

INTELLECTUAL PROPERTY AND ALTERNATIVE DISPUTE RESOLUTION – HOW NOT TO BE “STULTIFIED BY THE DEAD HAND OF UNRESOLVED LITIGATION”

By Mark Kelly

This article is about why alternative dispute resolution (ADR) methods, such as arbitration, expert determination, and mediation, are so apt for intellectual property disputes, and how we in New Zealand could improve in this field.

Why ADR is so apt for IP disputes

The American humourist Ambrose Bierce described a lawsuit as:

“A machine which you go into as a pig and come out of as a sausage.”

This description can be particularly apt for IP disputes fought through the courts. Such disputes can be complex, sophisticated, and expert-heavy. Consequently, they can be expensive. A compounding problem is that such disputes can be painfully slow – and delay can be kryptonite to innovation and market leadership.

The following are statistics cited by the World Intellectual Property Organisation (WIPO) on the duration and cost of patent litigation in UK and US Courts in 2006:

| | Average length | Average costs |
|-----------|----------------------------|-----------------|
| UK | First instance: 12 Months | Euro: 550k-1.5M |
| | Court of Appeal: 12 Months | Euro: 150k-1.5M |
| | Supreme Court: 24 Months | Euro: 150k-1.5M |
| US | First instance: 24 Months | USD 650k-5M |
| | Appeal: 12+months | USD 150k-250k |

(WIPO Paper by Ignacio de Castro and Alvaro Loureiro Oliviera, 27-28 November 2012).

Delay can be a particular concern in patent litigation, given that patents are of course of only finite duration. This point is well illustrated by the UK’s “case of the cockroach trap”. In 1998, a patent application was made for a cockroach trap invented by a professor at Southampton University. But ownership of the patent was contested by another party which also claimed to be the inventor. In 2006, the case was the subject of a decision by the English Court of Appeal in *IDA Ltd v The University of Southampton* [2006] EWCA Civ 145, 2 March 2006. In delivering the Court’s decision, Lord Justice Jacob raised significant concerns about the litigation of such cases, stating:

“Parties to these disputes should realise, that if fully fought, they can be protracted, very very expensive,

and emotionally draining. On top of that, very often development or exploitation of the invention under dispute will be stultified by the dead hand of unresolved litigation. That may be the case here: there has not yet been any exploitation by either side, some 8 years after the original PCT application... This sort of dispute is particularly apt for early mediation.."

The stakes can be very high. Each month of exclusivity for a pharmaceutical drug can be worth millions. Moreover, the life cycles for technical innovations are becoming shorter and shorter.

And these are the statistics cited by WIPO (in the source above) on the duration and cost of trade mark litigation in UK and US Courts in 2006:

| | Average length | Average costs |
|-----------|----------------------------------------------------------------------------------------|-------------------------------|
| UK | First instance: 10-12 Months Court of Appeal: 12 Months Supreme Court: 24 Months | GBP 100k-500k GBP 50k-250k |
| US | First instance: 2-5 years Appeal: 1-2 years | USD 350k-1.5M |

New Zealand IP disputes fought through the courts can take at least as long to dispose of. *Lucas v Peterson* was filed in the High Court in February 1999, and the Supreme Court decision was issued over seven years later, in March 2006 (*Lucas v Peterson Portable Sawing Systems Ltd* [2006] 3 NZLR 721 (SC). The *Geostel* litigation has been ongoing since 2005 (*Oraka Technologies Ltd v Geostel Vision Ltd* [2018] NZHC 769).

Another issue with the economics of IP litigation is that damages can be extremely difficult to quantify. As Victoria University Associate Professor Susan Corbett has stated:

"Arguably, an intellectual property right can be precisely valued in only two situations: when it expires, and when a Court rules that it never existed in the first place. In both instances, the value of the intellectual property right is zero."

("Mediation of Intellectual Property Disputes: A Critical Analysis", NZBLQ, March 2011, citing: Kevin Lemley "I'll Make Him an Offer He Can't Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes" (2004) 37 Akron L Rev 287 at 291).





The courts can also be conservative in their approach to damages in IP cases. An example of this can be seen in the New Zealand decisions on additional damages for breach of copyright. In the G-Star case (*Jeanswest Corporation (New Zealand) Limited v G-Star Raw C.V. CA764/2013 [2015] NZCA 14*), the Court of Appeal set out a schedule of additional damages awards cases in New Zealand. It referred to only one award that was over \$20,000.

IP litigation is also an uncertain beast. In New Zealand we do not of course have a specialist IP bench. A judge may be coming to the field fresh, which can be challenging. And winning a case at first instance is no guarantee of ultimate success. In the US, appeals are successful in over 30% of IP cases (see: Eisenberg, Theodore, "Appeal Rates and Outcomes in Tried and Nontried Cases: Further Exploration of Anti-Plaintiff Appellate Outcomes" (2004) *Cornell Law Faculty Publications* Paper 359, p672). I suspect that a similar statistic applies here.

So, there are some particular issues with litigating IP cases through the courts. How can ADR make a difference? Why is ADR so apt for IP cases?

Arbitration and expert determination allow parties the luxury of choosing their own dispute resolver, who has relevant expertise. This is incredibly significant. And the possibilities here extend beyond legal expertise. Parties can also agree to appoint a subject matter expert, such as a scientist, an engineer, or a marketing expert, to help resolve their dispute.

Arbitration and expert determination also allow parties latitude to design their own procedural rules, and determine the time and place of any hearing to suit themselves. This can be a huge aid to speedy dispute resolution.

Arbitrations and expert determinations are generally harder to appeal, and so give greater finality. Arbitral awards, in particular, can also have arguably greater international resonance, and enforceability – so important when so many IP disputes are multi-jurisdictional.

So, through arbitration and expert determination, parties to IP disputes can potentially achieve better-informed decisions, which are obtained more quickly, and which are more robust.

Mediation gives parties the chance to settle IP disputes. Settling IP disputes enables parties to avoid the costs, delays, marginal returns, and uncertainties of litigation. Settlement can also unlock a far broader range of resolution options. The following is a non-exhaustive list of what a settlement agreement can achieve in an IP dispute that a determinative process cannot order:

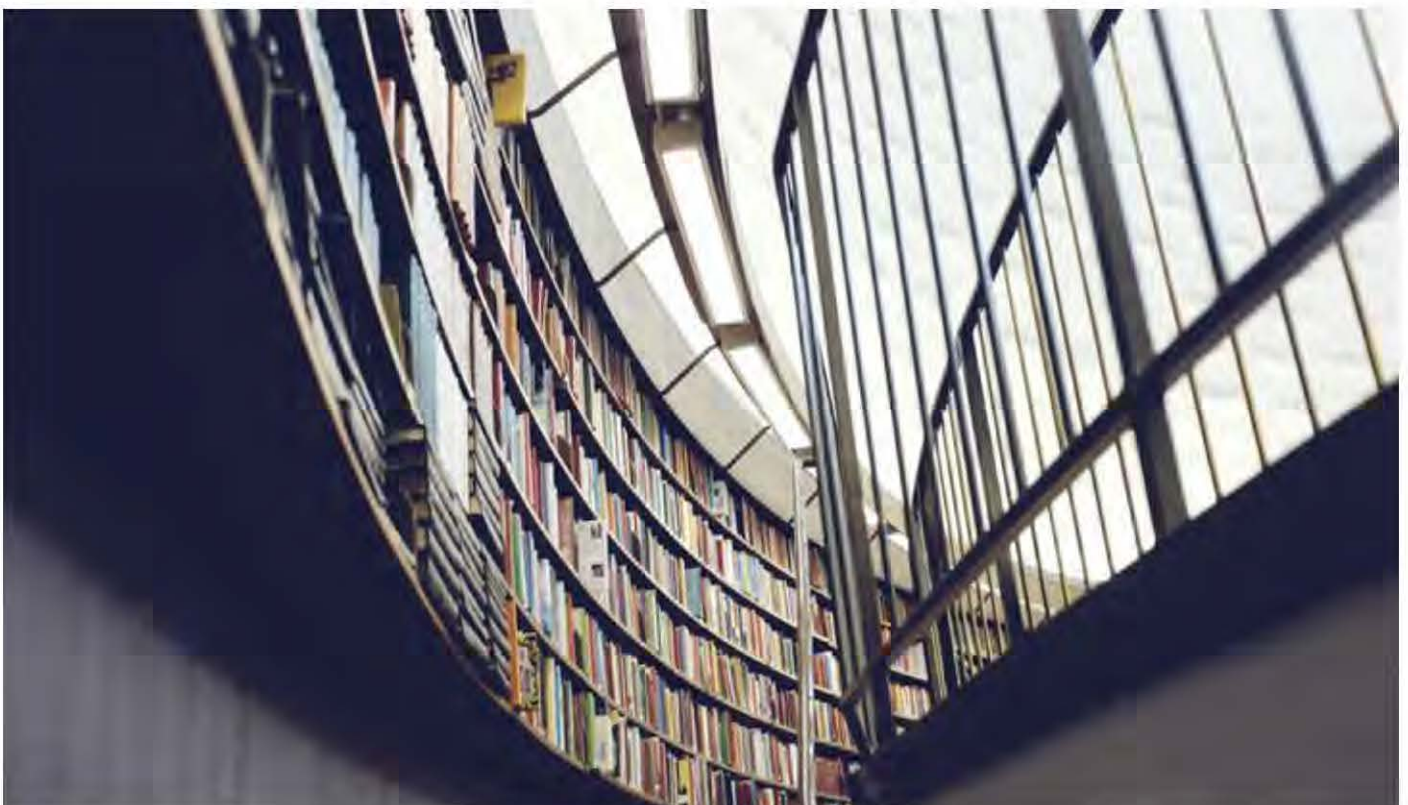
- Cross-licences;
- Agreements as to territories for sale;
- Trade-offs between competing IP rights;
- Negotiated royalty rates;
- Agreements not to sue, and agreements not to oppose;
- Agreements to changes in the IP rights to be claimed: e.g.: classes for a trade mark, narrowing of claims for a patent;
- Agreed redesigns, rewordings, reworkings; and
- Apologies.

In fact, the opportunities for “value-add” in settlement are probably richer in IP than in any other field of commercial litigation.

At this point, some might say: “*can’t we achieve all of that through negotiation? Why do we need to mediate?*”. But research shows that mediation can greatly increase the chances of achieving settlement, and of such settlements being lasting and effective. There are also intangible benefits to mediation. In particular:

- Mediation can be the best way to repair relationships. A lot of hard-nosed lawyers scoff at the importance of relationships in commercial disputes. They are wrong to do so. In a speech on mediation in 2015, Lord Neuberger, then President of the UK Supreme Court, cited a 2007 UK survey, “*which reported that 47% of respondents involved in commercial litigation admitted that a personal dislike of the other side had been responsible for driving them into costly and lengthy litigation*”.

(From address by Lord Neuberger to the Civil Mediation Conference, 12 May 2015, citing: <http://www.newlawjournal.co.uk/nli/content/litigation-v-mediation>)



- It provides the opportunity for catharsis. For many parties, a mediation will be the only chance they get to have their say, short of trial; and
- Mediation gives parties to IP disputes a particularly good opportunity to look at matters in a practical, problem-solving way. Leading UK IP mediator Jon Lang recommends that samples be brought along to mediations, and says that:

“Many cases have been settled with parties looking over products bearing an allegedly infringing trade mark, or which are said to infringe another’s design right, with parties suggesting changes that could be made to resolve the dispute”

(in *How to Master Commercial Mediation*, Richbell et al, Bloomsbury, 2015, at p207)

How we in New Zealand can improve in this field

Worldwide, more and more IP disputes are being resolved using ADR. IP showed the highest growth in mediation use of any specialty area in the US between 1997 and 2011 in Professor Tom Stipanowich’s US Fortune 1000 survey, published in the Harvard Negotiation Law Review. In the UK, Herbert Smith Freehills has reported a growth in international IP arbitration (see: <http://hsfnotes.com/arbitration/2014/06/06/wipo-spring-cleans-its-arbitration-rules/>) and mediation services (see: <http://www.wipo.int/amc/en/center/caseload.html>). WIPO has also been partnering with intellectual property offices worldwide to promote ADR schemes.

Here in New Zealand we may not be not so strong on this. Whilst ADR is well-used in many fields of dispute, anecdotal evidence, and informal surveys, would suggest that it is not so well-used in IP disputes. Part of the problem here may be attitudinal. I have heard local IP litigators say things like: “*but we need our precedents*”, “*why mediate when I can negotiate?*”, and “*I would only mediate if I am against a lay-litigant*”. To the precedent point, I would note that ADR has been flourishing in construction, insurance and general commercial litigation for decades, but the law reports are still full of cases in these fields. The truly knotty cases can, will, and often should, be resolved by IPONZ Commissioners and the Courts. The other points I hope are answered above.

We also have infrastructure issues here. In distinction to many jurisdictions (including the UK and Australia) we do not have a mediation scheme attached to IPONZ. Until very recently (and more on this in a moment), there has been no ready way, beyond word of mouth, to find IP ADR practitioners.

What to do? The converted should proselytize if folk will be kind enough to listen/read. IP litigators should take the plunge, or take it more often (your clients will thank you for it). IPONZ has given some consideration to a mediation referral option, and it would be tremendous to see that become a reality. And the Arbitrators’ and Mediators’ Institute of New Zealand has now established an IP Dispute Resolvers List, which can be accessed via its website.

One of the wonderful things about New Zealand is that when we do commit to things, we can do so quickly, and in a nimble, creative way. I would suggest that we can and should commit to improving the use of ADR in IP here. Who really wants to be stultified by a dead hand?

ABOUT THE AUTHOR



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Background

Mark graduated LLB (Hons) BA from Auckland University in 1993, and was admitted to the New Zealand bar in the same year.

From 1994-1998, Mark was a litigator at Russell McVeagh. In 1999 he worked in Dublin, at A & L Goodbody, Ireland's pre-eminent firm. From 2000-2004, he was a litigator at Simpson Grierson. Since 2005, he has been a barrister, practising from Park Chambers, Auckland.

Advocacy

Mark has broad experience in litigating company, construction, contract, employment, estates, finance, insurance, intellectual property, medico-legal, negligence, partnership, property, trusts and weathertightness disputes.

Commercial Mediation

Mark completed the Mediating Disputes course at Harvard Law School. He is a Fellow of the Arbitrators' and Mediators' Institute of New Zealand, and an AMINZ Council member. Mark is also a Resolution Institute-trained and accredited mediator.

He has successfully mediated disputes involving: company, construction, contract, earthquake, education, employment, finance, insurance, intellectual property, negligence, partnership, property, relationship property, rural, sexual harassment, trust and weathertightness issues. He has worked with local and international parties.

Mark was the winner of the Resolution Institute's 2015 award for contribution to dispute resolution by an emerging practitioner. In 2016 he was recognised as one of the top 10 mediators in New Zealand by LawFuel. He was also awarded the AMINZ Ann Edge Memorial Award for Excellence in Fellowship Mediation and the Fellowship Mediation Prize.