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Norman L. Balmer

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Abstract
Mr. Balmer relates how ADR allows attorneys to tailor rules to resolve disputes in light of, e.g., party relationships and internal dynamics. He notes that, for life to go on, having resolution is itself an important goal.

Keywords
dispute, controversy, disagreement, patent, trade secrets, resolution, mediation, ADR

Alternative Dispute Resolution in Patent Controversies

Norman L. Balmer*

The main topic here is: "Which scientist do you believe?" Few people are likely to think of patent disputes in such a context, but the question is often central. The subtopic is alternatives for resolving such disputes. Here, too, it is useful to consider experience with patent (and other intellectual property such as trade secrets) disputes.[1]

Pragmatic Concerns

Does patent litigation provide a suitable return on investment? One study provides an interesting perspective.[2] Of 152 reported cases involving damages during 1982–92, the top five represent about 75% of the aggregate of all amounts awarded. That leaves an average of about $3 million per case for each of the remaining 147. If the top 25 cases are removed, the average award in the remaining 127 was slightly over $600,000.

To average people, this is a vast sum, but major companies project $1.5 to $5 million for out-of-pocket patent litigation costs through trial. Lost opportunity and internal costs can far exceed this. Thus, usually patent litigation seems to be a poor investment for winners and worse for losers — particularly when costs must be cut to pay damages. This can mean layoffs, research cut backs and divestitures. Such concerns, however, are not unique to patent disputes.

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* Mr. Balmer is Chief Patent Counsel, Union Carbide Corporation and has been very much involved with alternative dispute resolution. He received his B.S. (Chemical Engineering) from Pennsylvania State University and his J.D. from the George Washington University National Law Center.

1 *See also,* Arbitration of Patent and Other Technological Disputes, 18(4) Idea (1976) (contains sixteen papers, including one by Arthur Kantrowitz). [Ed.]

2 Ronald Coolley, *Overview and Statistical Study of the Law on Patent Damages,* 75 J. Patent & Trademark Office Soc'y 515 (1993).

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Why does patent litigation occur? Why do so many disputes progress through litigation, only to be settled after the expenditure of handsome sums of money?

The answer to these questions is not necessarily that patent owners and alleged patent infringers are insane, or that parties are so swayed by litigation counsel that they do not see the forest for the trees. More likely, parties cannot resolve the dispute themselves. We have always looked to others to settle disputes. As children, spats among siblings were referred to the highest authority, Mom. The power of Mom as a negotiating tool was not lost on me or my siblings. Going to Mom was a negotiating strategy that we honed to a fine skill. In the right environment, it evoked sheer panic and sought compromise.

The threat of litigation can have similar effects. Litigation brings cost pressure to bear. Discovery converts suspicions into knowledge, and emotions have time to wane during the long and tedious litigation process. Litigation can thus be a useful, but expensive, tool to achieve settlement, and if necessary, resolve a dispute.

But this may only be effective if both parties can afford to go to the mat. It is not surprising that less pecunious patent owners are upset after spending tens if not hundreds of thousands of dollars, often their life savings, before reaching the initial stages of litigation.

A patent court in which the judges have not only familiarity with the law but also with technology has often been suggested. A dispute involving an improvement to a catalyst would then not require educating the judge about what a catalyst is — or even what chemicals and chemical reactions are. An alternative is to use technically trained arbitrators, but at one time this was frowned on by the courts.

Technical issues arise in other fields of law, e.g., environment, toxic tort and medical malpractice. However, there is little pressure for specialized courts, and, at least in private disputes, the capacity to use binding arbitration seems never to have been questioned. What is unique about patent disputes? There are several answers.

Distinctions Between Patent and Other Disputes

Public Policy

Patents and other intellectual property — trademarks, copyrights, trade secrets and know-how — can be characterized as a right to prevent others from doing something. Intellectual property need not be technology-based to have commercial effects. Anyone who uses "Big Mac" to describe a hamburger without MacDonalds' permission; copies "The Client" without Bantam-Doubleday's permission; or makes, uses or sells a product covered by claims of a patent without permission, infringes. In this regard, intellectual property rights are parallel to those in real estate: Owners can prevent trespassing.

Why should intellectual property have more "public policy" implications than real estate? Unlike real estate, denial of access to intellectual property can have significant costs. If you deny me permission to picnic on your land, I can find another place. Yes, real estate can have a unique value such as at 46th and Park Avenue in Manhattan, but it has only a local effect. In contrast, intellectual property can have nationwide, if not worldwide, impact.

Creative businesses seek to leverage intellectual property, and sometimes something less, into profits. With intellectual property you may be able to put competitors out of business. This is where antitrust can come into play. The Department of Justice for nearly one-half century has issued Guidelines addressing intellectual property misuse. Also, procurement of a patent through fraud led to a violation of § 2 of the Sherman Act (monopolizing or attempting to monopolize).[3] That the Sherman Act can be enforced with criminal penalties demonstrates that it involves more than purely private interests, but even antitrust cases are increasingly viewed as arbitrable.[4]

For several years, arbitration of patent disputes was also viewed with hostility. For instance, Judge William Conner, likely to be the only former patent attorney now siting as a federal district court judge, held

3 Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp., 382 U.S. 172 (1965).

4 *See* Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985). *See also,* Syscom International Corp. v. SynOptics Communications, Inc., (E.D.N.Y, No. CV94-2025, June 28, 1994).

that arbitration was inappropriate for resolution of patent validity disputes.[5] Yet, it seems that attention to nonparty impacts served little purpose beyond permitting parties to renege on their obligations. Those arguing "public policy" were moved not by altruistic concerns but a desire for a possibly more favorable forum. In any case, the patent profession sought and obtained Congressional relief.

Legislation now permits parties to arbitrate patent validity,[6] but the Patent and Trademark Office must be notified of awards. To put things into perspective, consider that parties who arbitrate antitrust claims have no statutory obligation to inform the Department of Justice — even if an antitrust violation is found. Could it be that individuals involved in patent disputes are less trustworthy than those involved in antitrust disputes? It is hard to see why.

Characteristics of Patent Attorneys

Another difference helps explain why patent disputes are unique. Unlike most attorneys involved in disputes turning on issues of science or technology, patent attorneys have their upbringing in engineering and science.

Thus, they attack the law with exacting precision that only a scientist or engineer can understand or tolerate. Perhaps the only reason that the arbitrability of patent, but not antitrust, disputes is treated by statute resides in patent attorneys' desire for precision and their lack of patience in sorting out policy in the courts.

Also, most lawyers and judges lack technical training and know little or nothing about intellectual property, particularly patents. Thus, patent lawyers may be more concerned (than lawyers without technical training) about having disputes resolved by judges unfamiliar with both relevant law and technolgy. They may also be more concerned about trying cases before jurors who have, at best, great difficulty deciding which set of scientists or engineers to believe. This is why "alternative dispute resolution" (ADR) can have a major role to play.

5 Foster Wheeler Corp. v. Babcock & Wilcox Co., 440 F.Supp. 897 (S.D.N.Y. 1977).

6 P.L. 97-247 § 17, 96 Stat. 322-23 (1982) (inserting § 294 into 35 U.S.C. (the patent statute)).

Alternative Dispute Resolution

What is ADR? At least in the context of patent litigation, it is *any* mechanism for parties to resolve their dispute other than through traditional court litigation. It is anything that you want it to be; it can be very simple or complex. ADR can involve full discovery, testimony before several arbitrators and a right to appeal. It can even be limited-scope litigation. ADR can occur anywhere between the time the parties' realize a dispute exists and the time that the winning party is satisfied or the loser has exhausted appeals.

Parties can design whatever process they mutually desire. There is no cookie cutter. What works in one situation may fail in another. Attorneys are of value to clients because they know the rules. ADR gives attorneys the additional advantage of being able to *make* rules that maximize opportunity for success in light of party relationships, the internal dynamics of each party, and the nature of the dispute, including the fact issues.

Broad types of ADR beg for tailoring. These range from non-assisted discussions through mediation, neutral fact finders, case exposure (such as mini-trials), arbitration (binding and non-binding) and limited issue litigation.

Even *non-facilitated discussions* can be tailored. They may involve the exchange of information on a confidential or nonconfidential basis. The parties can establish the individuals who will participate to assure that a decision maker is present (or to avoid the presence of a political roadblock).

In *mediation,* neutrals may be passive or can beat up parties in trying almost literally to hammer out a resolution. Should the mediator have the choice?

In *fact finding,* a neutral can peek under each tent without the other party's gaining access to sensitive technical or commercial information.

With *case exposure,* generally each party can present its case to the decision maker for the other party. Such proceedings include *mini-trials* and give decision makers an opportunity to verify what they have heard from their attorneys — or their business or technical personnel.

Arbitration is getting a neutral party or panel (members may not always be neutral) to reach a decision on facts, law or both. It can be, e.g., binding or nonbinding, administered (by an ADR organization) or not, and appealable or nonappealable. The arbitrator(s) can have the power to order discovery or not. A decision can be "bare" or reasoned. The scope of possible award can be unlimited (including penalties, attorney costs and enhanced damages) or, as in "baseball" arbitration, restricted to picking one of the party's offers, nothing else.

Limited issue litigation uses courts, but the parties agree to limit legal or factual issues to ones they cannot resolve through negotiation. For instance, a settlement may require certain payments (or refunds) of royalties depending on whether a patent claim is found invalid on specified grounds. This permits focused litigation with conventional procedures and appeals.

ADR Works

Nineteen of twenty court actions are resolved before trial. That is only the tip of the iceberg — many disputes are resolved without a complaint being filed. While many are resolved through negotiation, assisted mechanisms can play a role. In many cases, parties have resolved disputes quickly, confidentially, inexpensively and satisfactorily by using assisted or unassisted ADR.

But ADR success is far from universal. Like beauty, success is in the eye of the beholder. If the process does not meet party expectations, it is viewed as a failure.

I submit that failures are not attributable to ADR but rather its inappropriate use and unrealistic expectations. The parties may, for example, try mediation before either knows the bottom line. Also, if parties are in a "bet your company" dispute, they are very unlikely to forego traditional litigation willingly.

If party objectives are to "save money," "avoid the vagaries of the judicial system," "obtain a decision from individuals knowledgeable in the technology and law," "rapidly reach resolution of a dispute," or "maintain a good relationship," I suggest that ADR will be a "failure"

to one or both. Successful ADR depends on whether the parties have the ability and willingness to resolve a dispute. If either is missing, ADR can be an expensive mistake. Even if parties have a mutual, good faith desire to resolve a dispute, they will be dissatisfied if the procedure is not well thought out or inappropriate for the circumstances.

Timing is also important. For instance, early negotiation may fail, whereas, on the eve of trial (when parties have a better understanding of each other's cases, have already spent considerable money and anticipate spending far more), negotiation can easily succeed.

Private Resolution of Cases with Policy Implications

How should we perceive parties using private neutrals to resolve disputes with potential societal impacts? Judge Posner, in a copyright case, said:[7] "[T]here is no reason to think that arbitrators are more likely to err... than state or federal judges are." Indeed, it seems less likely: Parties are not going to select individuals off the street. In patent cases, neutrals are likely to be recognized legal experts who also have experience in the disputed technology.

The court system allows for appeal, but appeal from decisions by arbitrators is usually very limited. Judges defer to arbitrator's awards, including those made without opinion. Some judges have bent over backwards to uphold awards by imputing that the arbitrator gave full consideration to unmentioned issues.[8]

Arbitration sometimes offers more capable fora for addressing some technological and legal issues. It might not exist without the threat imposed by the nonconsensual court system. One should recognize that few cases enter and complete the full course of judicial dispute resolution. Most that do not are resolved privately, regardless of public implications.

Disputes can affect society as a whole, not just individuals, but balancing must occur. Notwithstanding occasionally sharp criticism of plea bargaining, for example, we cannot afford to have every dispute resolved by litigation.

7 Saturday Evening Post Corp. v. Rumbleseat Press Inc., 816 F.2d 1191, 1197 (7th Cir. 1987) (Judge Posner).

8 *See, e.g.,* Saturday Evening Post, *supra.*

Risks of error are inevitable whatever the procedure. If a loser in ADR can use the "public" interest to advantage, the dispute will be publicly scrutinized. If there is merit to a claim that the public interest is not being served, one way or another, any private solution is almost sure to be overturned.

Finally, we should consider that merely having disputes resolved is often as important as the resolution itself. Life can then march on.