

# Arbitrating International Intellectual Property Disputes

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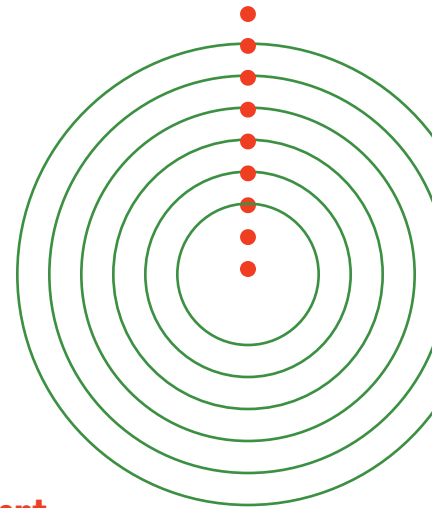
**In today's world, disputes over intellectual property rights frequently transcend national borders. Although not without its own complexities, arbitration can offer a more streamlined and efficient mechanism for resolving such disputes than litigation in multiple national courts.**

The importance of intellectual property (IP) rights in the global economy can hardly be doubted. The growing reliance on technology in the supply of goods and services, and the rise of high tech industries worldwide, has greatly increased the demand for patent protection. The desire to secure and promote a market image across linguistic and cultural boundaries has significantly enhanced the importance of trademarks. And new methods for transmitting, receiving and storing text, sound, video, images and other content have broadened the application of copyright laws.

Disputes over intellectual property rights at the international level can arise from a variety of sources, including cross-border licenses and cross-licenses, technology transfer agreements, joint research and development projects, distributorship arrangements, non-disclosure agreements, branding determinations, adoption of domain names, and product design decisions. Resolving such IP disputes in national courts, when the parties are of differing nationalities, can present difficulties.

Generally, IP rights created by national legislation

are territorial in nature, and hence rights created by one country cannot be enforced in another. Consequently, redressing infringement of counterpart patents, copyrights or trademarks in various countries entails litigation in multiple foreign courts with different judicial systems and judges with varying degrees of experience and qualifications. Of course, there must be a basis for personal jurisdiction over the defendant under the local law standards of each of the forums in which the plaintiff wishes to take action, something that may not always be so easy to obtain. Moreover, lit-



igating in multiple jurisdictions is extremely expensive and time-consuming, and poses the risk of inconsistent results. Even if an IP rights holder is successful, it faces difficulty in enforcement due to the lack of an international treaty on enforcement of foreign judgments.

### International Arbitration as an Alternative

Given the foregoing problems, it is worth considering the use of arbitration for the resolution of international IP disputes. Arbitration offers a number of advantages over litigation in national courts:

- *A Single Forum.* The parties can agree to resolve their multi-jurisdictional disputes in a single arbitral forum. They can avoid litigation in multiple countries, with its attendant delay, expense and opportunity for inconsistent results. With a properly drafted arbitration clause or submission agreement, there are no jurisdictional issues because the agreement to arbitrate constitutes submission to the jurisdiction of the arbitrators.

- *Party Autonomy.* Arbitration offers the parties the opportunity to exercise greater control over the conduct of the dispute-resolving mechanism. The parties can choose the applicable law, as well as the location and language of the proceedings. They can select *ad hoc* or institutional arbitration. They can tailor the procedural rules, including those relating to discovery, to meet their specific needs.

- *Neutrality.* Arbitration can be neutral to the law, language and judicial system of the parties, and thus avoid any home court advantage. Arbitrators in an international arbitration must be impartial, even when the agreement to arbitrate allows each party to designate an arbitrator. Partiality is one of the few grounds on which a court can refuse to enforce an arbitral award.

- *Expertise.* The parties can select arbitrators who have special expertise in the legal, technical and/or business areas relevant to the resolution of their disputes. The parties can specify in the agreement to arbitrate the criteria for serving as an arbitrator. Moreover, before selecting the arbitrators, the parties can satisfy themselves that the arbitrators have the time available to resolve the dispute in an expeditious manner.

- *Flexibility.* Arbitrators have broad remedial powers. In addition to damages and injunctions, arbitrators can fashion non-traditional remedies. For example, in one arbitration involving copyright infringement of software, the arbitrator directed the respondent to purchase a license. Seeking interim relief from a court (such as a temporary restraining order or preliminary injunction) is permitted under most arbitral rules and will not constitute a waiver of the right to arbitrate.<sup>1</sup> Some arbitral rules now provide for emergency measures of protection within the arbitration itself.<sup>2</sup>

- *Confidentiality.* Arbitration can usually provide greater confidentiality than litigation in court. The parties can take steps to prevent confidential information, such as trade secrets and sensitive business information, from being publicly disclosed. Institutional arbitration rules vary considerably with respect to whether confidentiality is

expressly addressed and, if so, to what extent. For example, Article 34 of the International Centre for Dispute Resolution's (ICDR) International Arbitration Rules provides for arbitrators and administrators to maintain confidentiality, but does not explicitly require the parties to do so. Even where arbitral rules are silent, however, the parties can provide in their agreement to arbitrate for a greater degree of confidentiality than may be available in a national court, which must balance the parties' desires for confidentiality with the public's right to know about proceedings in the state judicial system.

- *Finality.* Arbitral awards are not normally subject to appeal in court. Indeed, a recent decision of the U.S. Supreme Court, in *Hall Street Associates v. Mattel Inc.*, held that the parties cannot agree to subject an award to judicial review for an error of law consistent with the Federal Arbitration Act.<sup>3</sup> Under the provisions of the U.N. Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention), signatories are obligated to enforce foreign arbitral awards without review on the merits. The New York Convention provides only seven limited grounds for refusing to enforce an award, none of which entail errors of law or fact by the arbitrators relating to the merits.

- *Preservation of Business Relationships.* Business people often view arbitration as more informal, and hence less antagonistic and more civil, than litigation. Moreover, because of the greater degree to which disputes can be kept confidential in arbitration, there is less temptation to grandstand. Where there is an ongoing business relationship between the parties, it may be easier to preserve intact when disputes are resolved through arbitration rather than litigation.

In light of the foregoing advantages, there seems to be a growing trend in the use of arbitration to resolve IP disputes. The World Intellectual Property Organization's Arbitration Center has received over 100 requests for arbitration in recent years,<sup>4</sup> and administered about 15,000 domain name disputes since 1999.<sup>5</sup> The International Chamber of Commerce (ICC) has estimated that 10% of its annual caseload involves an IP element.<sup>6</sup> In 2007, the percentage of IP contracts underlying disputes submitted to the ICC was approximately 5.5%.<sup>7</sup> Given the deepening worldwide recession, one would expect this trend to continue, since arbitration arguably affords a quicker, cheaper, more efficient and less confrontational way to resolve IP disputes.

### Arbitration Is Not a Panacea

It must be emphasized, however, that arbitration is not without its limitations. The use of arbitration is not right—or even feasible—for every situation. Unless there is a pre-existing contractual relationship between the parties, it may be very difficult to convince an adverse party to agree to arbitration after a dispute arises. Moreover, if the parties have unequal resources, the one with greater resources may find a tactical advantage in court litigation in multiple jurisdictions.

An arbitral award cannot set a public legal precedent. It is generally binding only on the parties involved. And, unless the parties have been very clear and specific in their agreement to arbitrate, discovery is likely to be far more limited and difficult than one or both parties is used to or deems necessary, if only because many international arbitrators coming from a civil law background have strong negative feelings about broad American-style discovery.

Perhaps the greatest limitation on the more frequent use of arbitration to resolve international IP disputes is the fact that the arbitrability of IP disputes is not universally recognized. While claims based on IP rights created by the acts of the rights holder itself (for example, trade secrets) generally do not present a problem of arbitrability, questions of arbitrability may arise with respect to IP claims based on rights created by the acts of sovereign states (in particular in the area of patents).

Many jurisdictions (including the United States,<sup>8</sup> Canada,<sup>9</sup> Australia,<sup>10</sup> and the United Kingdom<sup>11</sup>) allow the

countries) probably would not recognize or enforce the award under the New York Convention, for one of the following reasons: (1) the arbitration agreement is invalid under the law of the contract if that law is French, (2) patent issues are not arbitrable in France, or (3) the award contravenes French public policy. Each of these reasons is one of the very few grounds permitted under the New York Convention for a court in a signatory country to refuse to enforce a foreign arbitral award.

Can the parties choose to apply the substantive IP law of one jurisdiction (such as the rules relating to validity and infringement) to IP rights (such as patents) created by another? There is no clear answer. Where a case involves related patents from multiple countries, doing so could simplify and streamline the proceedings and the principle of party autonomy suggests that it should be permitted. On the other hand, there is a conceptual problem in separating an IP right that is territorial in nature from the set of legal rules established to protect and enforce that right.

***When considering whether to provide for arbitration of IP disputes, one must consider not only whether such issues would be arbitrable under the laws at the seat of arbitration, but also under the laws of those jurisdictions where enforcement would likely be necessary.***

arbitration of all IP issues, including patent validity, at least where raised defensively to a claim of infringement. Any award adjudicating validity usually would be effective only as between the parties to the arbitration and would have no effect on the rights and obligations of third parties. (Thus, unlike a U.S. court judgment declaring a patent invalid, an arbitral award finding invalidity would not preclude, on the grounds of collateral estoppel, the patentee from subsequently suing another entity on the same patent.) Switzerland goes even further, permitting IP rights registrations to be stricken on the basis of an arbitral award.<sup>12</sup>

However, other countries (such as France<sup>13</sup> and China<sup>14</sup>) seem to permit arbitration of infringement issues, but not those of validity. Obviously, separating the issues of infringement and validity complicates the resolution of disputes, diminishes the value of arbitration as a single forum, and introduces difficult strategic and tactical issues into the equation.

When considering whether to provide for arbitration of IP disputes, one must consider not only whether such issues would be arbitrable under the laws at the seat of arbitration, but also under the laws of those jurisdictions where enforcement would likely be necessary. For example, consider a cross-license involving U.S. and French patents. The license contains an arbitration clause placing the seat in London. Even though an award finding the French patents invalid between the parties would be valid under English law, the courts of France (and perhaps other

Moreover, enforcement of an award may become a problem in the jurisdiction that created the IP right if a law other than its own was applied to determine infringement or validity. Requiring arbitrators to apply the patent law of multiple jurisdictions to a series of related patents issued in different countries certainly diminishes the value of arbitration as a cost effective single forum to resolve international IP disputes, but it does not eliminate it. Having a single panel of arbitrators apply multiple patent laws to multiple, but related, patents is still more likely to be efficient, and more likely to lead to consistent results, than separate litigations in multiple national courts.

### **Some Pitfalls to Avoid in Drafting Arbitration Clauses**

There are a number of pitfalls that parties should try to avoid in drafting arbitration clauses. The first is trying to divide potential disputes into non-arbitrable IP issues and arbitrable commercial issues. Sometimes the parties decide that arbitration is fine for the commercial aspects of their agreement, but not for disputes over IP issues, and therefore they try to carve out IP disputes from the arbitration clause. Unfortunately, they can unwittingly create unnecessary disagreements and procedural sparring over the scope of the arbitration clause. For example, the arbitration clause in a patent license might purport to exclude issues relating to the validity or scope of the patent from the arbitration clause. If the licensor commences an arbitration for allegedly unpaid license fees, the purported exclusion from the arbitration clause would create the

opportunity for delay and litigation in multiple forums because determining the proper amount of royalties could depend on what products fall within the scope of the patent. The licensee might commence a separate declaratory judgment action in court to determine whether particular products were covered by the patent and seek a stay of the arbitration until that issue is decided. This situation is a natural consequence of having different dispute resolution mechanisms for issues that the parties assume are distinct but are in fact interrelated.

Similar problems can arise where a transaction involves multiple agreements. Inconsistencies between agreements insofar as arbitration is concerned are a real risk. Some agreements may have arbitration provisions, while others do not, especially where different attorneys are involved in drafting the various agreements. Even if all the agreements contain an arbitration clause, they may be inconsistent with respect to the applicable arbitral rules and institutions, the place of arbitration, or the substantive law. This can create a nightmare when the failure of a transaction leads to a number of interrelated disputes.

So-called “step” clauses can also create problems. It is not unusual these days for parties to include in their contracts provisions for an escalating series of steps (e.g., initial discussions between project managers, failing which resolution efforts by intermediate level executives, failing which meetings between senior managers, and as a last resort mediation) to try to resolve disagreements by mutual agreement before submitting them to binding resolution through arbitration. Unless properly drafted, such provisions can unduly delay the ultimate adjudication of disputes by creating conditions precedent to arbitration that are temporally unbounded. This can be particularly troublesome if emergency relief, such as an injunction, is necessary prior to the time a condition precedent has clearly been fulfilled. If one is going to include such step provisions, the contract should either provide that such procedures are not a condition precedent to arbitration or, at least, the time period for each stage should be clearly defined and limited. Moreover, the contract should clearly provide that the step provisions do not bar a party from seeking interim emergency measures.

Another pitfall to be avoided is not providing for adequate discovery. As previously mentioned, broad discovery is not typical in international arbitration, and international

arbitrators (especially those with civil law backgrounds), if left to their own inclinations, may be reluctant to permit far-reaching document discovery and almost certainly will not permit depositions except in the rarest of circumstances. Therefore, it behooves one who is contemplating the use of arbitration for IP disputes to include rather specific provisions with respect to the parties’ rights to conduct discovery. This does not mean that the discovery provided for must or should be as broad and open-ended as that permitted by the Federal Rules of Civil Procedure, but unless a party feels it will need little or no discovery in the event of a dispute, it is unwise to leave such matters entirely to the discretion of the arbitrators.

Finally, difficulties can be created in arbitrator selection by being overly detailed in the statement of qualifications. It is true that one of the advantages of arbitration is the ability of the parties to specify the qualifications for being an arbitrator. If the parties are too detailed in what they require, however, the danger is that it may become impossible to find someone who satisfies the requisite criteria and is available to serve when a dispute arises. If so, this could frustrate the right to arbitrate altogether, especially if the opposing party is not inclined to cooperate to modify the contractual criteria to something more practical. It is better to state qualifications in broad terms (e.g., a patent lawyer with experience in a particular industry), rather than enumerate a litany of qualifications that may be difficult to meet (e.g., a 20-year patent lawyer with a Ph.D. in electrical engineering who spends more than 50% of his professional time on matters involving nanotechnology and who speaks English, German and Russian).

## Conclusion

Arbitration has generally become the preferred method of resolving international commercial disputes because of its perceived superiority over litigation in national courts in terms of efficiency, flexibility, and fairness. However, there has been reluctance to use arbitration to adjudicate international IP disputes, although that reluctance appears to be diminishing.

Hopefully this article has demonstrated that, even though arbitration has certain limitations, the process can often be a superior mechanism for resolving international IP disputes—one that parties and their legal counsel should consider. ■

## ENDNOTES

<sup>1</sup> See, e.g., ICDR International Arbitration Rules, art. 21(3).

<sup>2</sup> See, e.g., *id.*, art. 37.

<sup>3</sup> 552 U.S. 1 (2008).

<sup>4</sup> WIPO Arbitration and Mediation Center Caseload Summary, [www.wipo.int/amc/en/center/caseload.html](http://www.wipo.int/amc/en/center/caseload.html) (last visited March 11, 2009).

<sup>5</sup> WIPO Arbitration and Mediation Center Domain Name Dispute Resolution Statistics, [www.wipo.int/amc/en/domains/statistics/cases.jsp](http://www.wipo.int/amc/en/domains/statistics/cases.jsp).

<sup>6</sup> Sophie Lamb & Alejandro Garcia, “Arbitration of Intellectual Property Disputes,” in *Global*

*Arbitration Rev.: The European & Middle Eastern Arbitration Review* 2008, *Int’l J. Pub & Private Arb.* 1.

<sup>7</sup> 2007 Statistical Report, 19(1) *ICC International Court of Arbitration Bull.* (2008).

<sup>8</sup> U.S. patent laws allow the parties to submit to arbitration “any dispute relating to patent validity or infringement.” See 35 U.S.C. § 294(a). The “award shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person.” 35 U.S.C. § 294(c).

<sup>9</sup> See *Desputeaux v. Editions Chouette* (1987)

*Inc.*, 1 S.C.R. 178 (Can. 2003) (The Supreme Court of Canada held that “[t]he parties to an arbitration agreement have virtually unfettered autonomy in identifying the disputes that may be the subject of the arbitration proceeding.”)

<sup>10</sup> Matthew A. Smith *et al.*, “Arbitration of Patent Infringement and Validity Issues Worldwide,” 19 *Harv. J.L. & Tech.* 299, 347.

<sup>11</sup> Lamb & Garcia, *supra* n. 6, at 3.

<sup>12</sup> *Id.* at 3.

<sup>13</sup> Smith *et al.*, *supra* n. 10, at 333.

<sup>14</sup> *Id.* at 345.