Kluwer Mediation Blog

A User Perspective: First-hand Mediation Experience in an International Patent Dispute

Esther Pfaff (Associate Editor) (Hoffmann Eitle) and Frank Gerhards (Bayer Intellectual Property GmbH) · Saturday, January 30th, 2021

In this interview, Dr. Frank Gerhards shares his experience in using mediation proceedings to successfully resolve an active ingredient patent dispute between two major crop protection companies. Dr. Frank Gerhards is a qualified German patent attorney and representative before the European Patent Office, employed with Bayer Intellectual Property (BIP) since 2006 and group leader since 2010. In his role he is frequently involved in patent litigation and the related settlement negotiations.

The interview was conducted by Dr. Esther Pfaff, Counsel at the IP litigation firm Hoffmann Eitle (Munich) and Assistant Editor to the Kluwer Mediation Blog.

1. Dr. Gerhards, can you briefly describe the underlying patent dispute and your previous experience with mediation?

The dispute leading to the mediation we are going to discuss in more detail was a patent dispute between Bayer and a major competitor in the field of active ingredients of herbicides. Several attempts to settle the dispute had failed due to diverging value and risk assumptions. The dispute originally started in Europe and evolved into a global dispute involving several infringement and invalidity lawsuits in various important markets. As patent protection is territorial, patent enforcement is national and requires parallel litigation in various jurisdictions.

In the beginning there was considerable skepticism on both sides as the negotiation path had been more than exhausted. But in view of the impasse and the perspective of considerable amounts of time and money spent in these global disputes, mediation was finally considered as a worthwhile and purely party-driven attempt to come to an amicable solution. At the time we considered mediation, the stage for litigation was already set, venues had been selected and proceedings were ongoing.

Despite being continuously involved in patent disputes in my profession, this was the first time I participated in an attempt at mediation. The benefits of mediation are still not commonly known in the industry and mediation is rarely made use of for conflicts of that scale, at least in Germany.

2. In your opinion, is mediation a suitable tool to handle international IP disputes?

Patent disputes are usually highly complex, very expensive and involve an extended period of legal

uncertainty. Often, they involve an emotional component, as both sides are convinced of their respective legal positions. If representatives of large companies are involved, personal reputation or even a career perspective might be at stake giving the conflict a personal dimension as well. This may result in accusations of unfair or aggressive behavior in the market and/or patent trolling. The combination of the economic and technical complexities combined with emotional factors render even the initiation of settlement talks difficult or even impossible. Conversely, court proceedings are not necessarily the optimum way to resolve such a dispute, because decisions can only be made within the framework of the national procedural rules. Thus, they are inherently narrow and do not offer a solution beyond the respective jurisdiction. In addition, court proceedings may take several years per instance. The outcomes are not very predictable and may differ from country to country. If the lawsuit involves an established product on the market, at least one of the parties may be forced to set aside substantial provisions, which may bind large amounts of capital. Early legal certainty can therefore be extremely valuable. In such a situation, mediation can be a very useful tool to establish a clear perspective early on, taking all legal and commercial interests of the parties into due account.

3. What would you then say is the reason for the hesitation in the industry to use mediation more often?

The advantages of mediation in such a context are so obvious that one would expect mediation to be used much more frequently. We believe that key reasons for the limited use of mediation are (i) overconfidence in the parties' own legal position and (ii) a lack of understanding of the nature of the actual mediation process. In some cases, there may also be (iii) a misconception among the parties that mediation must always result in a settlement, even if the outcome is to the detriment of one of them.

4. Was the mediation process structured in a particular way to deal with the complexity of your case?

The mediation was structured in a rather classic manner, consisting of pre-mediation phase with an exchange of position papers and a confidential preliminary talk, a full-day mediation session and a post-mediation phase. The complexity of the dispute did not lead to a completely different approach, but we found that an extensive pre- and post-mediation phase was vital to its success. While these phases are sometimes almost a bit neglected in traditional mediation, they were most important for reaching a settlement in our case.

5. How did the mediator organize the pre-mediation phase?

Apart from a confidential talk with the mediator, to get to know each other and understand the context of the dispute, we received a list of questions to consider:

• What is the meaning and impact of the dispute for our own organization?
• What was the triggering event for the dispute?
• What factors have hindered the resolution of the dispute in the past?
• Which measures could have avoided the dispute?
• What expenditures are and have been made for the dispute and what are the chances of prevailing in court?

The assessment of these questions during the internal drafting of the position papers, together with different stakeholders and senior management was a valuable and important experience for the

negotiation team. Despite the extensive prior discussions and negotiations, the intense preparation leading up to the mediation revealed new aspects and lead to a more realistic assessment of the pros and cons of continuing the dispute in traditional forums.

6. And after a successful mediation session, what made the post-mediation phase particularly important?

The post-mediation phase was needed to flesh out the settlement agreement and to accompany its execution. The settlement required the conclusion of several contracts, it was therefore only possible to sign a Memorandum of Understanding at the end of the session. As the business relationship between the parties was strained due to the dispute, the risk that the parties would not be able to agree on the details of the settlement despite a general understanding should not be underestimated. It is highly recommendable to have the mediator supervise and support the entire process up to the signing of the actual agreement.

In our case, the support in the post mediation phase consisted of the formation of sub-working groups (tax, legal, etc.) to exchange and negotiate the individual settlement agreements. As in this setting numerous drafting agents and stakeholders are usually involved, there are also numerous opportunities for the conflict to spark up again. We held regular status calls with the mediator and both parties and a 2nd mediation session when the negotiations reached a crisis point. Without intensive shuttle mediation at this late point, the entire settlement might have fallen part.

In retrospect, an even more intense involvement of the mediator or a schedule for more frequent status-calls agreed upon in advance might have been desirable, to avoid a renewed escalation of the conflict.

7. That is very interesting. Did the impending court litigation have a negative impact on the mediation sessions?

The time restraints of legal actions which are running in parallel may have a positive impact on the willingness of the parties to settle. While impending court actions may cause tension and hostility, they can also foster and speed up the entire process.

8. So the experience changed your attitude towards mediation for this type of dispute?

Yes, definitely. Mediation could become a more frequently used tool to facilitate complex, multi-national negotiations. We could observe a more disciplined negotiation attitude on both sides in the presence of the mediator. It is therefore worthwhile to try mediation even if the negotiation path appears to be exhausted.

Finally, compared to the pending lawsuits, the mediation was highly cost efficient and resolved the dispute immediately, finally and globally.

9. As a final remark, is there anything you would like to pass on to other practitioners?

I think a main take-away is to not stop mediation too early, i.e. to not underestimate the structural challenges which large entities face up to the final signature of a settlement agreement.

Other than that, we found it immensely valuable to find a framework where the focus is shifted from the ongoing court proceedings and the issues that would have to be dealt with in court

submissions to the commercial aspects of the dispute. We had intentionally selected a mediator who was skilled but not specialized in IP. His approach helped the parties to see the greater picture and keep the focus on the overall business case and the business relation between the two parties. And that shift in focus, based on this experience, is the real value of mediation, next to saving time and resources that would otherwise be spent in litigation.

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