

Advisory Committee on Enforcement

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PRACTICES AND OPERATION OF ALTERNATIVE DISPUTE RESOLUTION SYSTEMS IN INTELLECTUAL PROPERTY (IP) AREAS

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I. **FRAUNHOFER-GESELLSCHAFT: FACTS & FIGURES**

1. *Fraunhofer-Gesellschaft* is the largest organization for applied research in Europe. At present, the *Fraunhofer-Gesellschaft* maintains 66 institutes and independent research units. The majority of more than 22,000 staff is qualified scientists and engineers. Its annual research budget totals €1.9 billion; of this sum, €1.6 billion is generated through contract research.

Inventions and patents:

2. In 2012, *Fraunhofer's* research institutions reported a total of 696 inventions, with patent applications being filed for 499 of those, *i.e.*, over 70 per cent. *Fraunhofer's* portfolio of active rights (patents and utility models) and patent applications had risen to a total of 6103 at year end 2012. The number of License Agreements concluded increased to 3167.

* The views expressed in this document are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

II. **FRAUNHOFER-GESELLSCHAFT: ALTERNATIVE DISPUTE RESOLUTION**

A. R&D AND LICENSE AGREEMENTS

3. During the last five years, *Fraunhofer-Gesellschaft* recognized that more and more foreign R&D contractors and licensees try to negotiate the following aspects very intensively:

- Applicable law
- Place of venue / dispute resolution

What are the reasons for the R&D Contractors and Licensees to negotiate these aspects?

4. If the parties to a contract with a foreign element fail to specify the applicable law then the law of the state with the closest connection to the contract shall apply. This will normally be the law of the state where the recorded place of venue is located. In the absence of a designated place of venue, the law of the state, where the court that receives the application for ruling on the validity of the R&D agreement and of the License Agreement is located, will apply (Re: Art. V of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards).

5. Therefore each of the parties tries to negotiate an applicable law the party is familiar with.

Applicable law:

Which "neutral law" should be chosen?

6. *Fraunhofer-Gesellschaft* experienced that in most of the cases the parties of the agreements had chosen the law of:

- Switzerland; or
- Austria; or
- England.

7. In 2012 *Fraunhofer-Gesellschaft* mandated 3 law firms in Switzerland, Austria and the United Kingdom to examine some *Fraunhofer* model contracts (R&D, Licensing) under Swiss law, Austrian law and English law.

8. As a result of these examinations *Fraunhofer-Gesellschaft* developed check lists for the relevant departments.

9. If the relevant agreements do not provide Swiss law, Austrian law or English law but the law of another "neutral law", then *Fraunhofer-Gesellschaft* will mandate a law firm to examine the agreement and to decide each case on its merits.

10. Example: In 2012 *Fraunhofer-Gesellschaft* proposed German law as the applicable law. A Californian company proposed Californian law. Both parties agreed on New York law. *Fraunhofer-Gesellschaft* mandated a law firm in New York to examine the license agreement under New York law (costs of ca. US\$ 11,000 / rate per hour US \$ 895). *Fraunhofer-Gesellschaft* received 3 Million US\$ only for the acceptance of New York law.

Which place of venue? / Which kind of Alternative Dispute Resolution?

11. Since 2008, *Fraunhofer-Gesellschaft* offers to its licensees a three-tiered ADR proceeding:

- 1) In case of a dispute the parties negotiate first. Term of negotiation:
e.g. 30-90 calendar days.
- 2) If negotiations are not successful: Mediation. Term of Mediation:
e.g. 30-90 calendar days.
- 3) If mediation is not successful: Expedited arbitration with one arbitrator.

Exception (from 2012):

12. Up to a value in dispute of 100,000 Euros only first tier (negotiations) followed by national trial.

Reason: European payment procedure is cheaper!

Acceptance rate:

13. 95% of R&D contractors / licensees accept the three-tiered ADR proceeding!

B. WORKING GROUP MEDIATION

14. *Fraunhofer-Gesellschaft* established the "Working Group Mediation" in 2011 to spread the ideas of ADR within *Fraunhofer-Gesellschaft* and – at least – to save money and time. As a member of the Round Table Mediation and Conflict Management of the German Industry ("Roundtable" www.RTMKM.de) *Fraunhofer-Gesellschaft* has the possibility to benefit from the experience of the other members of the Roundtable.

15. Only in the event of disputes with third parties (mainly Research & Development Agreements, License Agreements) seven trained and experienced in-house mediators serve as counterparts. The in-house mediators coordinate and accompany the process (e.g. preparation of documents & negotiations & time tables). In case of disputes with third parties the in-house mediators give advice to find and choose the appropriate "instrument" (e.g. mediation, arbitration, mini-trial, expert opinion, etc.) and the "neutral" (e.g. the mediator, the arbitrator, the expert, etc.).

16. Internal disputes are accompanied by the personnel department.

17. The mediators guarantee confidentiality, professionalism, provide a network and do not limit other spheres of responsibility within *Fraunhofer-Gesellschaft* (e.g. of legal department, patent department, license department etc.). Mediation will always be implemented in coordination with the other spheres of responsibility. In case of disputes with third parties, the mediators coordinate the mediation with the legal department.

18. The Working Group Mediation can be reached under mediation@Fraunhofer.de or personally. Response will be given within one working day.

19. Urgent and/or important documents have to be sent in parallel by postal service and by fax in compliance with time-limits and to file interim injunctions.

C. CASE

Year:	2011
No. of parties:	2
Registered office of parties:	Germany
Matter in dispute:	Patent-and Know-how-License Agreement, R&D Agreement, general cooperation
Term of disputes until mediation:	6 years
Term of mediation:	1.5 days
ADR organization: Munich, Germany	European Institute for Conflict Management (EUCON),
No. of mediators:	2
Costs:	CA 13,000 Euros (CA 6,500 / party)
Result of mediation:	<u>Settlement:</u> 1 R&D Framework Agreement, 2 License Agreements <u>Reasons for the settlement:</u> - Parties spoke with each other without their lawyers; - Former negotiators of the parties were exchanged; - Parties now chose experienced own/external negotiators (partly: experienced mediators).

III. OUTLOOK

20. The practical experience of *Fraunhofer-Gesellschaft* shows that it is not very easy and that it is necessary to follow a long term approach to establish a successful Conflict Management System to save time and money.

21. But from my perspective, I can sign the testimony: It's worth the effort!

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