Why mediation’s time has come

Courts are putting increasing pressure on litigants to settle out of court. But are IP owners (and their legal advisers) ready to rethink their dispute resolution strategies? Emma Barraclough reports

It might have been too much to hope that a multi-billion-dollar IP dispute spanning four continents and several years would be settled by a face-to-face chat between executives of two of the world’s biggest technology companies. But don’t let the failure of Apple and Samsung to resolve their patent wars out of court last month mislead you: mediation is here to stay. If you haven’t been asked to take part already, the chances are that you will be soon.

Alternative dispute resolution (ADR) takes many forms along a sliding scale of formality. At one end is arbitration, which can be as formal as litigation but with the bonus (for some) of confidentiality. This kind of litigation-lite arbitration may involve pleadings and cross-examination of the parties. Further down the scale is evaluative mediation, and then expert evaluation, where a third party recommends how the dispute should settle. Then there is facilitative mediation where the mediator facilitates the parties to reach agreement between themselves. That’s not to suggest that the parties become best buddies at the end of the day. “They are not necessarily happy. There may be wailing and gnashing of teeth but they sign the deal,” says English barrister (and experienced mediator) Michael Edenborough. “That shows they can live with it.”

Do disputes need to go to court?

Edenborough suggests that few disputes ever need to make it to trial. Some test cases genuinely need litigating to provide all practitioners with a precedent-setting ruling. These, across all areas of the law in the English courts, amount to no more than half-a-dozen each year, he says. Then there are the kinds of disputes where one party wants to send a clear message to the market: even if they lose, the message is that they are willing to “take on the opposition, chop them up and incinerate the bits” – and the opponent had better have deep pockets.

“Both of these are legitimate reasons,” says Edenborough. “But commercial people generally don’t want to litigate because it wastes time. They are willing to try and find common ground. Disputes are grit in the wheels of commerce – except for those disputes where one party wants to grind the grit deliberately. They don’t want litigation, arbitration or evaluative mediation – they just want a facilitated agreement.”

Driving forces

Paradoxically, demand for mediation is rising as courts around the world take steps to make IP litigation cheaper, quicker and more effective. From the growth of specialist IP courts designed to bolster confidence in the quality of a first-instance decision to capped fees and judicial discouragement of the use of costly surveys, many countries are trying to get quarrelling companies out of court rooms and back to business.

In the UK, reforms to the system of IP litigation have seen the creation of the Intellectual Property Enterprise Court, which hears disputes worth less than £500,000. Its streamlined procedures and the decision to cap recoverable costs at £50,000 in the court has made a claimant’s threat of legal action more credible than ever, says Paul Storey of the UK IPO. That makes it easier to get them around the mediation table.

“The aim of making litigation more accessible is not to increase levels of litigation but to encourage people to talk,” he says.

Ten years ago the Court of Appeal set out guidelines in Halsey v Milton Keynes
for judges to use when considering whether to impose cost sanctions on parties who refuse to mediate. A 2009 report by Lord Justice Jackson on reining in costs in civil litigation has emboldened courts to admonish recalcitrant non-mediators. Within months of the Jackson reforms being implemented, the Court of Appeal in *PGF2SA v OMFS Company 1* last year held that a failure to respond to a request for mediation was itself unreasonable conduct that could be penalised through costs. “The bottom line is that courts not only can but do impose sanctions,” says Mr Justice Arnold of the High Court in London.

Similar pressures have been brought to bear on litigants in the US. Rule 33 of the Federal Rules of Appellate Procedure says that courts “may direct the attorneys, and in appropriate cases the parties, to participate in one or more conferences to address any matter that may aid in the disposition of the proceedings, including the simplification of the issues and the possibility of settlement”. Each appellate court now has its own mediation programme.

“The impetus was the growing cost of litigation. The courts thought that parties should have a cheaper and quicker alternative. They were also becoming overworked and trying to offload their workload,” says James Amend of ADR firm JAMS and former chief circuit mediator for the US Federal Circuit. Meanwhile, across Europe, national governments are looking to boost ADR to implement the 2008 EU directive on mediation.

**The role of lawyers**

So if mediation has so much going for it, why don’t IP owners do more of it? One reason may be that their outside counsel have little incentive to encourage their clients to mediate. Anyone who has served a writ knows how quickly legal costs can be even pricier: in the same year the AIPLA suggested that parties to a high-value patent dispute can rack up costs in excess of $5 million by the end of the trial. For IP lawyers who need to hold their head up high in the partners’ dining room
and play golf with their corporate finance colleagues, turning down those sorts of figures makes little economic sense.

One mediator told Managing IP that some litigators see one big piece of litigation in each client. Once through the process, the client will be too traumatised to come back—which incentivises external counsel to “catch the moment and bleed them for as much as possible”.

In the US, the system of triple damages provides even more incentives for trial lawyers to steer their clients away from mediation. “When an attorney is retained on a contingency fee basis it can create two separate sets of interests,” says Amend. The contingency fee factor is especially important in cases that don’t mediate early. If one party has already clocked up $1 million in fees, their attorney may want them to push on for the chance of obtaining triple damages at trial to be sure that they can pay those fees.

Geneva-based mediator Jeremy Lack says that awareness of mediation among IP practitioners remains low despite its advantages. “I am amazed by the consistent reluctance of the IP community as a whole to embrace mediation, which normally generates faster, cheaper and better outcomes for all of the parties involved (even in counterfeiting cases),” he says. “I remember giving a presentation to an AIPPI meeting in 2010. … Of the several hundred lawyers and IP agents in the room, barely 5% of the audience had ever considered using mediation or another form of appropriate dispute resolution.”

But things are starting to change. Both the courts and clients are putting more pressure on trial lawyers such that they can’t simply blow them off, says Amend. Savvy litigators are increasingly aware that in an era of legal budget constraints, they need to do more to attract repeat business.

At a seminar on mediation organised by the UK IPO and hosted by the media law firm Wiggin last month, Wiggin partner Simon Baggs said that other lawyers had asked him whether encouraging clients to mediate amounted to commercial suicide. It did not, concluded Baggs: “There’s a lot to be said for clients leaving mediation happy. They tell people and that means we get more buyers of legal services. Any referral is good.”

**Strength or weakness?**

Although there is plenty in mediation’s favour, some IP owners worry that proposing it to an IP rival will be interpreted as a sign of weakness. Mediators unsurprisingly reject this suggestion. If mediation is not already included in a commercial agreement between the parties (something that all mediators recommend), they can route their request through a third party such as a trade association. “In fact, suggesting mediation can be a very strategic move,” says Baggs. “If they say no there may be a costs implication, and mediation can be an opportunity to find out more about their case even if you don’t settle.”

Arnold agrees: “It’s like saying ‘the ball’s in your court now’. That isn’t a weakness but a strength.”

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Simon Baggs

Nor should the parties mistake mediation for a session of relationship therapy. Although they may be advised to approach it constructively, it is not an exercise in touchy-feelyness. “As a legal adviser to one side in a mediation, my job is to drive a wedge between the other side and their legal advisers,” says Edenborough. “In one mediation I told the other party that the legal advice they had received was wrong and that it would be a mistake to rely on it. We got what we wanted.”

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**How in-house counsel see mediation**

1 | Mediation should be a compulsory procedural step in the conduct of all commercial disputes, in both litigation and arbitration.

2 | Mediators should not be purely facilitative but adopt a proactive idea-generating role, including proposing solutions and settlement options.

3 | In my experience, outside lawyers are often an impediment to the mediation process.

4 | I expect my arbitration and litigation counsel to have been trained in mediation advocacy skills.

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**Source:** IMI International Corporate Users ADR Survey. (Survey of 76 in-house dispute resolution counsel in Europe and the US between January and March 2013)

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**Agree** | **Neutral** | **Disagree**
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| 1. Mediation should be a compulsory procedural step in the conduct of all commercial disputes, in both litigation and arbitration. |
|---|---|---|
| Agree | 48% | Neutral | 15% | Disagree | 37% |

| 2. Mediators should not be purely facilitative but adopt a proactive idea-generating role, including proposing solutions and settlement options. |
|---|---|---|
| Agree | 8% | Neutral | 15% | Disagree | 77% |

| 3. In my experience, outside lawyers are often an impediment to the mediation process. |
|---|---|---|
| Agree | 47% | Neutral | 15% | Disagree | 38% |

| 4. I expect my arbitration and litigation counsel to have been trained in mediation advocacy skills. |
|---|---|---|
| Agree | 14% | Neutral | 14% | Disagree | 6% |
Enforced mediation

So should mediation be made compulsory for warring parties in IP disputes? Forcing the parties into a room without the formalities of a judge and a witness box and without a bunch of journalists outside would surely break down barriers and encourage dialogue. But whatever mediation’s merits, even its most enthusiastic proponents are sceptical about the benefits of forced talks.

Ilias Konteas of BusinessEurope says that it is essential that mediation and arbitration remain an optional – and not mandatory – part of the dispute resolution procedure. “In some clear-cut disputes where the conflict is deliberate or blatant, arbitration or mediation can just delay the process,” he says. He adds that although ADR is often touted as being cheaper than litigation, that may not always be the case. “It must, therefore, always be at the discretion of the parties, not an obligation.”

If it were mandatory there might be more bad faith mediations, says Edenborough. He estimates that this happens in fewer than one in 10 cases, when one side uses the process to try and elicit confidential information from the other. It soon becomes apparent, he says. In other cases, one party might have little interest in mediation but can be won round. Sometimes the parties decide to call off the process themselves.

Here though, Simon Baggs offers a warning for parties considering walking out of a mediation. He recalls that just hours into a mediation session the respondent to his client’s claim quit the process. Baggs’s client won the subsequent court case and was awarded damages and costs. The judge declared the defendant’s witnesses to be so unreliable that the lawyer asked for, and obtained, an order for the directors of the defendant company to pay the costs directly.

Apple/Samsung shows limits of mediation

The deadline of February 19 for Apple and Samsung to mediate their patent dispute passed without agreement. The two parties will be back in a Californian court at the end of March, reports Michael Loney

A meeting between Apple CEO Tim Cook, Samsung’s head of its mobile business JK Shin and other company representatives in the first week of February to discuss a patent lawsuit failed to reach any agreement. The two sides were asked by a court to try mediation before a trial scheduled to start on March 31. A court filing in January said the companies had agreed to retain a mediator “who has experience mediating high-profile disputes”, but did not reveal his or her identity.

Although Judge Lucy Koh of the US District Court for the Northern District of California had not formally ordered the parties to show up for mediation, analyst Florian Müller suggests that she “created a situation in which both parties had to be constructive so as not to alienate her”. In a February 21 California court filing the two parties revealed that Apple had “more than six” telephone calls with the mediator and Samsung “had more than four” calls after the face-to-face meeting. “Notwithstanding these efforts, the mediator’s settlement proposal to the parties was unsuccessful,” said the filing. “Parties remain willing to work through the mediator jointly selected by the parties.” The filing was submitted by WilmerHale’s Mark Selwyn on behalf of Apple and Quinn Emanuel Urquhart & Sullivan’s Victoria Maroulis on behalf of Samsung.

The lack of any progress was not very surprising given that previous mediation efforts between Apple and Samsung have failed. Cook and Samsung CEO Kwon Oh-Hyun met in 2012 to discuss a different patent dispute but also got nowhere. San Jose Judge Joseph Spero handled the negotiations that time.

A California jury went on to find that Samsung infringed a series of Apple patents and ordered the South Korean firm to pay $1.05 billion in damages. In that case, Judge Koh found that part of the award had been improperly calculated and reduced the figure by $450 million. This was later increased by $290 million in November 2013. Now the second round is about to begin.

Samsung says a number of Apple devices including the iPhone 4, 4S and 5 and iPad 2, 3 and 4 infringe four of its patents. In turn, Apple says its patents are being infringed by devices including: the Galaxy Admire; the Galaxy Nexus; the Galaxy Note and Note II; the Galaxy S II Epic 4G Touch, and S II Skyrocket; the Galaxy S III; the Galaxy Stratosphere; and the Galaxy Tab 2 10.1.
What can be included in a mediation agreement?

One of the upsides of mediation is the wide range of commercial solutions that can be shoehorned into a settlement agreement. While a contractual dispute usually revolves around one party owing – or being accused of owing – the other party some money, IP disputes are often far more focused on the parties’ wider commercial activities. The claimant usually wants an injunction or delivery up, or an IP right to be revoked, cancelled or invalidated. The courts can meet some of these requests but not all; they can revoke a patent, for example, but it is rare that they will order one party to surrender a patent.

In contrast, parties to a mediation can agree whether they should renew or not renew a trade mark, assign a patent or sign a co-existence deal.

“The courts are a blunt instrument for commerce, especially for complicated non-contract disputes,” says Edenborough. “But mediation offers enormous scope for settlement.”

Ultimately it may help the parties salvage a working relationship from their dispute, a factor that is particularly important in sectors where collaboration and partnership between companies is the norm. As mediator Andrew Hildebrand says: “It can be hard to reassure the other side that you want to do business after litigation. It certainly isn’t helped by the words ‘we have been instructed by’.”

How to make mediation work

Getting the right people into the mediation room is essential for deal success. The parties need the authority to make decisions, says Amend. “Otherwise people just turn up with a number that they cannot go above or below. Each party announces its number and that’s the end.”

The parties also need to have a realistic understanding of litigation process and what they can expect to get – and need – out of litigation. If they believe that litigation is like a lottery ticket that would allow them to retire if they win, then they are unrealistic. Although it is easy for neutral observers to see the downsides of litigation in terms of expense, time and stress, those on the lawsuit conveyor belt can find it hard to get off.

“I have mediated a £300,000 claim,” says Hildebrand, “where the parties had already collectively spent £900,000 on legal costs.” The parties can become fixated on the size of the claim but need to keep an eye on both the odds and the stakes, he advises.

Successful mediation is also more likely if there is nobody in the room who is too emotionally invested in the dispute. “If one party made a decision early on to fight tooth and nail to take somebody to the Supreme Court, The Hague and the Intergalactic Council then they want a court to validate their actions. They want a decision that says their position is correct,” says Amend. “Ultimately mediation is more likely to work if counsel and clients get together and are realistic about their expectations. At the start I say: ‘there are a lot of wants here. I want to focus on what needs people have from litigation. Let’s draw a line between the two. Wants can be very expensive to get’.”

In the end, there is little to lose from mediation and plenty to gain. As Arnold told a group of IP owners last month: “I was sceptical about mediation at first but I have seen how it can work. It works, so go and do it.”

How why you should mediate

☑ Can be much cheaper than litigation
☑ Faster
☑ You get to choose the forum and the mediator
☑ You can manage the mediation process flexibility of process
☑ Confidential
☑ Potential to include broader commercial issues in the settlement agreement
☑ Manage the all-or-nothing risk of litigation

...and why you shouldn’t

☒ No public decision
☒ No precedent for use with future adversaries
☒ No interim relief
☒ More difficult to obtain evidence that the claimant might need to strengthen its case
☒ Settlement agreement lacks the coercive power of a court order (although a mediated agreement can be enforced if necessary)
☒ Mediation may be impossible if the parties’ positions have calcified (or the dispute has become too personal)
☒ The lack of a court-imposed timetable can mean that the dispute drags on
☒ An unsuccessful mediation can add to the overall costs of dispute settlement

"I have mediated a £300,000 claim where the parties had already collectively spent £900,000 on legal costs”
Andrew Hildebrand
What to expect in facilitative mediation

There are few rules for mediation. Mediations have been held in aircraft to ensure that discussions (and documents) remain offshorn; in hotel meeting rooms and in law firm offices; and over the telephone. Mediator James Amend of ADR firm JAMS once offered the parties cheaper rates if they agreed to talks in the living room of his Colorado holiday home, where he was staying at the time (they did). Although the parties may want to be on neutral ground, nervous about playing in the other side’s ballpark, Amend says the choice of location has little impact on the outcome.

If the parties meet in person it helps if there are plenary and breakout rooms so that parties can retreat for private huddles. Catering facilities and pleasant surroundings help – while hunger might keep participant’s minds focused on the job, deals reached to allow the parties to escape the process are not conducive to the long-term success of the agreement.

The mood may be cordial or the parties may be barely speaking as a result of enmity, intimidation or a determination not to give away their positions. They will usually be accompanied by legal advisers: sometimes just one, sometimes a team including leading and junior counsel.

Mediating the mediation

The mediator will make introductions and may begin by outlining the parties’ positions. These will often have been supplied to the mediator in advance in the form of position papers. Sometimes there can be discussions over who will address the mediator first, a process that itself may, in a worst-case scenario, need to be mediated, says barrister and mediator Michael Edenborough. The parties also need to agree whether the issues in the dispute will be addressed sequentially or globally. If the two sides can agree anything – even what they are having for lunch, it can get the ball rolling.

The mediator will check that the parties’ representatives have the authority to agree a deal, and highlight the confidential nature of the discussions. There may be plenty of posturing in the early stages of the mediation. Sometimes one (or both) parties will want to get plenty of things off their chest, a cathartic process that might lead to more understanding between the parties or to a spell of silence. “The session can go through phases as people get wounded and hurt and get the personal stuff out of the way,” says June Ralph of the UK IPO. Some people need to be able to “clear the air, have some ugly conversations safely and then move on,” says mediator Andrew Hildebrand of Hildebrand Mediation.

Mediators in cross-border disputes need to be mindful of cultural differences that may affect the process but not succumb to cultural stereotyping. “Business is broadly the same around the world but there are differences,” says Edenborough. With Asian parties, for example, you may need to decide who is in charge, because it isn’t always the person who does the talking. Another lawyer says that readiness to settle changes significantly from one country to the other. Within the EU, parties from Mediterranean countries have the reputation of being more likely to look for a mediator or a judge to decide the dispute than those from northern European jurisdictions, he says.

The other side is nuts

The mediator should not impose his or her views on the parties, but can be temporarily evaluative if they request an opinion. Parties should decide before the mediation whether they want a mediator with particular expertise in their area of the law or the technology in dispute. There are advantages and disadvantages to this. Someone without specialist knowledge can come to the dispute free of preconceived ideas. Someone who has plenty of expertise can be more useful if the parties want him or her to weigh up the merits of their respective cases. Ultimately the parties need to decide whether what is more important to them is someone who can provide a detailed legal analysis or a deal maker who can salvage a business relationship (the best mediators should be able to do both).

“The parties look to me for a reality check,” says mediator James Amend. “Each party tells me the other side is nuts. At some point each will ask me confidentially what I think of their case. In these cases it doesn’t do much good simply to carry numbers about from one side to the other. I don’t think it works to be entirely facilitative. You need some bullet in your gun that says you know what you are talking about.”

If both sides agree they want the mediator’s opinion they need to decide how they want it delivered: in private or in plenary? The mediator may stress test each side’s position, asking them why they think their claim is worth so much, or may ask whether there may be other solutions they have not yet considered. Some solutions may be not have crossed the parties’ minds.

“One case I mediated was close to settling but the parties couldn’t agree the amount the respondent should pay,” says Amend. “In the end I suggested that the respondent pay the amount he was offering to pay to the claimant, and pay the difference to a charity of the claimant’s choice. The mood immediately lightened. They were getting together to give money to a charity. At the end of the day they all went for a drink.”