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Intellectual property

Mediating intellectual property disputes

Lisa Claire Cohn

Throughout Australia, voluntary mediation is commonly used to resolve a variety of commercial disputes, yet intellectual property (IP) disputes are a subset of commercial dispute in which mediation appears to be seldom used. This can partially be attributed to the fact that a certain percentage of IP disputes require judicial determinations.[1] However, anecdotal evidence suggests that in Australia, mediation is simply not the primary dispute mechanism considered by practitioners in the absence of a court order or contractual agreement.[2] Rather, if methods of alternative dispute resolution are used, mediation is generally eschewed in favour of pre-trial negotiation or expert appraisal.

This paper examines the use of voluntary mediation in IP, and argues that great potential exists for mediators to expand their practices into the area of IP. This article firstly examines the characteristics of mediation, in particular of interest-based or facilitative[3] mediation, that makes it inherently suited to the resolution of IP disputes, and then turns to address the issue of uptake of mediation by parties to IP disputes, offering suggestions as to how the rate of voluntary uptake could be increased.

The transformation of advanced economies such as Australia from a commodity-based to a service-based system increases the importance of IP rights as a means of encouraging and protecting innovation. The amount of IP created in Australia is steadily increasing, and is encouraged through a variety of State and Federal Government

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initiatives.[4] It is estimated that Australia's international trade in IP is valued at over $600 billion per year, and is steadily increasing,[5] and that the volume of IP registrations (of trade marks, patents and industrial designs) will also increase.[6] A natural consequence of increased activity in the sector is an increasing number of disputes. Although statistics are unavailable, it is a logical presumption that IP disputes are also on the increase.

A wink and a smile: why IP disputes are inherently suited for mediation

There are four characteristics of mediation that immediately suggest its inherent suitability for the resolution of IP disputes (if the reader will pardon the alliteration):

(1) Efficiency exigencies;
(2) Capacity for cost-cutting;
(3) Confidentiality concerns; and
(4) Elucidation by experts.

1. Efficiency

The efficient resolution of disputes is of prime interest to IP rights holders. As the Advisory Council on Intellectual Property has pointed out:

> Effective enforcement of rights is a crucial aspect of the IP system. If owners of IP rights cannot enforce them in a speedy and cost efficient manner and with some certainty of outcome, then the IP system is significantly devalued … . An ineffective enforcement system is likely to result in a less than optimal level of innovation, a reduced transfer of technology and a consequent reduction in economic growth.[7]

Many commercial applications of intellectual property have only a limited product life, and an intractable dispute can easily exceed the marketability of the product. This is particularly the case for products such as software and fashion. Speed of the dispute resolution process is also critical in counterfeiting cases, where the presence of an imitation on the market can adversely reflect the trade mark owner's reputation or the prestige of their product. As the Australian Federation of Intellectual Property Attorneys observes, 'Whilst it is true that the problems confronting IP litigants are not unique … it is fair to say that the nature of IP litigation exacerbates problems inherent in the judicial processes of our higher courts.[8]

The need for efficient resolution of disputes may become a significant problem in litigation, where defendants can attempt to stall efforts at case management, and even in the most efficient of cases, the duration between the issuing of proceedings and trial is invariably a matter of months, if not years. Voluntary mediation, in contrast, is limited primarily by the caseload of an individual mediator, and although the caseload of well-regarded and highly specialised mediators can lead to some delays, mediation is generally possible within days or weeks of the disputants agreeing to its referral. In the IP context, it is practical and advisable to include with a contractual mediation clause a provision setting out a timeline for dispute resolution, and this is certainly advisory in cases where time is critical for the commercial viability of the IP rights.

2. Cost effectiveness

In response to concerns about litigation costs in the Federal Court, the Commonwealth Advisory Council on IP has publicly mooted the granting of IP jurisdiction to the Federal Magistrate's Courts after it was found that enforcement often represents 'a significant portion of the resources that businesses can commit to the development and commercialisation of an innovation.'[9] Costs are a major concern in IP litigation as jurisdiction for proceedings under the *Trade Marks Act 1995* (Cth), the *Patents Act 1990* (Cth), and the *Designs Act 1906* (Cth) rests with the state Supreme Courts and the Federal Court. Cases with a monetary equivalent of a Magistrates' Court or District Court claim must therefore be heard in the more expensive and cumbersome Supreme Court system or be filed in the Federal Court, which again is more expensive.

In terms of costs, mediation unquestionably is a more efficient process than litigation, providing that the parties reach a genuine settlement of the dispute that satisfies each party's key interests. While it is difficult to quantify the precise costs savings, at a

minimum, resolution at mediation saves the costs of trial, and pre-litigation mediation saves considerably more as expensive steps such as discovery are eliminated. At a systematic level, costs are saved on public resources such as courts and judges.

3. Confidentiality

Confidentiality is particularly critical in IP disputes, as the value of much IP rests partly in the fact that it is confidential. Litigation of the dispute may, in some cases, destroy the underlying value of the IP that is in dispute in the first place. This is particularly pertinent for cases involving confidential information or trade secrets, as litigation places on the public record a description of the subject matter of the dispute. Similarly, in patent cases, an alleged infringer will be required to disclose details of their own invention to prove that it does not infringe the plaintiff's patent, but in the process the confidentiality of the defendant's information will be compromised, and will potentially allow other competitors access to commercially valuable information. Additionally, the fact that ownership of IP is disputed, even if the claim is subsequently unfounded, may prejudice an enterprise's chance of attracting investors.

4. The expert mediator

Practising IP lawyers consider it important that those who resolve IP disputes have some degree of expertise in IP law. This is borne out by practitioners' responses to the proposal that certain IP disputes be referred to the Federal Magistrate, with written submissions from several law firms indicating that although they considered specialisation of IP judges is highly desirable, that the referral of IP disputes to the Federal Magistrate would not be appropriate as 'there is unlikely to be sufficient expertise within the Federal Magistrate's Court.'[10] Within the existing court structure, Australia, unlike other jurisdictions, does not have a dedicated court for IP disputes, although in practice certain judges of the Federal Court may routinely adjudicate IP matters. Nonetheless, a lack of comprehensive understanding of the subject matter has been cited as a problem in judicial determination of cases involving computer source code or internet-based technology, and generally in patent disputes.[11]

Specialised IP mediators are becoming increasingly more common. Familiar not just with the law and practice of IP, these mediators are skilled in the mediation process and therefore capable of using neutralising and mutualising skills. One example is the mediation service provided by the Arts Law Centre Mediation Service, a program of the Arts Law Centre of Australia. These mediators have a specialised understanding of copyright and other issues that relate to artists and performers, and one telling indicia of the success of this service is that the Queensland Government, in its contracts for collaboration with artists, provide that all disputes will be referred to mediation by agreement, or failing agreement, in accordance with the rules of the Arts Law Mediation Service. As will be discussed below, this type of specialisation is an important development that contributes to the uptake of mediation in IP disputes.

Uptake of ADR in IP disputes: enhancing the role of mediation

Although no quantitative studies have been conducted in Australia, US studies reveal that the use of mediation in IP disputes is significantly less than its use in other types of dispute. A survey conducted by the Cornell / PERC Institute of Conflict Resolution of 600 US corporations found that while mediation is 'near-standard practice' for disputes involving commercial or contractual issues (mediation being used in 77.7 per cent of this type of dispute), IP disputes used mediation in only 28.6 per cent of cases.[12] However the survey found that certain industry sectors are more likely to mediate IP disputes, namely the services sector (in which 44 per cent of corporations mediate IP disputes), the manufacturing industry (with an average of 59.5 per cent) and trading corporations (31 per cent). Other interesting results were that the mining and construction corporations surveyed mediate 100 per cent of their commercial, contractual and construction disputes, yet only 17 per cent of their IP disputes. Conversely, manufacturing corporations were shown to be more likely to mediate IP disputes than commercial, contractual or construction disputes.[12]

Anecdotal evidence suggests that this corresponds to a large extent with the Australian position, although a quantitative survey is certainly warranted. IP lawyers, through the Australian division of the international organisation FICPI, have identified a clear need for the introduction of better dispute resolution processes than the court system, stating:

> [I]t is crucial for SMEs and individuals that there be an 'as of right' alternative forum for bringing actions for the enforcement of IP rights where the procedures and costs are lower than those traditionally encountered in the superior courts.[14]

The FICPI in the same report indicated that it considered mediation useful, but that it does not presently consider it a viable replacement for adjudication in the court system. Although it is possible for mediation practitioners to dismiss this type of opinion as being uninformed, the author contends that it is really a call to mediation practitioners that there is an untapped market. If mediators with IP expertise can establish a visible presence, and present to IP lawyers and disputants the possibilities offered by mediation, then uptake of IP mediation is almost certain to follow.

Initiatives such as the Arts Law Centre Mediation Service, discussed above, provide a focal point for the mediation of different types of IP disputes. Similar initiatives can be encouraged by other specialised legal services, or by industry groups that represent those who rely heavily on IP rights, such as architects, engineers or software designers.

Similarly, at an international level, the World Intellectual Property Organisation (WIPO) has recently introduced its own mediation rules, providing a standardised procedural method for the referral of IP disputes to mediation. One unique characteristic of the WIPO rules is Article 13, which states that if the mediator believes the dispute cannot be resolved through mediation, the mediator can suggest alternative dispute resolution mechanisms that would be

'most likely, having regard to the circumstances of the dispute and any business relationship between the parties, to lead to the most efficient, least costly and most productive settlement of those issues.' Mechanisms specifically mentioned in Article 13 are expert determination, settlement or arbitration on the basis of 'last offers', and the conversion of the mediation to a med-arb process. The rules of confidentiality imposed in the WIPO rules are more extensive than most, requiring, inter alia, the destruction of all notes taken by all parties, and the return of documents such as briefs exchanged by the parties. Article 17 also prohibits the parties from introducing any aspects of the mediation into evidence in subsequent proceedings, including any suggestions made by the mediator. These rules could be more widely promoted by Australian mediators, for adoption in national and international disputes mediated in Australia.

These opportunities clearly extend to preventative dispute mechanisms. In this regard, there is great scope for dispute systems design in organisations that rely heavily on IP rights or are frequently involved in internal IP disputes. As David[15] and others indicate, the great strength of dispute management systems is that there is an extensive consultation process between the very parties that may otherwise become disputants, thereby at both a systemic and a relationship level reducing to possibility of future disputes.

Finally, the author advocates a tailored training program aimed at imparting mediation skills to legal and technical experts in IP. Adopting the models so successfully implemented in the area of family law, specialised mediation trainers could work with IP experts to develop mediation models that are further tailored to meet the needs of IP disputants.

Conclusion

It is clear that IP has a significant and increasing economic value, and that the legal system is being forced to deal with increasing numbers and types of IP dispute. This paper has sought to offer an alternative method for dealing with IP disputes, namely mediation. The obvious synergies between the needs of IP disputants and the processes offered by mediation make the two a clear match, but this is insufficient to 'wake the sleeping giant'. What is required is greater interaction between IP practitioners and ADR practitioners to encourage resolution of IP disputes through a method that is so clearly suited to their successful resolution. ●

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Endnotes

1. Patent disputes frequently fit within this category as a mere agreement of the validity of a patent would not be sufficient as against third parties and consequently further disputes may arise between different disputants. In this situation, a judicial determination is generally accepted by other parties and effectively prevents further attempts to invalidate the patent.

2. Based on interviews conducted by the author in January 2003.

3. As described by Boulle, L *Mediation: Principles, Process, Practice,*1996, Butterworths, Sydney. For further definitions see also Menkel-Meadow, C 'The Many Ways of Mediation' (1995) *Negotiation Journal* 217-42 at 228 and following.

4. See for example the Federal Government's Innovation Statement, which is a five year strategy to develop research, science and technology in Australia. See <www.backingaus.innovation.gov.au/default.htm>.

5. Fischer, T 'Speech by the Australian Deputy Prime Minister and Minister for Trade', paper presented at the APEC Intellectual Property Rights Expert's Group Meeting, Canberra, 1998.

6. See *Industrial Property: IP Activity in Australia and the Asia-Pacific Region*, 1998, Commonwealth of Australia, Canberra.

7. Advisory Council on Intellectual Property, *Issues Paper on the Extension of the Jurisdiction of Patent, Trade Mark and Design Matters to the Federal Magistrates Service*, 2001, Canberra, p 3.

8. Australian Federation of Intellectual Property Attorneys, *Submissions to the Advisory Council on Intellectual Property on the Possible Extension of Jurisdiction to Include Patent, Trade*

Mark and Design Matters, 2002, Melbourne, p 1.

9. Advisory Council on Intellectual Property, above, note 7.

10. Baker & McKenzie, *Submissions to the Advisory Council on Intellectual Property in Response to Its Issues Paper of February 2002 Entitled Review of Enforcement of Trade Marks*, 2002, Melbourne.

11. For a discussion of this issue in detail, see Australian Federation of Intellectual Property Attorneys, above note 8 pp 2-3.

12. Lipsky, D B and Seeber, R L 'Patterns of ADR Use in Corporate Disputes' (1999) Feb *Dispute Resolution Journal* 66 at 67.

13. Ibid.

14. Australian Federation of Intellectual Property Attorneys, above note 8 p 5.

15. David, J 'Designing a Dispute Resolution System' (1994) 1(1) *Commercial Dispute Resolution Journal* 26-38. See also Costantino, Cathy and Sickles Merchant, Christina *Designing Conflict Management Systems*,1996, Jossey-Bass Publishers, San Francisco.

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