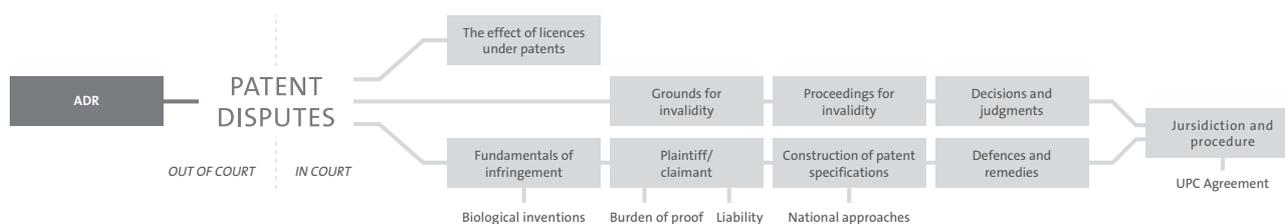


Alternative dispute resolutions (ADR)

Essentials



Definition and scope

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

A wide range of ADR options are available to parties. 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**, and these are discussed in this module.

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—and agree to be bound by the arbitration decision.

Introduction

Twenty years ago, little use was made of ADR. Often, the only option available to disputing parties was to take their grievances to court. However, the prominence of ADR has increased significantly in recent years, following a series of reviews and reforms suggested by the European Council and 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 – see below for more detail), aimed at harmonising the rules applicable to cross-border mediation in the EU.

Attitudes have also changed on a national level, and prominent judges seeking to reform the litigation systems in various countries have promoted the benefits of ADR. For example, following a review of civil litigation costs in the UK, the Jackson Report published in 2010 emphasised that ADR had a vital role to play, but that it was under-used.

Review of civil litigation costs:

Final report, 2010

www.judiciary.gov.uk/wp-content/uploads/JCO/Documents/Reports/jackson-final-report-140110.pdf

As a result, the rules governing civil litigation in the UK (Civil Procedure Rules) now require parties to consider ADR as a means of avoiding litigation. Similarly, court guides place a duty on legal representatives to consider and advise their clients on the possibility of ADR as a means for resolving disputes. ADR is now being promoted across the member states as a cheaper, quicker, more flexible, private, binding and non-binding objective way of resolving disputes.

ADR options

Aside from conventional negotiations between parties, which typically involve no intervention from a third party, all of the remaining ADR options involve varying degrees of intervention from 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.

Other non-binding ADR options encountered less frequently in patent disputes include executive tribunals, conciliation and early neutral evaluation.

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.

Early neutral evaluation

An independent person with expertise in the field in question is asked by the parties to provide a non-binding opinion regarding the likely outcome of the dispute. The aim is to provide the parties with an objective view of their dispute to help further settlement discussions.

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, etc. The decision of the arbitrators 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).

Other binding ADR options encountered less frequently in patent disputes include expert determination, adjudication, and mediation/arbitration hybrids.

Expert determination

A middle-ground between arbitration and other forms of ADR, where the parties select an expert to decide their case. The expert's decision is binding on the parties, and an action can be brought for breach of contract if one party refuses to accept and/or comply with the decision.

Adjudication

An interim binding decision is issued by a third-party adjudicator which is an enforceable pending agreement of the parties to alter the decision's effect or refer the dispute for further legal proceedings (e.g. arbitration or litigation).

Mediation/arbitration hybrids

Processes where the parties agree to mediation, but if mediation fails on a particular issue, they also agree to the mediator becoming an arbitrator, who may issue a final binding decision on that point.

Mediation

Overview

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 in the hands of the parties, rather than a court or other tribunal, allowing them to reach a mutually satisfactory conclusion. Unlike judges or arbitrators, mediators do not have the power to decide a case, but work 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”*.

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

Directive 2008/52/EC

The EU Mediation Directive came into force on 13 June 2008: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:136:0003:0008:En:PDF>

In the UK the Mediation Directive applies to cross-border disputes only, but many member states (such as Germany and Belgium) have implemented its provisions for domestic mediation processes as well.

the mediator (Article 7), and the relaxation of limitation and prescription periods for disputes which are mediated before judicial proceedings are commenced (Article 8).

A typical mediation involves a number of steps:

- 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 session 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 legal proceedings are initiated, 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, parties should enter into mediation as soon as possible after they 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. This may be necessary, for example, in cases where interim relief is sought. Another reason is to allow the parties to understand the case against them, especially if mediation can be delayed until after disclosure during civil litigation, when they can see the strength of the evidence against them.

Implementation

The Mediation Directive has been implemented in nearly all member states with only very slight variances.

Incentives for mediation

In the UK¹³, courts take into account the conduct of the parties when determining costs, and, for example, have penalised parties who unreasonably refused to mediate (*Phillip Garritt-Critchley & Others v Andrew Ronnan & Solarpower PV Limited* [2014]).

In France, the *Cour de Cassation* (Supreme Court) decided in 1995 that a party who delays mediation or makes mediation impossible may be ordered to pay the costs incurred (*Cass.Com*, 28 November 1995, No. 94-12285). Similarly, the *Cour d'appel de Paris* (Paris Court of Appeal – CA Paris), in a decision of 5 September 2013, refused to award legal costs to either party on the grounds that both parties refused to engage in mediation (*CA Paris, Pôle 5, Chambre 9*, 5 September 2013, No. 11/22362).

¹³ The EPC and the UK Patents Act 1977 (as amended) apply equally to all parts of the United Kingdom. Jurisdictionally, however, the United Kingdom is divided into three parts: England and Wales, Scotland, and Northern Ireland. Proceedings in the Scottish courts differ markedly from those in the other jurisdictions.

Although member state courts do not have the power to impose mediation, or to draw inferences if a party refuses it, some courts penalise litigants who unreasonably refuse to engage in mediation. For example, in the UK the parties and their representatives are directed by the Civil Procedure Rules to consider ADR both before and after legal proceedings are initiated. In other countries, there are no rules or incentives that would force a party to consider ADR.

Pros and cons of mediation

Some of the advantages of mediation are:

- **Autonomy** – The private nature of mediation affords the parties greater control over the process and the outcome. They 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 is available than via 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.
- **Neutrality** – The mediator is a neutral third party and the mediation itself can be tailored to be neutral to the law, language and culture 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 above). Even if no explicit provisions for confidentiality 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 for 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.

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 may become disadvantages if negotiations are unsuccessful.

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** – A party may 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 him/her will remain private and will not be disclosed to the other party.
- **Manipulation by an unco-operative party** – The non-binding, voluntary nature of mediation means that it may be open to manipulation by an unco-operative or aggressive party. The extent to which this happens can be controlled by the mediator, who can encourage co-operation and who ultimately has the power to terminate the proceedings early if he considers that a party is acting in bad faith.

Is mediation 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 judgment being awarded, then litigation would be preferable to mediation.

It should also be noted that patents cannot be revoked or amended via mediation or arbitration (see below).

The choice of mediator

The parties may agree on who they wish to mediate their dispute, or they may engage the services of a mediation service provider. There are a number of service providers who can offer assistance with all aspects of the mediation process, from providing a basic framework of rules to be followed during the session to hosting the session and assisting with the drafting of the settlement agreement.

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).

For example, the World Intellectual Property Organization (WIPO) Arbitration and Mediation Center is an established provider. Also, under Article 35 of the Agreement on a Unified Patent Court (UPCA), a patent mediation and arbitration centre will be established with seats in Ljubljana and Lisbon. The centre will provide facilities for the mediation of patent disputes falling within the scope of the UPC.

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

Arbitration

Introduction and overview

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

However, “pure” patent infringement cases are mostly litigated in national courts, because alleged third-party infringers are rarely willing to agree – *ex post facto* – to arbitration.

The reference to “pure” patent infringement cases means all cases where the parties are not linked by any agreement or other business relationship, but where the infringer is most often a competitor without any contractual or other business ties to the patent owner.

Moreover, if provisional measures (e.g. preliminary injunctive relief) are sought, a well-established court system may still be more advantageous than an emergency arbitrator, who must first be nominated by an arbitration institution.

Given the above, arbitration proceedings are almost always related to contractual relationships 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 (and possibly the UPC) as well as arbitration courts may be involved in the same dispute, the first for preliminary injunctive relief, the latter – or sometimes even both – in parallel ordinary infringement proceedings. This may lead to challenging situations, for the courts, arbitral tribunals and parties alike.

Today, most arbitration is “institutionalised” arbitration, i.e. the parties agree to arbitrate any dispute under specific rules provided by an administrative body or arbitration institution, such as the WIPO Arbitration Rules, the International Chamber of Commerce (ICC) Arbitration Rules, the London Court of International Arbitration, the Netherlands Arbitration Institute Rules or the Swiss Arbitration Rules.

Time factor

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

Moreover, the possibilities for appealing to higher court instances may be severely limited, which may be an advantage from a time-related perspective.

Pros and cons of arbitration

The time advantage may become a disadvantage when it comes to appeal options. However, most arbitration institutions have controls in place to ensure that proceedings are dealt with in a professional and timely manner.

Another disadvantage of arbitration is that it may be more onerous to obtain provisional measures expeditiously. In recent years, many institutionalised arbitration institutions have implemented so-called “emergency arbitration” rules, which may allow provisional measures to be obtained swiftly.

Arbitration proceedings are not public. The proceedings are therefore confidential.

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 and national case law do not allow the enforcement of arbitral awards obtained abroad which declare a patent to be invalid (exceptions include Belgium and Switzerland).

Arbitral tribunals may avoid this pitfall by obliging the patent owner to withdraw his patent from the respective patent register(s) and/or forbidding the *inter partes* enforcement of a patent (considered to be invalid by the arbitral tribunal) against the alleged infringer.

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 some disputes where both national courts and arbitral tribunals may be called upon by either party to decide an issue. This is not a problem, as long as the issues at stake are clearly different, for example a national court is called upon to issue provisional measures only, and the arbitral tribunal is called upon to decide the case on the merits.

It becomes more challenging if one of the parties calls on both courts to decide on the same issues. They will then have to decide which of them is competent to decide on the case.

Legal basis – applicable substantive and procedural laws

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

When it comes to contractual rights and obligations, it is generally at the parties' discretion to decide which substantive law applies. In patent disputes, however, some national laws may have special rules when it comes to formal legal requirements relating to the patent registry, etc., which the parties may not be aware of.

If the parties agree on some form of 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. Parties often agree on the International Bar Association (IBA) Rules on the Taking of Evidence in International Arbitration, or obtain further clarification by reference to the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration.

Cost implications

Generally speaking, in civil law countries, arbitration proceedings are more expensive than national court proceedings. On the other hand, arbitration may involve fewer cost-intensive discovery proceedings. Moreover, lack of appeal possibilities may also have a cost-reducing effect when compared with national proceedings involving 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 (often not the case in national litigation). Additionally, the losing party may have to bear the arbitral court costs.

Final remarks

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

Halsey v Milton Keynes General NHS Trust
[2004] EWCA Civ 576

- 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 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

In many states, it may 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 judgment which is foreign to the country where enforcement is sought. The contracting parties to the New York Convention have to recognise 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.

Relevance of 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).