

What does it cost to defend your IP RIGHTS?

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The continued rise in demand for intellectual property (IP) rights suggests that with an underperforming economy the importance of IP rights is only growing. The expanding commercialization of technology, illustrated by record numbers of international patent filings (see *World Intellectual Property Indicators Report 2012*) points to a long-term trend with inventors increasingly patenting their inventions in multiple countries. The corresponding growth of international business transactions brings with it an increased risk of IP-related disputes. The resources required to handle such disputes can be considerable, especially if the dispute involves litigation in multiple countries. At the same time, such disputes place a serious burden on the continuation and expansion of business. Careful consideration of the risks associated with technology-related disputes goes a long way in preventing, and resolving, disputes. But what is the best strategy to adopt? What are the best practices in this area and what trends are emerging? To gain a better understanding of technology-related dispute resolution practices, the WIPO Arbitration and Mediation Center (WIPO Center) recently conducted an international survey to gauge how alternative dispute resolution (ADR) mechanisms, such as mediation and arbitration, fare compared to court litigation when it comes to resolving such disputes.

"The survey confirms that parties to technology-related agreements are worried about the high costs and lengthy timelines of disputes, especially in an international context," noted WIPO Director General Francis Gurry at the launch of the survey report. "While court litigation remains the default path, survey responses indicate that ADR offers attractive options in terms of cost and time, as well as enforceability, quality of outcome, and confidentiality," he added.

The survey offers a number of interesting insights into current dispute resolution practices across a broad range of business areas.

TECHNOLOGY-RELATED AGREEMENTS CONCLUDED IN THE PAST TWO YEARS

Of the types of agreements listed in the survey, participants most frequently concluded non-disclosure agreements, followed by assignments, licenses, agreements on settlement of litigation, research and development (R&D) agreements and merger and acquisition agreements.

About the survey

The International Survey on Dispute Resolution in Technology Transactions (www.wipo.int/amc/en/center/survey/results.html) assesses current use and emerging trends in the use of ADR mechanisms compared to court litigation in technology disputes. It was distributed to companies, research organizations, universities, government bodies, law firms, individuals and other entities involved in technology transfer and technology disputes worldwide. It captures data about the types of technology-related agreements concluded in the past two years; the types of disputes arising from these agreements; the methods used to resolve them; and the reasons behind this.

The survey's findings are based on the 393 responses received by the WIPO Center from small (employing 1-10 people) to large entities (employing over 10,000 people) in 62 countries and operating in many different business areas, including pharmaceuticals, biotechnology, information technology, electronics, telecommunications, life sciences, chemicals, consumer goods and mechanical engineering. In addition to written submissions, over 60 telephone interviews were conducted with stakeholders in 28 countries.

The survey was developed with the support of an expert group comprising in-house counsel and external experts in technology disputes from a broad range of jurisdictions and business areas, various professional associations, including the International Association for the Protection of Intellectual Property (AIPPI), the Association of University Technology Managers (AUTM), the International Federation of Intellectual Property Attorneys (FICPI) and the Licensing Executives Society International (LESI), and with assistance from the WIPO Economics and Statistics Division.

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Finding a business solution is the prime objective of companies focusing their dispute resolution strategy on mediation.

The subject matter of such agreements related more often to patents than to know-how or copyright.

Reflecting the globalization of the business landscape, over 90% of participants indicated they had concluded agreements with parties from other jurisdictions, and 80% had concluded patent-related agreements with parties from other jurisdictions on technology patented in at least two countries. The choice of applicable law made in these agreements was influenced especially by the location of the participants' headquarters and the primary place of their operations.

AGREEMENTS LEADING MOST OFTEN TO DISPUTES

The survey shows that while, overall, disputes occurred in relation to some 2% of participants' technology-related agreements, licenses most frequently gave rise to disputes (among 25% of participants). R&D agreements ranked second (among 18% participants), followed by non-disclosure agreements (16%), settlement agreements (15%), assignments (13%), and merger and acquisition agreements (13%). Licensing disputes involving survey participants concerned issues such as the scope and existence of a license, quality standards, profits and determination and payment of royalty rates.

This reflects the experience of the WIPO Center. Forty percent of the technology-related cases handled by the WIPO Center relate to licenses, 7% to R&D agreements and 2% to settlement agreements.

CHOICE OF DISPUTE RESOLUTION CLAUSES

The survey indicates that 94% of the participants negotiate dispute resolution clauses as part of their contract negotiations.

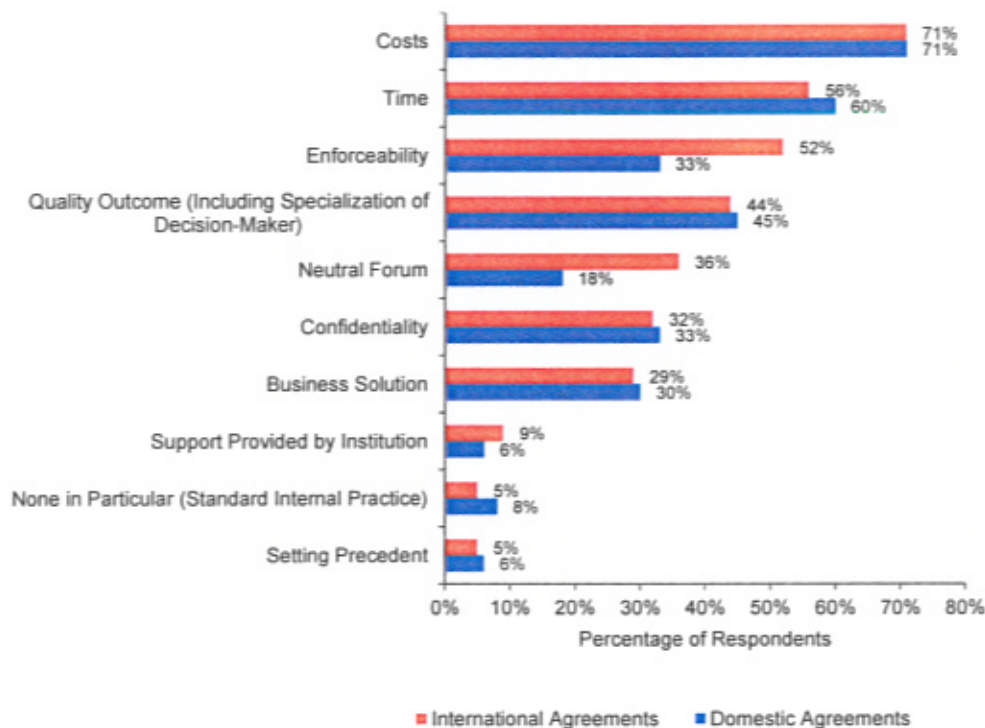
Court litigation is the most common stand-alone dispute resolution clause (32%), followed by (expedited) arbitration (30%) and mediation (12%). Mediation is also included where parties use multi-tier clauses (17% of all clauses) providing for mediation prior to court litigation, (expedited) arbitration or expert determination.

The choice of arbitral institution broadly corresponds to the location of survey participants' headquarters.

In the WIPO Center's experience, 76% of mediation and arbitration cases administered are based on dispute resolution clauses included in existing agreements. These clauses stipulate that future disputes shall be submitted to WIPO mediation and/or (expedited) arbitration. The remaining cases are based on agreements specifically submitting an existing dispute, for example, in relation to patent infringement, to WIPO mediation and/or (expedited) arbitration.

Sixty-six percent of WIPO cases have been based on stand-alone dispute resolution clauses out of which 38% provided for arbitration, 25% for expedited arbitration and 38% for mediation. In 34% of cases, parties included multi-tier dispute resolution clauses providing for mediation, followed by (expedited) arbitration.

Main Considerations When Negotiating Dispute Resolution Clauses



Source: WIPO Arbitration and Mediation Center, International Survey on Dispute Resolution in Technology Transactions

PRIME CONSIDERATIONS

Cost and time are the prime concerns when negotiating dispute resolution clauses, both in domestic and international agreements. The survey shows that for international agreements, other considerations include enforceability and forum neutrality. Finding a business solution, however, is the prime objective of those focusing their dispute resolution strategy on mediation, both for international and domestic agreements.

OBJECTIVES OF DIFFERENT PARTIES

For both contractual and non-contractual disputes, patent issues arose nearly twice as often as copyright or know-how issues. The main objectives of claimant parties in patent disputes were to obtain damages/royalties (78%), a declaration of patent infringement (74%), and/or injunctions (53%). The main objectives of respondent parties in patent disputes were a declaration of patent invalidity (73%), a negative declaratory judgment (33%), and/or a declaration of patent infringement (33%).

Some 40% of the WIPO Center's arbitration and mediation cases relate to patents. In these cases - almost all of which are contractual - remedies requested include damages, royalty payments, declarations of non-performance of contractual obligations and/or of patent infringement, a declaration of un-enforceability of a patent against a licensee, or, principally in mediation, entering into a contract.

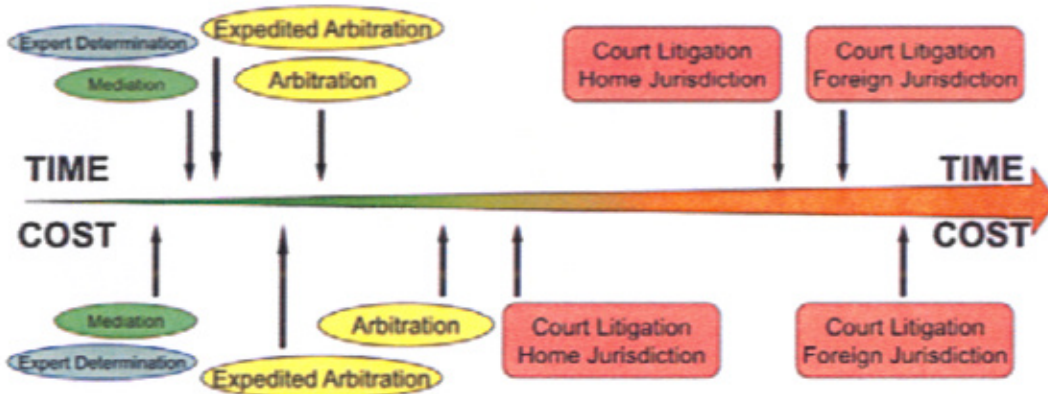
MECHANISMS USED TO RESOLVE DISPUTES

Broadly consistent with survey findings concerning the choice of dispute resolution clauses, the most common mechanism used to resolve technology disputes was court litigation in both home and foreign jurisdictions, followed by arbitration, mediation, expedited arbitration and expert determination.

The survey participants indicated that they spend more time and incur significantly higher costs in court litigation than in arbitration and mediation. The estimated duration of court litigation in a home jurisdiction was on average 3 years and costs around

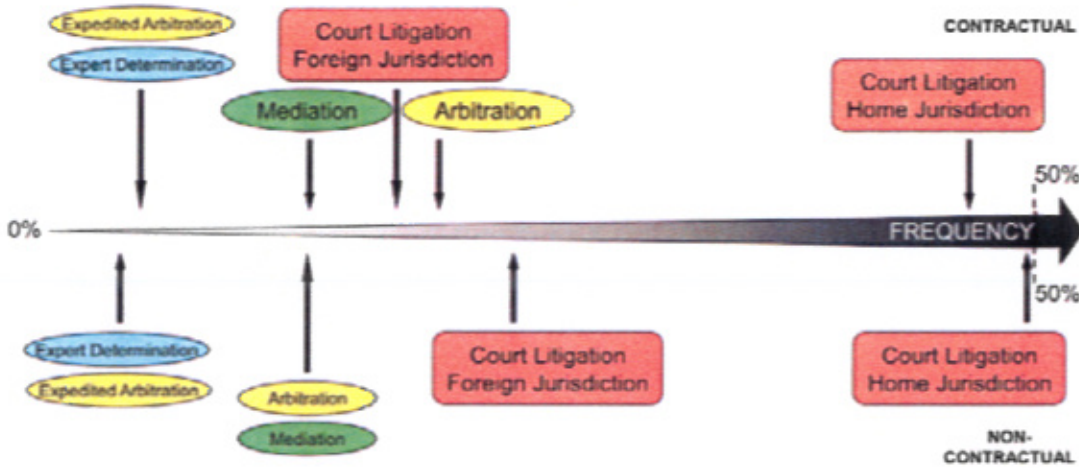


Relative Time and Costs of Resolving Disputes through Court Litigation, (Expedited) Arbitration, Mediation, Expert Determination



Source: WIPO Arbitration and Mediation Center, International Survey on Dispute Resolution in Technology Transactions

Relative Use of Court Litigation, (Expedited) Arbitration, Mediation, Expert Determination



Source: WIPO Arbitration and Mediation Center, International Survey on Dispute Resolution in Technology Transactions

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US\$475,000. Litigation in another jurisdiction takes around 3.5 years with legal fees of just over US\$850,000.

In contrast, the survey shows that mediation takes on average 8 months, and in the majority of cases costs less than US\$100,000. Arbitration takes on average just over a year and typically costs around US\$400,000.

By comparison, in the WIPO Center’s experience, mediation under WIPO Rules takes on average 5 months and costs on average US\$21,000. Arbitration cases under the WIPO Expedited Arbitration Rules take on average 7 months and cost around US\$48,000 and cases under the WIPO Arbitration Rules, often involving patents protected in several jurisdictions, take on average 23 months and cost some US\$165,000 (48% of such cases involving a three-member tribunal and 52% a sole arbitrator).

On top of the monetary costs, dispute resolution also ties up the time of business executives and others participating in the proceedings. Involvement in such disputes can also translate into reduced productivity and missed business opportunities.

OBSERVATIONS FOR DISPUTE RESOLUTION IN TECHNOLOGY TRANSACTIONS

It is clear that no one dispute resolution mechanism can offer a comprehensive solution in all circumstances. Indeed, each transaction is likely to have its own dispute resolution requirements. It is for the parties involved to assess the specific circumstances of a transaction and to determine the most appropriate way to resolve any disputes that may arise. The WIPO Center’s survey, however, does offer some useful guidance for those involved in developing dispute resolution strategies. Key insights include:

- The need to anticipate the risk of disputes in contracts. Although dispute resolution provisions are often regarded as a relatively minor element in contract negotiations, the time and costs associated with any subsequent dispute mean that parties cannot afford to ignore this aspect.
- The need to take account of the risk of foreign litigation and to anticipate the international nature of the parties, rights and law involved.
- The cost of court litigation in a foreign jurisdiction, and sometimes in a home jurisdiction, typically exceeds that of ADR mechanisms. When crafting dispute resolution strategies, it is therefore important, while taking account of the specifics of a given transaction, to focus on keeping costs and time to a minimum.
- Mediation can be a valuable part of a dispute resolution policy, with high settlement rates yielding significant time and cost savings. Adding arbitration as a next step in a multi-tier approach can enhance the chances of settlement if mediation fails.
- In relation to international patent disputes, which have important time and cost implications, when deciding whether to opt for court litigation or ADR mechanisms, it is important to take account of any existing specialized courts and judges, bifurcation of proceedings, availability of injunctions, possible parallel litigation, and enforceability. ♦