agenda and might not be directly available.

After the final signature and exchange of the settlement agreement, make sure that you comply with all obligations agreed on in settlement agreement. For example, make sure that procurement will settle agreed payments in time.

1.5 Cost efficiency

Litigation in patent disputes can be extremely costly. Costs can escalate when the same parties fight over the same and related patent rights in various jurisdictions. In the majority of the cases, the costs of litigation are significantly higher than those of mediation, but with the same or even lower chances of success. A company should always try mediation before or during litigation just because of the statistical chances and the linked savings which accompany the mediation process.

As a matter of course the mediator's fees are equally divided between the parties. To be on the safe side, a respective clause should be included in the mediation agreement in the pre-mediation phase. Additional costs of each party e.g. for accommodation during the mediation session, travel expenses, party's experts, etc. will have to be borne by the respective party.

In contrast to lengthy traditional litigation with unpredictable outcome and a potentially significant impact on the past (damages, royalties), mediation does not usually require accruals, which might negatively impact the business figures.

2. Limitations

Mediation may not be the right tool to enable a party to achieve everything. An important limitation is, for example, that it will normally not be possible to agree on an injunction of a certain activity with the counterparty. First and foremost, an injunction is the most extreme means of monopolizing a market, whereas parties undergoing a mediation usually do so with the common understanding that they want to compete on the market and just quarrel about the conditions. For this reason alone, it is very unlikely that one party will agree to leave the market as a result of a mediation process, unless it receives a substantial compensation. Such compensation may easily run afoul of anti-trust law and might be viewed as inadmissible "pay-for-delay" (cf. CFI decision in re Lundbeck, T-472/13). In summary, therefore, if your firm mainly aims at obtaining an injunction against a competitor, mediation may not be right for you and you should rather seek assistance by a court.

Conclusion

Even if mediation may not be suitable to settle each and every patent dispute, it is currently an underestimated tool which is used rarely, and quite possibly too rarely. Mediation can be very valuable to establish early legal certainty, on a global scale and taking all legal and economic interests of the parties into due account. Further, mediation is often significantly cheaper than litigation, especially compared to multinational patent disputes. Thus, decision-makers would be well advised to add mediation to their toolbox of solving patent disputes.

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