

INTELLECTUAL PROPERTY AND ARBITRATION

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Introduction

1. Litigation follows the commercialization of IP assets. In turn, litigation in intellectual property contracts is almost always subject to arbitration, and a good curriculum in intellectual property as Prof. Alberto Bercofritz is fond to teach and to propose should in one view introduce students to arbitration. Arbitration is a whole world of practice. It is international, it tends to be global. It encompasses business litigation, it tends to reach out to consumer disputes. Arbitration is but one form of alternative dispute resolution. However, because of the increasing complexity of arbitral proceedings, parties tend to foresee mediation first, and then arbitration (the "med-arb" provision), while mediation does sometimes help parties to settle their dispute at a given stage of the arbitral proceedings ("arb-med" practice). In one word, arbitration is very diverse. Any generalization should be taken with caution.
2. Intellectual Property is another universe: so many rights, so much variety – and an impetus towards new frontiers, say in the area of the merchandising of likeness (the so-called "right of publicity"), the copyrights on the Net, the biotechnology, the domain names, or the unfair competition. However intellectual property, being more present in everyday's life, is also more subject to politics and societal criticism. It may also be mentioned that many more countries have to enforce IP rights now than 50 years ago, since the TRIPs links the 148 memberstates in the World Trade Organization to a stricter respect of those rights – and because the U.S. are closely monitoring the State measures regarding intellectual property.
3. Arbitration is confidential. Parties choose their judges – and this is now the main difference with the ordinary courts. Arbitration is private: it should further the interests of the litigants. Arbitration is little known by outsiders. Therefore, circles outside the arbitration community believe that there may exist a contradiction between the protection of the common good and the arbitration of IP issues. This will be our first issue.

I. Arbitration of IP Disputes

A. Classical View

4. The dichotomy between confidentiality and common good can be seen in the limitation put in many countries on the arbitrability of IP rights. The Latin tradition as witnessed in Italy, in many Latin American countries and a few other countries such as South Korea, South Africa and Israel will tend to consider that the validity of IP rights is a question which is not subject to the parties' free will and power. In this view, IP rights would be privileges granted by the State to further the economic development or the marketing of goods and services; cultural and educational policies would dictate the true extent of IP rights, as well as competition law and public health requirements. Thus, arbitration would not be possible for the existence, the scope and the infringement of those rights.

B. Contemporary Views

5. The more modern view is to the effect that IP rights may be the subject matter of arbitration, with the exception being sometimes made for the declaration of validity of a right. Do appear to follow that approach the U.K., Germany, Spain, Belgium, the U.S. and Switzerland (in those three last countries, even the validity of IP rights that are registered may be adjudicated by arbitral tribunals¹). In Switzerland and the U.S., it is expressly provided that an arbitral award can be registered in the Patent Registry (Sec. 294 U.S. Patent Act). IP rights, although granted by the State, are private capital assets which are available for trade and at the disposal of the holders. The parties of course cannot extend the ambit of the protection granted by the State, but they can prevent conflicts between their rights by coordinating their use and they can settle their business disputes. This is so because the IP rights are no direct subsidies decided by the State, but indirect help to the investment : IP rights usually confer an exclusive position akin to a monopoly²; this position allows the right holder to reap higher profits, that the whole of the community pays. However, the State's powers are limited to the administrative mechanism of protecting investments through those exclusive rights. Therefore, even if the ordinary courts (other specialized state courts) are no doubt competent to deal with IP rights in the absence of an arbitration agreement between the parties, nothing should prevent the parties to arbitrate their disputes. It will be recalled that the main difference with ordinary courts proceedings consists of the process of selection of arbitrators. Once it is established, the Arbitral Tribunal will apply the law, and there is in the U.S. for example an appeal against any arbitral award that would stand "in manifest disregard of the law" (U.S. Federal Arbitration Act). In England, if there is no exclusion agreement, or if the parties did not authorize the arbitrators to judge under equitable principles, then there may be a full review of the legal issues (Art. 69 para. 3 U.K. Arbitration Act of

¹ See Julian Lew, Final Report on Intellectual Property Disputes and Arbitration : Report of the ICC Commission on International Arbitration Working Party on Arbitration and Intellectual Property under the chairmanship of Julian D. M. LEW, ICC International Court of Arbitration Bulletin, vol. 9, n°1, May 1998, pp. 38ss; I.A. Frost, Schiedsgerichtsbarkeit im Bereich des geistigen Eigentums nach deutschem und US – amerikanischem Schiedsrecht, München, 2001, 257p.

² Monopoly is not meant here as the possibility of excluding people from some trade which was open to them before the State grant, but as the position of the sole person or legal entity which may legally use an invention, a trademark etc. during a given period of time.

1996)³. In other countries, the review of the award by a court is limited to a violation of the substantive or procedural public policy rules.

6. Further, if there is no spontaneous compliance with the arbitral award (that should approximately be in one case out of ten), enforcement proceedings abroad result in a different court examining the award for an exequatur. This exequatur decision may lead to protracted appeal procedures.
7. Thus, Arbitrators do have to apply the law and they are possibly subject to at least a double control of their awards, one in the courts of the place of arbitration, the other one in the country of exequatur. There should be no fear that they (more often than ordinary courts) wrongly maintain IP rights that should be declared invalid or that they wrongly sentence the respondents to damages for infringement, or that they issue cease-and-desist orders without basis.
8. Of course, there is one practical and one theoretical obstacle to the arbitration in IP matters.

C. The Arbitration Agreement

9. The first practical obstacle to arbitral proceedings is that most litigation for infringement will not have been preceded by a contract between parties referring disputes to arbitration. However, there are three cases in which this obstacle does not preclude arbitration:
 - a) the *contractual-cum-infringement* case: very often, the action for infringement will be the complement of an action for breach of contract. The prudent lawyers draft arbitration provisions that encompass that possibility and refer to arbitration all disputes "deriving of or in connection with this agreement", which will appear in most instances to cover all IP rights at stake in the contractual relationship. This is particularly true for take-over, mergers and sale of division agreements, as well as for the licensing or the assignment of IP rights, and the R and D contracts. Somewhat more narrow provisions which refer to arbitration disputes in relation with "the existence, validity and performance" of the contract may raise more difficulty. There have been cases in which the Arbitral Tribunal refused to entertain claims in tort arising out of the circumstances around the execution of the contract because of such wording.

³ **Art. 69** *Appeal on point of law*

"(3) Leave to appeal shall be given only if the court is satisfied-

- (a) that the determination of the question will substantially affect the rights of one or more of the parties,
- (b) that the question is one which the tribunal was asked to determine,
- (c) that, on the basis of the findings of fact in the award-
 - (i) the decision of the tribunal on the question is obviously wrong, or
 - (ii) the question is one of general public importance and the decision of the tribunal is at least open to serious doubt, and
- (d) that, despite the agreement of the parties to resolve the matter by arbitration, it is just and proper in all the circumstances for the court to determine the question."

- b) the parties not being connected by any contract, their attorneys may still wish to settle quickly the oncoming dispute, for example because advertising investments are at stake. Such was a case twenty two years ago: what company was entitled to a given trade name? Counsel for both sides sat with the umpire to explain their client's views, the source of their rights, the alternative solutions open to them. Then the umpire delivered his opinion. In terms of costs, efficiency and time, this was a nice example of what two lawyers can do for their clients when they put the interests of their clients above all.
 - c) the international community may constrain parties to adopt that solution; even if they are not bound by a contractual relationship *inter se*, they will have to follow arbitral procedures because the system has been established between the main actors in the game. For example, the domain name registrants have to adhere to arbitration provisions that have been inserted in all contracts pursuant to the Uniform Domain Name Resolution Policy. The frail basis of those provisions in the common will and intent of the parties did not preclude 20'000 cases to be introduced in four years before WIPO for cybersquatting. A similar phenomenon may be witnessed for the arbitration concerning sports events, and athletes are bound to proceed before the Sport Arbitral Tribunal in Lausanne due to provisions inserted in the relevant textes, which are not necessarily signed by the athletes.
10. Yet, the most numerous cases involving IP rights deal with licensing agreements. With this in mind, we shall turn to the advantages of arbitration in that area, before venturing some practical thoughts on the pitfalls to avoid.

II. Arbitration of Licensing Disputes

A. Advanges

11. According to the International Chamber of Commerce Statistics, licensing agreements are ranking as the third group of contracts which are most often litigated in the ICC arbitral tribunal, after sales contract and construction and just before distributorship agreements. It is on average one sixth to one fifth of all 500 cases that are filed with the ICC Secretariat each year (14,5% in 1996; 17,3% in 1997)⁴.
12. Parties that enter an arbitration agreement in connection with such a contract are knowledgable, as is shown by the facts that eighty percent of the litigated contracts also contain a choice of law clause. Swiss law and U.S. law are disputing the first rank of the selected laws, with the French, English and German law following⁵.

⁴ See Julian Lew, Final Report on Intellectual Property Disputes and Arbitration : Report of the ICC Commission on International Arbitration Working Party on Arbitration and Intellectual Property under the chairmanship of Julian D. M. LEW, ICC International Court of Arbitration Bulletin, vol. 9, n°1, May 1998, pp. 38 ss.

⁵ See Julian Lew, Final Report on Intellectual Property Disputes and Arbitration : Report of the ICC Commission on International Arbitration Working Party on Arbitration and Intellectual Property under the chairmanship of Julian D. M. LEW, ICC International Court of Arbitration Bulletin, vol. 9, n°1, May 1998, pp. 38 ss.

13. What may entice knowledgeable parties to choose arbitration rather than ordinary courts? The advantages most often cited are :

- expertise;
- time;
- recognition in foreign countries and voluntary enforcement.

B. Expertise

14. There is a double set of requirements that a given judge, professor or lawyer should satisfy in order to be appointed by a party, by the two-coarbitrators or by an institution as umpire:

- expertise in the area of the technology or the legal field which is involved – say patents: one does not wish the arbitrator to have read only one patent in his or her life, the one which is at the core of the litigation. This requirement is not so difficult to meet.
- Expertise in the area of arbitration: one does wish his or her arbitrator to cooperate with the other two in a convincing and friendly manner. A good knowledge of the law applicable to international arbitration is a pre-requisite, but in a tribunal smoothly working, the three areas of particular expertise of the three arbitrators may be combined. At least the umpire should be legally trained and conversant with IP issues as well as procedural finesses.

C. Time

15. An ordinary arbitral proceeding may take anywhere from 6 to 30 months; there are horrendous cases in which the proceedings lasted 8 years or more, usually because the parties had expressed the wish to suspend the exchange of memorials for some reason, or because expert reports, on the damages particularly, are long to come. During the ordinary 2 years, the Arbitral Tribunal will often hold a pre-trial conference, and some hearings to hear witnesses, including expert witnesses. It will receive anywhere from 2 kg to 1'000 kg of documents, memorials, witness statments, etc. It will sometimes make one, two or three interim or partial awards, and one final award if need be (grossly 50% of cases as settled before).

16. No absolute comparison can be drawn with courts of law, but there has been at least one arbitral proceeding lasting 18 months in which many issues were adjudicated that were parallel to issues yet unsolved in a 10-year trial in the U.S. Some arbitrations are especially quick, the to-called "fact-track" arbitration (one to 6 months).

17. The swiftness of the adjudication does not mean that the arbitrators rush to their conclusion. Rather, expertise and good organization allow for more dedication to the fewer files at hand. The cost factor is not very different from ordinary courts, at least in those countries where courts have fees proportional to the litigated amount. Lawyers' costs are usually a multiple of the tribunal's costs.

D. Recognition

18. ICC awards are very often rendered between big corporations that are well known at the ICC and will have to abide by the awards both from an ethical and from a business point of view. Only State agencies and smaller companies unknown to the club may try and escape enforcement. However, there may exist a possibility to assign the award to a debtor of the renitent respondent, which opens set-off. Further, the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards binds 131 countries, which is unparalleled for ordinary judgments.
19. Finally, for licensing agreements, the confidentiality of the arbitral procedure and the tight secrecy surrounding the technology at stake is essential. Confidentiality provisions and arbitration clause go together in many agreements.

E. Difficulties

20. Arbitration is the preferred dispute resolution system, but it has its pitfalls. Three areas might be mentioned where special attention is required in the case of IP rights:
 - a) interim measures
 - b) consumer protection
 - c) antitrust consideration
 - 1) Interim Measures
21. An Arbitral Tribunal may render injunctions or other interim remedies *pendente lite*. Parties may request ordinary courts to assist them for the enforcement of those measures. However, these orders are not necessarily recognized as awards in the meaning of the New York Convention, with the result that a foreign court may decline to recognize and enforce them, as a famous case has shown in Australia⁶. The UNCITRAL is working on new provisions for its Rules of Arbitration and Model Law, in this respect precisely.
22. Further, no interim measures can be ordered as long as the arbitral tribunal is not established because all its members are not designated yet, or as long as it cannot work for some administrative reasons, for example in ad hoc proceedings because the advance on costs has not been made. Experienced U.S. attorneys therefore make an exception to the jurisdiction of the arbitral tribunal concerning interim measures. In fact, the application of European laws might suffice to solve that difficulty. To go before the state court competent for urgent measures does not imply that the petitioner gives up the

⁶ See Supreme Court of Queensland, 29 October 1993 No. 389 Resort Condominiums International Inc. / Bolwell, Yearbook of Commercial Arbitration 1995, p.628.

benefit of the arbitration clause for the substance of the litigation⁷. Where no urgency is proven, no state court should entertain the petition⁸.

23. Concerning the interim measures there has been recently a flurry of cases in which the claimants are demanding an order from the arbitral tribunal that the respondents pay their part and portion of the advance on costs (usually half of the advance, unless of course there are several respondents that are not jointly and severally liable to pay it). A recent decision by a French court has stated that the undertaking to arbitrate implies the undertaking to pay the advance on costs; therefore, without waiting for the end of the proceedings, the claimants can request from the respondents an advance payment for the arbitration costs⁹.
24. Of course, this advance on costs should be distinguished from the provisional payment of monies due under the contract which is also possible in France – but is not yet usual in Switzerland for example. The payment should also be opposed to the security which a respondent party may request from the claimant for the prejudice deriving either from the proceedings or from the ordering of interim measures. Finally, the order to freeze assets is also conceivable, or a polite invitation to do so, as in a well-known ICC case¹⁰.

2) Consumer Protection

25. Many standard licensing agreements are executed on the Net or through buying or installing software and other copyrighted works. Under the U.S. case law, copyright licenses are arbitrable¹¹, as under most European laws.
26. The difficulty is that consumers buying software or other materials may be validly subject to usual arbitration in spite of all common sense. A more sensible solution could be online arbitration. Arbitration could be with a proper institution, because ad hoc arbitration (outside any pre-existing framework) is not advisable for small amounts in dispute. However, an institution having to arbitrate between Microsoft and a host of other software providers, on the one side, and individual consumers on the other side may find it difficult to keep the required impartiality during many years, as developments in the arbitration for consumers in the banking field have shown in the U.S. The key to the solution would be to establish institutions where consumers associations and content or software providers would oversee the functioning of the arbitral body on a paritary basis.
27. On-line arbitration is possible if the facts can be ascertained through digital documents. No hearings should be needed. As a matter of experience, few parties ever take the risk of a binding adjudication without first having the arbitrator hold hearings. The

⁷ See e.g. Cour appel Paris, 7 June 2001, *Hellafranca / Natalys*, Rev. arbi. 2001/3 p.616.

⁸ Cour de Cassation, 18 October 2001, *Radio Frequency Systems / Thomcast* Gaz Pal. 12/13 June 2002, p. 19.

⁹ See A. Mourre, *in Cahiers de l'arbitrage 1999-2000*; Tribunal Grande Instance de Beauvais, Gaz-Palais juillet 2002.

¹⁰ Award in ICC N° 3896, *in S. Jarvin & Y. Derains*, Collection of ICC Arbitral Awards, 1974-1985, pp. 480ss.

¹¹ *Saturday Evening Post Co / Rumbleseat Press, Inc.*, 816 F2d 1191, 1198-99 (1987, 7th Cir.). See further for misappropriation of trade secrets, *Aero jet – General Coro. / Machine Tool Works*, 895 F. 2d 736 (1990, Fed. Cir.).

experience of on-line arbitration in the cybersquatting cases however shows that it could not be ruled out in the future.

28. Off-line arbitration for consumers is awfully expensive. All costs should then be borne, definitively, by the business partners. Otherwise it is not conceivable.

3) Antitrust consideration

29. Where the defense is raised that a given contract is contrary to the applicable competition law, most European countries and the U.S. accept the arbitrability of this defense¹².
30. Further, the adjudication of contractual issues involving intellectual property upon merger is encouraged by the European Commission. As early as in the 1973 with the decision in the matter of the Transocean Marine Paint Association, individual exemption decisions requested that the commission be informed of the outcome of any arbitration dealing with the relevant agreement¹³.
31. It is therefore no longer a question of arbitrability, but still an issue of procedure, one of the most delicate ones in my view. Should the arbitral tribunal start with the examination of the contractual issue, then proceed to the competition law problems of the need arises, or should it instruct simultaneously on both counts? The first method is more efficient, since the issues of restraint of competition usually command to have access to many economic data, and are therefore expensive to examine.

III. CONCLUSION

32. The pendulum swings. Although arbitration of intellectual property issues has been limited in the XIXth and XXth century, it will develop in one century. However, new forms of arbitration will supersede the "Ritz arbitration" of old¹⁴. The democratization of arbitration will require ever more training for the benefits of the next generation of attorneys. As IP rights have been the most dynamic elements in many academic curriculum in the 90's, so will be arbitration in our decade. Long life Prof. Bercovitz!

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¹² See e.g. *Mitsubishi Motors / Soler Chrysler Plymouth*, 473 U.S. 628 (1985); *Cour appel Paris*, 20 January 1989, *Société Phocéenne de Dépôt / Société Dépôts Pétroliers de Fos*, *Rev. Arb.* 1989 p. 294.

¹³ See M. Blessing, *Arbitrating Antitrust and Merger Control Issues*, Basle 2003, pp. 3 ss.

¹⁴ The expression is Claude Reymond's: see *Arbitration and Mediation in International Business* by Christian Bühring-Uhle, p. 41.