

Global Arbitration Review

# The Guide to IP Arbitration

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Editors

John V H Pierce and Pierre-Yves Gunter

In association with



# The Guide to IP Arbitration

Editors

John V H Pierce and Pierre-Yves Gunter

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## Publisher's Note

Global Arbitration Review, in association with Intellectual Asset Management and World Trademark Review, is delighted to publish *The Guide to IP Arbitration*.

For those unfamiliar with GAR, we are the online home for international arbitration specialists; we tell them all they need to know about everything that matters. Most know us for our daily news and analysis service (you can sign up for our free headlines on [www.globalarbitrationreview.com](http://www.globalarbitrationreview.com)), but we also provide more in-depth content: books and regional reviews; conferences; and workflow tools. Visit [www.globalarbitrationreview.com](http://www.globalarbitrationreview.com) to learn more.

Being at the heart of the international arbitration community, we often become aware of gaps in the literature – topics yet to be fully explored. The intersection of IP and arbitration is one such area. Hitherto, the two fields have not mingled as well as one might expect. Large IP owners, such as banks, are known in arbitration circles as being sceptical about the medium. They shouldn't be. In many ways, international arbitration is perfect for them: a private, bespoke process, invented to bridge cultural divides. Above all else, it is internationally enforceable.

Recently, this antipathy towards arbitration has shown signs of fading. There are now IP owners who are international arbitration evangelists.

We are therefore delighted to publish the first edition of *The Guide to IP Arbitration*, in conjunction with two of our sister brands that cover the world of IP: Intellectual Asset Management and World Trade Mark Review.

This book is in five parts and will be of interest both to newcomers to arbitration and those who are already aficionados. Future editions will be expanded with the viewpoints of arbitrators and in-house counsel.

If you find it useful, you may enjoy other GAR Guides in the same series, which cover energy; construction; M&A disputes; advocacy; damages; mining; and challenging and enforcing awards. We are also very proud of our citation manual, UCIA (*Universal Citation in International Arbitration*).

Lastly, sincere thanks to our two editors, John V H Pierce and Pierre-Yves Gunter, for taking the idea that I pitched and running with it so well. I was on a skiing holiday at the time – my, those days seem a long time ago! And thank you to all of my Law Business Research colleagues for the elan with which they've brought our vision to life.

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## Introduction

**John V H Pierce and Pierre-Yves Gunter<sup>1</sup>**

Historically, most international IP-related disputes were decided before national courts rather than arbitral tribunals. In part, that is because arbitration is a creature of contract and, in many IP-related disputes (such as disputes over the ownership of IP or the alleged infringement of IP rights), that contractual relationship is missing. In addition, the laws of some jurisdictions placed limitations on the arbitrability of certain IP-related issues (such as the validity of patents, copyrights or trademarks), viewing disputes over such rights as implicating matters of public policy that should be settled by national courts. Moreover, for companies for whom IP assets are the proverbial crown jewels, the unavailability of appellate review of arbitral awards has often been sufficient to discourage the use of arbitration to resolve disputes over such assets.

### **The growth of international IP arbitration**

Times have changed. While it is still the case that some types of IP disputes are litigated predominantly in national courts, the number of IP-related cases going to arbitration continues to grow. Indeed, one of the noticeable trends in international arbitration in the past several years has been the growing use of arbitration to resolve IP-related disputes. The caseload of the WIPO Arbitration and Mediation Center, while not a perfect proxy, illustrates this trend. Filings at WIPO (which include mediations and expert determinations as well as arbitrations) increased by over 15 per cent from 2018 to 2019, and by over 450 per cent since 2012. Recent changes in national laws, in Singapore, Hong Kong and elsewhere, have affirmatively sought to make arbitration more attractive and effective in resolving international IP disputes. And the historical resistance to the arbitrability of IP disputes has given way, in most jurisdictions, to a more liberal and pro-arbitration approach,

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<sup>1</sup> John V H Pierce is a partner at Wilmer Cutler Pickering Hale and Dorr LLP and Pierre-Yves Gunter is a partner at Bär & Karrer Ltd.



and to the perception that arbitral tribunals should generally be free to adjudicate IP rights, at least on an *inter partes* basis.

Arbitral institutions, too, are developing procedures to facilitate resolution of IP disputes and make arbitration more attractive to users. For example, the Silicon Valley Arbitration and Mediation Center, the Swiss Chambers' Arbitration Institution, the Singapore International Arbitration Centre, the Japan Intellectual Property Arbitration Centre and the Hong Kong International Arbitration Centre, among others, have worked to make IP arbitration more attractive by creating dedicated panels of arbitrators with the expertise and experience to capably handle IP-related disputes. In addition, most arbitration institutions have now adopted mechanisms such as expedited arbitration or emergency arbitrator protocols, which can be used, for example, by IP owners to seek speedy remedies to protect their IP rights.

## The genesis and organisation of this Guide

The idea for this book emerged from the recognition of these trends and from the reality that IP-related arbitration is very much its own animal within the world of international arbitration. It has a distinct set of features and challenges, which this book aims to explore from a truly global perspective.

To that end, in collaboration with the terrific team at Global Arbitration Review, we have worked to bring together leading practitioners from a wide range of jurisdictions who have expertise and experience both in international arbitration and in IP-related disputes. The response from every corner has been enthusiastic, and we are fortunate to have received contributions from many internationally recognised leaders in the field. These include authors from common law and civil law countries around the world, including the United States, the United Kingdom, India, Japan, Korea, Russia, Germany, France and Switzerland.

We have divided this Guide into five parts, each covering a set of considerations that should be taken into account at different points in the arbitral process. This approach allows for a comprehensive journey through the arbitration process, touching on the most important procedural and substantive issues that may arise in IP-related disputes.

Part I: Considerations Before a Dispute Has Arisen explores the planning for international IP arbitrations. It starts by tackling the essential, threshold question, 'why arbitrate international IP disputes?' This chapter addresses various perceived advantages of arbitration for IP disputes (such as relative speed and efficiency, resolution in a single forum, neutrality and choice of decision makers, enforceability of awards, and confidentiality) before acknowledging some potential perceived limitations of arbitration in this context (such as limited availability of preliminary remedies and injunctive relief, *inter partes* versus *erga omnes* relief and lack of broad disclosure).

Part I then addresses another threshold issue: arbitrability. This chapter examines the extent to which various kinds of IP disputes can be arbitrated under the national laws of certain key common law and civil law jurisdictions. Part I concludes by exploring specific issues and best practices in the drafting of international arbitration clauses in IP agreements.

Part II: Considerations Once a Dispute Has Arisen addresses the various issues that arise once an IP arbitration gets underway. This begins with a chapter on the strategic considerations that parties should bear in mind during the pendency of an IP arbitration. Issues such as constituting the arbitral tribunal, dealing with multi-jurisdictional

proceedings, navigating the initial procedural conference and deciding a settlement strategy are all addressed in detail. Part II then moves on to two related topics: first, a chapter on confidentiality in international IP arbitration, which is often of particular importance to parties in IP disputes given the usually sensitive nature of the assets at issue; second, disclosure in international IP arbitration, with a particular focus on privilege issues, recourse to national courts and GDPR compliance. Part II concludes with a chapter on the mediation of international IP disputes, emphasising the importance of making meditation available to parties in such disputes, in tandem with arbitration, to maximise the chances of reaching a successful outcome.

From these procedural beginnings, Part III moves into substance. The next three chapters address certain key substantive issues that arise when arbitrating particular kinds of IP disputes: the first addresses the arbitration of patent, trademark and copyright disputes; the second provides an overview of, and practical advice for, IP arbitrations against sovereign states; and the third tackles the arbitration of FRAND disputes arising from the licensing of standard-essential patents.

Part IV: Remedies in International IP Arbitration explores the forms of interim and permanent relief typically available in international IP arbitration, and considers the damages analyses that are most often undertaken in such cases.

Part V: Future Directions is dedicated to exploring the future of international IP arbitration. It includes an in-depth analysis of current trends in IP arbitration and some predictions about future directions in this interesting and evolving field.

In addition to the hard-copy version of this book, the content is also available to subscribers on the Global Arbitration Review website at [www.globalarbitrationreview.com/insight/guides](http://www.globalarbitrationreview.com/insight/guides). We expect that additional content, including additional chapters of this book, will appear first on the website and we commend that resource to our readers.

## **Future editions and acknowledgements**

In future editions of this Guide, current chapters will be updated and additional chapters will be added, including on key issues that arise in certain types of IP disputes not covered in this edition, as well as on the recognition and enforcement of IP-related arbitral awards. We will also seek contributions from additional authors in some important jurisdictions and regions that could not be covered in this edition. We will always seek ways to improve future editions of this Guide and would welcome, with gratitude, any comments or suggestions from readers as to how that might be achieved.

Finally, some words of thanks and acknowledgement are in order. This book would not have been possible without the creativity and vision of David Samuels (GAR's publisher) and the diligent efforts of the excellent team at Global Arbitration Review, including, among others, Mahnaz Arta, Bevan Woodhouse, Hannah Higgins and Georgia Goldberg. In addition, a book such as this is only as good as its authors. We took great care in assembling the highest calibre of experts in the field of international IP arbitration and we are enormously grateful for the hard work and excellent contributions of each of them.

# Part I

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Considerations Before a Dispute Has Arisen

# 1

## Why Arbitrate International IP Disputes?

**David H Herrington, Zachary S O'Dell and Leila Mgaloblishvili<sup>1</sup>**

### Introduction

International arbitration provides an appealing alternative to adjudication in national courts for many international and cross-border intellectual property (IP) disputes. Fundamentally grounded in party autonomy, arbitration enables parties from diverse jurisdictions and legal traditions to agree on, and resort to, efficient and specialised dispute resolution mechanisms tailored to their specific needs. Such customisation particularly complements common features of international IP disputes.

The advantages arbitration offers include, *inter alia*: (1) adjudication by neutral decision makers who may be selected for their expertise in cross-border IP issues; (2) the relative ease of enforcement of arbitral awards under the New York Convention<sup>2</sup> in most parts of the world; (3) procedural flexibility tailored to the individual dispute; and (4) the cost-effective and consolidated resolution of complex cross-border IP disputes, which may otherwise entail various parallel national court proceedings.

Of course, arbitration may not be the preferred choice in every instance. Where a party requires speedy provisional remedies to protect its IP rights, the efficacy of arbitration may be constrained by the arbitral tribunal's lack of coercive power to order such remedies or directly enforce its decisions. Whether a given feature of arbitration is perceived as advantageous or disadvantageous may also depend on a party's legal traditions and expectations. In this respect, criticisms of arbitration often mirror the background of the critic. For instance,

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1 David H Herrington is a partner and Zachary S O'Dell and Leila Mgaloblishvili are associates at Cleary Gottlieb Steen & Hamilton LLP. The authors would like to acknowledge the assistance of Professor Dr Richard Kreindler, Till Hackstein and Alexandre Rempp in the preparation of this chapter.

2 The United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 10 June 1958, 330 U.N.T.S. 38 (the New York Convention).

arbitration users from common law jurisdictions may dislike what they view as excessively limited disclosure. Conversely, those from civil law jurisdictions may decry any disclosure phase as an undue common law influence.

Ultimately, whether international arbitration is preferable to national court litigation in any given instance is a contextual determination. The following sets out key advantages and limitations of arbitrating international IP disputes, and highlights, where relevant, divergence between common law and civil law perspectives and approaches.

## **Perceived advantages of arbitration in international IP disputes**

### Overview

Most intellectual property is defined by national statutory regimes. While a national court is expected to adjudicate IP infringement claims under its own laws, it may not be comfortable – or have the power – to adjudicate similar claims under a foreign law. In this respect, arbitration may better accommodate international and cross-border contractual disputes in the IP context, including disputes concerning:

- global licensing agreements with cross-border aspects between two or more parties from different countries;
- fair, reasonable and non-discriminatory (FRAND) rates for standard-essential patents (SEPs) (if the parties have entered into an agreement concerning this subject);
- cross-border joint ventures; and
- cross-border M&A transactions involving IP issues, such as the transfer of ownership or rights to IP or indemnity obligations as to IP infringement claims.

Even in these contexts, the choice between arbitration and national court litigation is highly fact-specific and, to some extent, subjective.

### Speed and efficiency of arbitral proceedings

Arbitration is commonly viewed as faster, leaner and less costly than litigation.<sup>3</sup> Litigating IP disputes in national courts, by contrast, may entail a lengthy (and accordingly more expensive) process, given the relative complexity of IP disputes and the availability of multiple levels of appeals.<sup>4</sup> By comparison, while statistics are not available for every arbitral institution, data released by leading institutions indicate a substantially shorter period for reaching a result in arbitration.<sup>5</sup>

Between 2013 and 2016, the average arbitration administered by the London Court of International Arbitration (LCIA) lasted 16 months (for cases with an amount in dispute greater than US\$100 million, this increased to 29 months).<sup>6</sup>

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3 See, e.g., Thomas Legler, *Arbitration of Intellectual Property Disputes*, 37 *ASA Bull.* 273, 296–97 (2019); Trevor Cook & Alejandro L. Garcia, *International Intellectual Property Arbitration*, 41–4 (2010).

4 See Cook & Garcia, *supra* n. 3 at 41–4 (citing Gary Born, *International Commercial Arbitration*, 9–10 (Kluwer *L. Int'l* 2d ed. 2001)).

5 Such comparisons should also account for the additional time and expenses to be incurred in proceedings to confirm, vacate or enforce an arbitral award and any available appeals from those proceedings.

6 See London Ct. of Int'l Arb. [LCIA], *Facts and Figures: Costs and Duration: 2013–2016*, at 3 (2017), <https://www.lcia.org/media/download.aspx?MediaId=596>. See also Legler, *supra* n. 3 at 296.

Between 2013 and 2019, the average Hong Kong International Arbitration Centre (HKIAC) administered arbitration was 15.8 months.<sup>7</sup>

Other data points show similar results: between 2007 and 2014, the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) reported that the average duration of an SCC-administered arbitration was 13.5 months,<sup>8</sup> and between 2013 and 2016 the Singapore International Arbitration Centre (SIAC) reported that the average duration of a SIAC-administered arbitration was 13.8 months.<sup>9</sup>

As a general matter, arbitration can offer relative expediency. But whether it affords an actual advantage in cost and duration will depend greatly on the background and circumstances of the parties and other participants, including the parties' counsel, experts and the members of the arbitral tribunal, as well as the nature of the dispute and on which national court system is being held up for comparison.

From a common law perspective, arbitration may appear to offer significant cost and time improvements over national courts. This includes the comparatively truncated written phase in arbitration – relative to potentially lengthy and costly motion practice before a common law court, limited disclosure phases, shorter evidentiary hearings<sup>10</sup> with comparatively limited examination of witnesses<sup>11</sup> and the absence of appeals of awards on the merits. Litigants from the United States or the United Kingdom, for example, may find the prospect of completing an arbitration in one to one-and-a-half years very attractive. On the other hand, in civil law jurisdictions with comparatively efficient courts (e.g., in Germany) – where the examination of evidence is conducted directly by the judge in the inquisitorial tradition and where there is largely no disclosure phase – the average duration of national court proceedings may be on par with, or indeed faster than, the average arbitration.<sup>12</sup>

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7 See HKIAC Average Costs and Duration, Hong Kong Int'l Arb. Ctr., <https://www.hkiac.org/content/costs-duration>.

8 See Celeste E. Salinas Quero, Costs of Arbitration and Apportionment of Costs under the SCC Rules, Arb. Inst. of the SCC (Feb. 2016), [http://sccinstitute.com/media/93440/costs-of-arbitration\\_scc-report\\_2016.pdf](http://sccinstitute.com/media/93440/costs-of-arbitration_scc-report_2016.pdf).

9 See Press Release, Singapore Int'l Arb. Ctr. [SIAC], SIAC Releases Costs and Duration Study (Oct. 10, 2016), [https://www.siac.org.sg/images/stories/press\\_release/SIAC%20Releases%20Costs%20and%20Duration%20Study\\_10%20Oct%202016.pdf](https://www.siac.org.sg/images/stories/press_release/SIAC%20Releases%20Costs%20and%20Duration%20Study_10%20Oct%202016.pdf).

10 The overall duration of a given trial in common law jurisdictions is subject to different variables, including whether the trial is a jury or bench trial.

11 The time available to examine witnesses at trials in common law jurisdictions is also subject to different variables. Judges in common law jurisdictions may seek to impose time limits on cross-examinations, or otherwise inform the parties that certain witnesses need not be heard (in the case of bench trials). The deposition system in US litigation also acts to narrow the scope and topics for cross-examination at trial.

12 Statistics for 2019 from North Rhine-Westphalia (the largest German state) show that the average length of proceedings before a court of first instance was 10.4 months (plus an additional eight months when considering appeals). See Dauer der erstinstanzlichen Zivilverfahren [Duration of first-instance civil proceedings], Justiz-Online: Justizportal Nordrhein-Westfalen (2019), [https://www.justiz.nrw.de/Gerichte\\_Behoerden/zahlen\\_fakten/statistiken/justizgeschaefsstatistik/landgerichte/verfahrensdauer/zivil\\_1instanz.pdf](https://www.justiz.nrw.de/Gerichte_Behoerden/zahlen_fakten/statistiken/justizgeschaefsstatistik/landgerichte/verfahrensdauer/zivil_1instanz.pdf); and Dauer der Zivilverfahren in der Berufungsinstanz [Duration of appellate court civil proceedings], Justiz-Online: Justizportal Nordrhein-Westfalen (2019), [https://www.justiz.nrw.de/Gerichte\\_Behoerden/zahlen\\_fakten/statistiken/justizgeschaefsstatistik/oberlandesgerichte/verfahrensdauer/zivil\\_berufung.pdf](https://www.justiz.nrw.de/Gerichte_Behoerden/zahlen_fakten/statistiken/justizgeschaefsstatistik/oberlandesgerichte/verfahrensdauer/zivil_berufung.pdf). See also Markus S. Rieder and Richard Kreindler, Potential Advantages and Disadvantages of Arbitration in Germany: Speed?, Sec. 1.57, in *Commercial Arbitration in Germany* (Richard Kreindler et al. eds., 1st ed. 2016) ('Also, in the German context the expectation that an arbitration proceeding will truly be speedier [...] is already ambitious,

One overarching consideration is the availability of appellate review. In most jurisdictions, arbitral awards – unlike judgments of national courts – are not subject to substantive appellate review. Parties to an arbitration, therefore, can receive a final and binding decision earlier and with greater certainty.<sup>13</sup> This principle of finality is a hallmark of both domestic and international arbitration.<sup>14</sup>

On the other hand, national appellate courts may bring to disputes a highly developed body of jurisprudence that promotes high-quality decision-making. One example in the United States is the US Court of Appeals for the Federal Circuit, which hears all appeals of patent suits. In civil law jurisdictions, similarly, national court litigants in complex IP disputes may place a high premium on recourse to an appeals court given that judges in most first-instance courts tend to be relatively young and inexperienced, perhaps in their first post-qualification job. When companies regard their IP assets as ‘crown jewels’, the availability of high-quality appellate review of any decision concerning the validity and scope of their IP rights may be especially important.<sup>15</sup>

By contrast, in arbitration, the parties have autonomy to designate trusted, specialised and experienced arbitrators to adjudicate their dispute from the outset. And the role of appellate courts in national litigation of developing jurisprudence, and articulating and applying broad principles, arguably has less value and relevance in a contractual relationship in which parties principally seek a practical and efficient resolution of their own particular disputes – especially if, as is ordinarily the case, decisions about the validity and scope of IP rights will be made on an *inter partes* and not an *erga omnes* basis. On the whole, parties to a contractual relationship with an IP element that value certainty and a speedy and final conclusion, would likely prefer to forgo lengthy appeals.

Another important consideration is that litigation in national courts may provide for early case-dispositive motions, such as motions to dismiss and motions for summary judgment, which may resolve a dispute based on a specific issue or defence. Such motions are common in US court proceedings, for example, but are not common in the same form in most civil law jurisdictions. The availability of these procedures in national courts may, in some instances, permit a quicker and less expensive resolution than a full arbitration procedure involving extensive memorials and an evidentiary hearing. At the same time, if such dispositive motions do not succeed in resolving a case, they will have added to the time and expense of court litigation without expediting the final outcome.

Accordingly, the general perception that arbitration is faster and cheaper than national court litigation is not always grounded in reality. No two arbitrations are alike and certain flexible procedural features of arbitration (subject to negotiation and agreement between the parties and the arbitral tribunal) can result in either shortened or prolonged proceedings

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in the sense that German court proceedings are generally more efficient and streamlined than litigation in numerous other countries.’).

13 Prevailing parties in arbitration must still engage in litigation concerning confirmation (recognition) or vacatur (annulment) of an arbitral award, which can add to the time and expense needed to achieve a final result.

14 See Cook & Garcia, *supra* n. 3 at 38–9.

15 See, e.g., *id.*, at 30, 39 (noting that ‘judges in civil law countries almost never have scientific backgrounds’ and that ‘the existence of appeals (and cassation recourses) reflects the hierarchy stemming from the “judicial career” system’ where ‘relatively inexperienced judges sit in first-instance courts.’).

and more or less costs to the parties.<sup>16</sup> This procedural flexibility may enable certain abuses by recalcitrant parties seeking to delay proceedings and impose additional costs on the opposing party (though the prevailing party may ultimately recover its costs). The relative lack of certainty concerning the procedural conduct of a given arbitration makes it somewhat difficult for parties to accurately predict costs and duration. However, as discussed below,<sup>17</sup> many arbitral institutions also offer parties the choice of expedited and emergency arbitration rules and procedures.

### Consolidation of parallel cross-border proceedings

A significant advantage that arbitration may offer over national court litigation is the resolution in a single forum of complex cross-border disputes.<sup>18</sup> If parties' business relationship involves IP-related rights in two or more countries, resolving disputes in a single national court may not be possible. The ability to address such disputes in a single arbitral proceeding is highly attractive.<sup>19</sup> The time and cost advantages of such consolidation are obvious: fewer lawyers and decision makers are involved and witnesses need testify only once. Likewise with experts, a proactive arbitral tribunal from the civil law tradition may determine that certain party-appointed experts need not be examined at all because the tribunal is already familiar with the subject of their expertise.<sup>20</sup> This is, therefore, a critical point that should be closely considered when deciding between arbitration and litigation.

Such consolidation has increasingly become a best practice in the IP context. This is especially true with global IP licensing programmes and of related SEP/FRAND disputes, where pursuing 'piecemeal' litigation in diverse national courts would be complex, cumbersome and expensive.<sup>21</sup> Parallel national court proceedings also entail the risk of contradictory decisions.<sup>22</sup> In addition, as discussed below,<sup>23</sup> the relative difficulty of enforcing a foreign court judgment further adds to the appeal of arbitrating multi-jurisdictional IP disputes.

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16 This includes, *inter alia*, (1) the number of memorials in the pre-hearing and post-hearing written phases, (2) decisions about bifurcation of proceedings, i.e., to address preliminary issues such as jurisdiction or applicable law, or between liability and quantum, and (3) the scope and breadth of the document disclosure phase, if any.

17 See *infra* 'Comparative availability of preliminary remedies and injunctive relief'.

18 See, e.g., Annet van Hooft, *Brexit and the Future of Intellectual Property Litigation and Arbitration*, 33 *J. of Int'l Arb.* 541, 541 (2016) ('Disputes regarding IP rights can also be brought before arbitral tribunals, in relation to contractual rights [. . .]. In these arbitral proceedings questions of validity and infringement can also be dealt with as incidental subjects.').

19 See Cook & Garcia, *supra* n. 3 at 44–6 ('If the disputants entered into an arbitration agreement, they would be in a position to resolve a multi-jurisdictional dispute in a single proceeding, greatly reducing costs and the time needed to resolve the whole conflict whilst obtaining an award potentially enforceable in most countries in the world.').

20 On the other hand, arbitral tribunals also have the discretion to name a tribunal-appointed expert where, notwithstanding the submissions of the party-appointed experts, the tribunal requires further (or more independent) expert evidence.

21 Cook & Garcia, *supra* n. 3 at 44–6.

22 See Legler, *supra* n. 3 at 297.

23 See *infra* 'International enforcement of arbitral awards'.



Recognising the advantages that arbitration may offer in this context, several leading arbitral institutions have adapted their rules and procedures to better serve the needs of IP disputes:

- Of particular note is the World Intellectual Property Organization (WIPO) Arbitration and Mediation Center, which focuses on technology and IP disputes. WIPO offers specialised procedural rules tailored to IP, including the WIPO Arbitration Rules and WIPO Expedited Arbitration Rules<sup>24</sup> and other model arbitration clauses and submission agreements developed for FRAND disputes.<sup>25</sup> WIPO-administered arbitration also provides specific rules governing preliminary relief, a critical consideration for many IP disputes.<sup>26</sup>
- Similarly, the American Arbitration Association (AAA), in collaboration with the US National Patent Advisory Council, which consists of patent litigators, in-house patent counsel and patent practitioners, has created a set of patent-specific arbitration rules, the Resolution of Patent Disputes Supplementary Rules, supplementing the AAA's Commercial Arbitration Rules.<sup>27</sup>
- The International Institute for Conflict Prevention and Resolution (CPR) offers a number of instruments tailored for IP disputes. The CPR has promulgated Rules for Non-Administered Arbitration of Patent and Trade Secrets Disputes, which include model arbitration clauses for such specialised IP disputes.<sup>28</sup> More generally, the CPR's 2007 Rules for Non-Administered Arbitration of International Disputes and 2019 Rules for Administered Arbitration of International Disputes expressly provide that these rules 'may be adopted by parties that do not have a contractual or other business relationship, e.g., for a patent infringement dispute'.<sup>29</sup>

Some of these arbitral institutions, such as the CPR and WIPO, offer specific expertise in cross-border and international IP disputes.<sup>30</sup>

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24 See WIPO Arbitration Rules (effective Jan. 1, 2020), <https://www.wipo.int/amc/en/arbitration/rules/WIPO-Expedited-Arbitration-Rules> (effective Jan. 1, 2020), <https://www.wipo.int/amc/en/arbitration/expedited-rules/>.

25 See generally Heike Wollgast & Ignacio de Castro, WIPO Arbitration and Mediation Center: New 2014 WIPO Rules; WIPO FRAND Arbitration, 32 *ASA Bull.* 215, 290–95 (2014).

26 See Michael Woller & Michaela Pohl, IP Arbitration on the Rise, Wolters Kluwer: Kluwer Arb. Blog (July 16, 2019), <http://arbitrationblog.kluwerarbitration.com/2019/07/16/ip-arbitration-on-the-rise/>.

27 See AAA Resolution of Patent Disputes Supplementary Rules ('AAA Patent Rules') at 3 (Jan. 1, 2006), <https://www.adr.org/sites/default/files/Resolution%20of%20Patent%20Disputes%20Supplementary%20Rules.pdf>.

28 See Int'l Inst. for Conflict Prevention & Resol., CPR Rules for Non-Administered Arbitration of Patent & Trade Secrets Disputes (2005 Revision), [https://www.cpradr.org/news-publications/articles/2010-07-01-cpr-rules-for-non-administered-arbitration-of-patent-trade-secret-disputes/\\_res/id=Attachments/index=0/CPR-Rules-for-Non-Administered-Arbitration-of-Patent-and-Trade-Secret-Disputes.pdf](https://www.cpradr.org/news-publications/articles/2010-07-01-cpr-rules-for-non-administered-arbitration-of-patent-trade-secret-disputes/_res/id=Attachments/index=0/CPR-Rules-for-Non-Administered-Arbitration-of-Patent-and-Trade-Secret-Disputes.pdf).

29 See CPR Rules for Non-Administered Arbitration of International Disputes at 3 (effective Nov. 1, 2007), [https://www.cpradr.org/news-publications/articles/2010-11-30-2007-cpr-rules-for-non-administered-arbitration-of-international-disputes/\\_res/id=Attachments/index=0/2007-CPR-Rules-for-Non-Administered-Arbitration-of-International-Disputes.pdf](https://www.cpradr.org/news-publications/articles/2010-11-30-2007-cpr-rules-for-non-administered-arbitration-of-international-disputes/_res/id=Attachments/index=0/2007-CPR-Rules-for-Non-Administered-Arbitration-of-International-Disputes.pdf); see also CPR Rules for Administered Arbitration of International Disputes at 3 (effective Mar. 1, 2019), [https://www.cpradr.org/resource-center/rules/international-other/arbitration/2019-international-administered-arbitration-rules/\\_res/id=Attachments/index=0/2019%20Administered%20Arbitration%20Rules%20International.pdf](https://www.cpradr.org/resource-center/rules/international-other/arbitration/2019-international-administered-arbitration-rules/_res/id=Attachments/index=0/2019%20Administered%20Arbitration%20Rules%20International.pdf).

30 Some jurisdictions may have specific courts with technical expertise assigned to hear IP disputes. Other national courts may have developed unofficial expertise and specialisation in IP disputes (e.g., German courts

Consolidation considerations may involve added complications where parallel or related national court proceedings are already pending. How much or little deference an arbitrator will show to a prior pending arbitration or court proceeding related to the same or similar IP rights will depend on a variety of factors, including, of course, the extent to which an identity of parties, causes of action and relief sought exists (the triple identity test). Arbitral tribunals steeped in the civil law tradition may be more willing to apply the doctrine of *lis pendens* during the pendency of the national court proceedings, whereas common law jurisdictions tend to adopt the more discretionary approach of the doctrine of *forum non conveniens*.

### Forum neutrality and choice of arbitrators

A related advantage of arbitration over national courts is the ability to select arbitrators who possess some level of relevant expertise.<sup>31</sup> IP disputes frequently require delving into very specific fields of science or technology. While some national court judges may possess the necessary expertise, this generally cannot be guaranteed. Arbitration, on the other hand, provides some degree of quality control, by affording the parties broad autonomy to select arbitrators with specific expertise.<sup>32</sup> In addition, the parties may agree on certain desired characteristics of the presiding arbitrator (including that she or he not share a common nationality with either of the parties or with either of the co-arbitrators) or, in the absence of an agreement, on a trusted and neutral appointing authority.<sup>33</sup> To assist parties, many leading arbitral institutions maintain panels or listings of arbitrators specialising in IP disputes, including WIPO,<sup>34</sup> HKIAC,<sup>35</sup> CPR<sup>36</sup> and SIAC.<sup>37</sup>

It should be noted that the mere availability of specialised arbitrators may not always result in the preferred outcome. The decision of whether to select arbitrators with IP experience and specialisation may present special challenges to parties, especially where those arbitrators may decide to pursue an inquisitorial approach to experts and witnesses. A civil

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in Mannheim, Munich and Dusseldorf or US district courts in Delaware, Central District of California or the Eastern District of Texas).

31 See, e.g., Cook & Garcia, *supra* n. 3 at 27–28 (discussing perceptions of bias by litigants in the home jurisdiction of their opposing party).

32 See, e.g., Legler, *supra* n. 3 at 297–98.

33 Parties to ad hoc proceedings in which the parties cannot agree on the process for or appointment of arbitrators may need to resort to national courts for the constitution of the tribunal. In many cases, however, these courts lack the necessary expertise to select suitable IP experts. One way to circumvent this problem in ad hoc arbitration is to provide for an appointing authority in the arbitration agreement, which can make a substitute appointment if the parties are unable to agree or if one of the parties fails to appoint an arbitrator. Most arbitral institutions, including the WIPO Arbitration and Mediation Center, offer to act as such appointing authority.

34 WIPO maintains a list of over 1,500 neutrals, which is accessible only to parties to WIPO arbitration and mediation proceedings. WIPO also maintains a public list of WIPO Domain Name Panelists. See WIPO Neutrals, World Intell. Prop. Org., <https://www.wipo.int/amc/en/neutrals/index.html>.

35 See Panel of Arbitrators for Intellectual Property Disputes, Hong Kong Int'l Arb. Ctr., <https://www.hkiac.org/arbitration/arbitrators/panel-arbitrators-intellectual-property>.

36 See Technology/IP Panel, Int'l Inst. for Conflict Prevention and Resol., <https://www.cpradr.org/neutrals/specialty-panels/technology-ip-panel>.

37 See SIAC Panel, Singapore Int'l Arb. Ctr., <https://www.siac.org.sg/our-arbitrators/siac-panel>.

law specialist who proactively leads the taking of witness and expert evidence in the proceedings, including through direct colloquy with the counsel themselves on central issues of IP law and practice, may reach a very different outcome than one who takes a common law-inspired passive approach that permits the parties' respective counsel to guide the presentation of evidence and arguments.

### International enforcement of arbitral awards

A further substantial benefit of arbitration is the potential to simplify the enforcement of a final decision – an advantage inextricably linked to the New York Convention. As set forth in Articles V(1) and V(2) of the New York Convention, the grounds upon which an arbitral award may be denied recognition and enforcement are extremely limited.<sup>38</sup> They largely mirror the grounds to set aside an award under the UNCITRAL Model Law on International Commercial Arbitration. The Model Law has been adopted in numerous common law- and civil law-inspired jurisdictions, making it the law at the seat of arbitration (*lex arbitri*) in numerous arbitrations. The Model Law's widespread acceptance has surely contributed to a convergence of arbitration law and doctrine across the spectrum of common and civil law cultures, even while those cultures continue to remain distinct and in some respects.

The relative ease of recognition and enforcement of arbitral awards is juxtaposed against the comparative difficulties in seeking to enforce foreign court judgments internationally. Recognition and enforcement of foreign court judgments varies considerably depending on the jurisdiction and discretionary powers of the national court. Efforts to adopt a truly international treaty regime similar to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards have largely failed.<sup>39</sup> Within the regional framework of the European Union, Council Regulation (EC) No. 44/2001 (the Brussels I Regulation) and the related Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the Lugano Convention) represent limited exceptions.<sup>40</sup>

In this context, prevailing parties in complex cross-border IP litigation often face lengthy and costly battles seeking to enforce national court judgments in foreign jurisdictions. This renders arbitration, and enforcement of arbitral awards within the jurisdiction of the New York Convention a highly attractive alternative.<sup>41</sup>

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38 This includes, inter alia, incapacity of the parties and invalidity of the arbitration agreement, non-arbitrability of the subject matter, violation of substantive public policy and other procedural due process considerations.

39 See Cook & Garcia, supra n. 3 at 23–4.

40 See, e.g., Legler, supra n. 3 at 292 (discussing how 'arbitration in intellectual property matters has a clear advantage over state court proceedings since there is no mechanism outside the European Union similar to those offered by the Brussels I Regulation and the Lugano Convention that would allow the simple and swift enforcement of state court judgments.').

41 See Cook & Garcia, supra n. 3 at 38–9; cf. id., at 40 ('in a few jurisdictions, parties may agree on judicial review as to the merits of an [arbitral] award [...] [but] the ability to do so would depend on the law of the proceedings (*lex arbitri*) and the stance of different countries greatly varies in this regard.')

Of course, confirmation and enforcement of arbitral awards also requires a separate court proceeding following the arbitration process, but this step ordinarily should be straightforward. And as many commentators have highlighted, the vast majority of arbitral awards are complied with voluntarily and without recourse to enforcement proceedings.<sup>42</sup>

## Confidentiality

In international IP disputes, confidentiality concerns arise in (1) keeping the existence or outcome, or both, of the proceeding secret and (2) guarding the confidentiality of commercially sensitive information (such as trade secrets and business know-how) that may need to be submitted to the court or arbitrators in the course of the proceeding.

As to the first concern, the secrecy of the outcome of a given dispute is often considered a primary advantage of arbitration as compared to litigation. Parties selecting arbitration may, depending on the applicable law and rules, tailor their arbitration agreements to expressly provide for their desired level of confidentiality. Those who prioritise confidentiality may gravitate towards arbitral institutions with express confidentiality protections in their rules.<sup>43</sup> While this advantage is not necessarily specific to international IP disputes, it is an important consideration in choosing the forum for potentially sensitive commercial disagreements.

By comparison, in at least some countries – including the United States, for example – the existence and outcome of litigation in court is usually open to the public. That said, filings and decisions in many national court systems, particularly in civil law-inspired jurisdictions, do not enjoy nearly the same transparency and accessibility as is the case particularly in the US court system; for that reason, confidentiality, or at least privacy, is more likely to be assured in such courts than in the US system. By extension, the desire or need for far-reaching confidentiality or at least comparative privacy afforded by certain arbitrations is likely to be less urgent for parties in civil law jurisdictions than it might be for parties accustomed to the US system.

As to the second concern, considering the highly sensitive nature of many IP disputes, related to high-tech know-how and trade secrets, the degree to which confidentiality is able to be guaranteed, and for how long, will be a central concern for parties that consider whether to opt for arbitration over litigation of their differences. Certain institutional rules also contain provisions that explicitly address the treatment of trade secrets and other confidential information or documents. For instance, the WIPO Arbitration Rules contain a

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<sup>42</sup> See, e.g., Cook & Garcia, *supra* n. 3 at 26, note 16 (citing Born, *supra* n. 4 at 8; Gerry Lagerberg & Loukas Mistelis, *International Arbitration: Corporate Attitudes and Practices* 8 (Queen Mary U. of London Sch. of Int'l Arb. 2008); Michael Kerr, *The Keating Lecture: Concord and Conflict in International Arbitration* (Oct. 29, 1996).

<sup>43</sup> For example, Article 44 of the 2012 Swiss Rules of International Arbitration (the Swiss Rules) provides for broad default confidentiality rules and undertakings. Similar default rules and undertakings exist in Article 30 of the 2014 LCIA Arbitration Rules, and Article 44 of the 2018 German Arbitration Institution (DIS) Arbitration Rules. Other arbitral institutions provide more limited confidentiality protections: For example, Article 3 of the 2017 Arbitration Rules of the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) includes limited confidentiality undertakings for the SCC and the arbitral tribunal, which do not extend to the parties themselves; Article 38 of the 2015 China International Economic and Trade Arbitration Commission Arbitration Rules creates a default rule for the confidentiality of 'in camera' hearings.

comprehensive confidentiality regime, including appointment of a confidentiality adviser, protocols for the disclosure of trade secrets and other confidential information, and for confidentiality: (1) of the existence of the arbitration; (2) of disclosures made during the arbitration; (3) of the award; and (4) undertakings by the WIPO Center and arbitrators.<sup>44</sup>

However, many national courts are equally well-equipped and experienced in protecting confidential information (e.g., trade secrets cases in US courts) and are typically willing to keep truly confidential and sensitive information under seal. Thus, the comparative advantage of arbitration in this regard largely depends on the tools available before the relevant national court.

In addition, even with compliant parties, complete confidentiality in arbitration has its limits. Certain sensitive or confidential information, including the existence and outcome of the dispute, which is otherwise protected in an arbitration may still become public when a party seeks relief from a national court to enforce preliminary measures or injunctive relief, or to recognise and enforce (or vacate) an arbitral award.

As with the other considerations identified in this section, the perceived advantage of arbitration concerning confidentiality should be contextualised in relation to the specific circumstances of the particular dispute. Nevertheless, these general principles offer an overarching roadmap for the types of disputes that may be better suited for international arbitration. Below, we discuss countervailing perceived disadvantages of arbitrating international IP disputes, which may likewise factor into parties' choice of forum.

### Cost allocation

With respect to allocation of costs between parties in arbitration, there are generally two principal approaches: the rule that 'costs follow the event'; and the 'American Rule' whereby each party bears its own costs regardless of the outcome.<sup>45</sup>

While litigation in national courts ordinarily means the parties are subject to that jurisdiction's rules as to cost allocation, an arbitration clause permits the parties to decide on their preferred approach to cost allocation. However, parties should be mindful of protecting this optionality in their arbitration agreement and choice of institutional rules. If, for instance, parties coming from civil law traditions enter into an ad hoc arbitration agreement as part of a cross-border licensing agreement that designates a 'neutral' New York seat of arbitration and New York law governing the contractual instrument, they may fully expect and intend that the 'costs follow the event' rule should apply to any dispute arising between

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44 See WIPO Arbitration Rules, Arts. 54, 75–8. See also Legler, *supra* n. 3 at 298 (noting that 'not all rules of arbitration institutions protect confidential information in the same way' and that '[t]he WIPO Arbitration and Mediation Rules are quite unique in that respect.').; Cook & Garcia, *supra* n. 3 at 46–8 (stressing that 'parties wishing to ensure the confidentiality of information disclosed in [arbitration] proceedings should expressly provide for it in their arbitration agreements, submit their dispute to institutions whose rules provide for the adequate protection of such information or choose as legal seat a jurisdiction where arbitration is considered confidential.').

45 See Micha Bühler, Costs, in *The Guide to Damages in International Arbitration* (2d ed., Glob. Arb. Rev. 2018). While the rule that 'costs follow the event' is observed in both civil law and common law jurisdictions, the 'American Rule' is observed not only in the United States but also in jurisdictions such as China and Japan and in many interstate arbitrations. *id.*

them. However, by failing to memorialise their intent in the agreement, the parties may have unknowingly elected to apply the default rule at the New York seat, namely the ‘American Rule’ for cost allocation.

This illustration underscores how important it is not only for parties to carefully identify and weigh priorities in deciding between national court litigation and international arbitration, but once they have expressed a preference for arbitration to ensure that any assumptions or expectations underlying that decision are actually reflected in the arbitration agreement, or at least in the institutional or ad hoc rules or the *lex arbitri* that the parties choose, or both.

## Potential limitations of arbitration in international IP disputes

### Overview

Unlike national courts, arbitral tribunals enjoy limited coercive power.<sup>46</sup> The arbitral tribunal’s authority is circumscribed by the scope and contents of the parties’ contractual agreement, as well as limitations on arbitrability under applicable law. These considerations may be particularly relevant in international IP disputes, where parties may need to seek and enforce interim measures, obtain document production to prove the existence of an infringement, or obtain equitable relief to vindicate their IP rights. International IP disputes may also implicate special challenges related to expert evidence and the calculation of complex damages.

Notwithstanding these potential limitations, parties enjoy a great deal of flexibility to anticipate and contract around a number of the perceived limitations of arbitrating international IP disputes. In weighing the appropriate forum and relief, parties should give careful consideration at the outset to the laws and practices at the possible seats of arbitration and the jurisdiction where the arbitral award may be enforced.

### Comparative availability of preliminary remedies and injunctive relief

The ability to obtain preliminary relief is often of particular importance in IP disputes, especially in the early stages. For example, in the area of copyright and trademark law, claims for damages may be of little assistance or comfort to the injured party. Similarly, where an infringement is ongoing or a trade secret is at risk of being disclosed, the IP owner will want to stop the infringing conduct immediately. In these circumstances, preliminary measures or injunctive relief orders that can terminate the violation of rights and contain the resulting economic damage are especially attractive.<sup>47</sup> Whether it is more advantageous to request interim relief before an arbitral tribunal or before a national court must be assessed on a case-by-case basis, considering among other factors the inclination of the specific tribunal to exercise a power to render interim relief and the practical effectiveness of such relief in a jurisdiction outside of the seat of arbitration.<sup>48</sup>

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46 See Born, *supra* n. 4 at 2446; Cook & Garcia, *supra* n. 3 at 35–6.

47 See Richard Kreindler, *Gerichtliche Verfahren um gewerbliche Schutzrechte im internationalen Vergleich und grenzüberschreitende Strategien—aus US-amerikanischer Sicht*, in *Schiedsgerichtbarkeit und Gewerblicher Rechtsschutz*, DIS-MAT XIII, 55 (Deutsche Inst. für Schiedsgerichtbarkeit e.V. 2006).

48 See *id.*, at 59.

Given an arbitral tribunal's limited coercive power, international IP disputes implicating urgent interim measures may be better suited to adjudication in national courts. That said, arbitration practice has developed mechanisms to address this concern. The leading institutional rules all generally provide for emergency procedures or interim relief, though they may differ as to timing.<sup>49</sup> As highlighted above, some institutions have promulgated rules specifically tailored to IP disputes, including those requiring preliminary relief. The AAA Patent Rules, for example, call for an immediate hearing following the selection of arbitrators during which various preliminary matters can be decided, including injunctive relief.<sup>50</sup>

Where suitable preliminary or expedited relief is available from an arbitral tribunal, enforcement of that relief will require (with rare exceptions<sup>51</sup>) assistance from national courts, particularly outside the seat of arbitration, to enforce interim awards or orders. This can present challenges in some jurisdictions, particularly when enforcing interim awards rendered abroad.<sup>52</sup> However, arbitral tribunals are not entirely powerless to compel parties to comply with their orders. Depending on the applicable rules, legal regime and breadth of the arbitration agreement, arbitral tribunals may be empowered to allocate costs or draw adverse inferences against non-complying parties. With this in mind, parties should give careful consideration to the designation of institutional rules and the laws and practices at potential seats of arbitration when drafting their arbitration agreements.

Ordinarily, national courts can order interim measures in IP disputes, even where an arbitration agreement has been concluded between the parties. An express enabling of the national court in the arbitration agreement or in the agreed institutional rules is therefore generally not required. Whether arbitration proceedings are already pending is usually irrelevant.<sup>53</sup> In the US context, one might imagine that plaintiffs generally prefer to seek interim relief before a national court rather than before an arbitral tribunal. However, in the area of patent infringements, a trend in favour of arbitration is clearly discernible. This is owing to the powers of the arbitral tribunal in the field of interim relief, which may go

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49 See David Herrington & Alexandra Theobald, Chapter 10: Preliminary and Final Remedies, in *Arbitrating International Intellectual Property Disputes* (Thomas D Halket, ed.) (forthcoming, 2020) (manuscript at 517-521) (comparing the availability of preliminary remedies under the rules of the ICC, LCIA, ICDR, AAA, CI Arb, WIPO, CPR, JAMS, SIAC, SCC, HKIAC and SIETAC). In addition, several institutions provide rules for expedited arbitral proceedings. These special procedures and rules may not be well-suited to more complex international IP disputes (given, e.g., that most expedited arbitral procedures are designed for lower-value, less complex disputes), but they generally envisage some modification to account for complexities. See José Feris, 'The 2017 ICC Rules of Arbitration and the New ICC Expedited Procedure Provisions' 1 (2017) (discussing the invocation of the ICC expedited rules with respect to lower value claims); Arbitration Clause, ICC, <https://iccwbo.org/dispute-resolution-services/arbitration/arbitration-clause/>.

50 See AAA Patent Rules, Art. 3(h).

51 See, e.g., Arbitration and Conciliation Act, 1996, § 17(2) (India) ('any order issued by the arbitral tribunal under this section shall be deemed to be an order of the Court for all purposes and shall be enforceable [...] in the same manner as if it were an order of the Court.').

52 See George A Bermann, Recognition and Enforcement of Foreign Arbitral Awards: The Interpretation and Application of the New York Convention by National Courts, in *Recognition and Enforcement of Foreign Arbitral Awards: The Interpretation and Application of the New York Convention by National Courts* 1, 15 (Bermann ed., Springer 2017) ('a clear majority of jurisdictions that have addressed the question [...] decline to treat [interim] measures as awards, thereby excluding them from coverage of the Convention's guarantee of recognition and enforcement').

53 See Kreindler, supra n. 47 at 56.

beyond those of the national court – pursuant to the AAA Rules, for instance, the arbitral tribunal is expressly authorised to grant injunctive relief to terminate infringement.<sup>54</sup> Of course, if interim relief is urgently needed before the constitution of the arbitral tribunal, seeking such relief from a national court of appropriate jurisdiction will be the only option.

An additional consideration when weighing the need for provisional relief is whether testimony or disclosure from third parties may be needed. This may present particular challenges to arbitral tribunals that may lack jurisdiction over third parties or the legal means to compel their cooperation.

Considerations regarding the limitations of the arbitral tribunal's authority can similarly arise with respect to final equitable relief. The arbitral tribunal's ability to police compliance with permanent equitable remedies is limited by the temporal limitations on the office of arbitrator. Once an arbitral award is rendered, the arbitral tribunal typically ceases to exist, and parties must seek enforcement of the award from courts. Under these circumstances, careful consideration should be given to whether the declaratory or injunctive relief awarded by the arbitral tribunal is actually cognisable under the law at the place of contemplated enforcement.

#### Inter partes versus erga omnes relief

Owing to the contractual nature of arbitration, arbitral awards are generally *inter partes* – that is, they bind only the parties to the proceedings.<sup>55</sup> In the context of international IP disputes, the effect of arbitral awards may present certain drawbacks.

First, arbitral tribunals generally cannot invalidate registered IP rights with *erga omnes* effect.<sup>56</sup> Second, arbitral awards are generally not capable of binding non-signatories to the arbitration agreement, such as sub-licensees, except in limited circumstances.<sup>57</sup> It is not clear, however, that either party has an interest in having the resolution of a dispute apply to other parties (and many may actually prefer that it not). With a dispute involving patent validity, for example, the party challenging validity likely does not care whether its successful challenge to a patent's validity will benefit others. A patent owner would certainly prefer that a finding of invalidity not apply *erga omnes*. And under US rules, at least, a finding that a patent is valid in one proceeding (including in court litigation) would not serve to bar other parties from challenging the validity of the patent in other proceedings.

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54 See AAA Arbitration Rules, R-37–8; Kreindler, *supra* n. 47 at 58.

55 A minority of jurisdictions, however, extend the tribunal's authority further. Belgian law expressly recognises that arbitral awards concerning patents can have *erga omnes* effect. See Belgian Patents Act, Article 51(1). Swiss law also extends this principle further to other IP rights. Decision of the Swiss Federal Office of Intellectual Property, December 15, 1975, *Swiss Review of Industrial Property and Copyright* (1976), p. 38, Para. 4.

56 See, e.g., Jacques Raynard, Arbitrage et propriété intellectuelle – Contributions au colloque du Comité français de l'arbitrage, 18 Octobre 2013: Introduction générale, 2014 *Revue de l'Arbitrage* No. 2, 2014, at 267–77 (discussing that under French law, 'the invalidity of the title produces *erga omnes* effect and [...] the decision ordering such a measure inevitably reflects on the situation of third parties whose freedom of exploitation is thus extended: the invalidation of the patent restores freedom of exploitation and can only be ordered by a court decision in accordance with the [French] Code [of Intellectual Property].')

57 See Born, *supra* n. 4 at 1418–484.



Accordingly, where a decision's effect on third parties is implicated, arbitration may have perceived advantages or disadvantages depending on a party's priorities. If setting a public precedent to deter future infringements is desired, proceedings before national courts may still be the preferred option, including owing to the lesser degree of confidentiality or privacy generally attached to court decisions as compared with commercial arbitral awards.

### Evidentiary issues in IP arbitration

The general approach to the taking of evidence is another important variable to assess the perceived efficacy of arbitration in a given IP dispute. A party's expectations concerning available evidentiary features may be a decisive factor in deciding between national courts versus arbitration.

The promulgation of the IBA Rules on the Taking of Evidence in International Arbitration (the IBA Rules) in 1999 has been one of the most significant developments in international arbitration practice in the past two decades. That the IBA Rules have now achieved soft-law status is best explained by their melding of the best of both civil law and common law approaches to the taking of evidence. This hybrid evidentiary approach may be perceived as particularly useful in international IP disputes between parties from different jurisdictions and legal traditions.

However, the hybrid approach of the IBA Rules to evidence is not universally praised. In 2018, a group of arbitration practitioners (predominantly from civil law traditions) promulgated the Rules on the Efficient Conduct of Proceedings in International Arbitration (the Prague Rules). The Prague Rules purport to promote greater efficiency in arbitration by adopting an inquisitorial approach to evidence well known in most civil law jurisdictions.<sup>58</sup> As such, the Prague Rules eschew the hybrid approach of the IBA Rules, eliminating the default application of various common law evidentiary features such as document disclosure,<sup>59</sup> party autonomy over the examination of witnesses,<sup>60</sup> the use of party-appointed experts<sup>61</sup> and evidentiary hearings.<sup>62</sup> The tension between the IBA Rules and the Prague Rules is emblematic or symptomatic of common and civil law divides or perceived divides in this respect.

This civil law–common law divide with respect to evidentiary features may be particularly relevant in many international IP arbitrations. For example, disputes may arise about the proper role of national courts in facilitating or ordering disclosure in private arbitrations. In the United States, 28 USC Section 1782 makes a wide range of US discovery tools available to litigants in foreign proceedings, including expansive document subpoenas and

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58 See Ferdinando Emanuele, Carlo Santoro, Ari D. MacKinnon and Zachary O'Dell, *The Prague Rules and the Myth of a Civil Law Panacea*, 12 *New York Dispute Resolution Lawyer* No. 1, Spring 2019 at 46–50.

59 Prague Rules, Art. 4.2 ('the arbitral tribunal and the parties are encouraged to avoid any form of document production, including e-discovery').

60 id., Arts. 5.2 ('the arbitral tribunal [...] will decide which witnesses are to be called for examination during the hearing') and 5.3 ('[t]he arbitral tribunal may decide that a certain witness should not be called for examination during the hearing').

61 id., Art. 6.1 ('the arbitral tribunal may appoint one or more independent experts to present a report on disputed materials which require specialized knowledge').

62 id., Art. 8.1 ('the arbitral tribunal and the parties should seek to resolve the dispute on a documents-only basis.').

depositions.<sup>63</sup> Some US courts have interpreted the statute to extend to foreign arbitral proceedings.<sup>64</sup> As a result, applications under Section 1782 may be deployed strategically in disputes against parties wary of or unfamiliar with US-style discovery.

## Damages

The assessment and determination of damages often presents challenges to even the most capable arbitral tribunals. Damages in complex IP disputes are no exception. Unfortunately, there is a common perception that arbitrators struggle with these assessments.<sup>65</sup> That is not to say that some very experienced and specialised arbitrators are not skilled with damages assessment, but rather that many (even otherwise well-respected arbitrators) are perceived not to be. Ill-equipped arbitral tribunals may produce unpredictable outcomes or, worse, may succumb to the notion of *iudex non calculat* (“the judge does not calculate”) and uncritically adopt the damages analysis of the party that prevails on liability in our experience. In this sense, the uncertainty surrounding an arbitral tribunal’s treatment of damages can be viewed as a disadvantage of arbitration.

Whether sounder or more predictable damages assessments will be available in national courts may not always be clear. In the United States, for example, damages (like other issues) are typically decided by a jury – though parties are free to include in their contracts a waiver of jury trials. While judges provide the legal framework that will guide a jury’s assessment, outcomes can be unpredictable. To the extent a national court system involves assessments of damages by experienced judges, the quality and predictability of outcomes may be perceived as superior to arbitral tribunals.

Damages can be a particularly important component of international IP disputes concerning, for example, FRAND royalty rates for SEPs. In this context, unlike the general concerns outlined above, parties’ ability to select arbitrators is likely to be perceived as an advantage owing to the availability of specialist arbitrators and procedures. For instance, WIPO offers arbitration procedures specifically designed for FRAND royalty calculations. In addition, for the reasons of consolidation discussed above, arbitral tribunals may be better positioned to assess global royalty rates spanning several jurisdictions.

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63 The applicant must demonstrate that the person from whom (or the corporation from which) discovery is sought ‘resides’ or is ‘found’ in the judicial district in which the Section 1782 application is made; the discovery sought is ‘for use in a proceeding in a foreign or international tribunal’; and the application is made by the ‘foreign or international tribunal’ or a person or entity with a reasonable interest in obtaining relief in the foreign proceedings. See 28. U.S.C. § 1782.

64 There is presently a split between the US circuit courts of appeal as to whether the definition of ‘foreign or international tribunal’ under the statute was intended to extend to private arbitrations. See, e.g., *Servotronics, Inc. v. Rolls-Royce PLC*, 975 F.3d 689 (7th Cir. 2020) (holding that Section 1782 does not extend to private commercial arbitration); *In Re Guo*, 965 F.3d 96 (2d Cir. 2020), as amended (July 9, 2020) (same); *Republic of Kazakhstan v. Biedermann Int’l*, 168 F.3d 880, 883 (5th Cir. 1999) (same); *Servotronics, Inc. v. Boeing Co.*, 954 F.3d 209, 210 (4th Cir. 2020) (holding that foreign commercial arbitration is covered by Section 1782); *In re Application to Obtain Discovery for Use in Foreign Proceedings*, 939 F.3d 710 (6th Cir. 2019) (same). Given this deepening circuit split, it is increasingly likely that the issue will have to be decided by the US Supreme Court.

65 See John A. Trenor, Introduction, in *The Guide to Damages in International Arbitration* (2d ed., Glob. Arb. Rev. 2018), <https://globalarbitrationreview.com/chapter/1177412/introduction> (observing that it is a common joke among arbitration practitioners that ‘[t]here are three types of arbitrators: those who understand numbers and those who don’t’).

## Experts

Similar assessments may arise with respect to expert evidence. Given the highly technical nature of certain patent and other IP rights, expert evidence may play a key role in guiding a court or arbitral tribunal seized with an IP dispute. An inexperienced arbitral tribunal might exhibit a willingness to abdicate its fact-finding and decision-making roles to the opinion of whichever of the parties' experts is more convincing for complex and technical factual determinations. Moreover, parties' freedom to select and present experts and expert issues may be highly strategic and may not reflect the expert evidence that would be most useful or material to the arbitral tribunal in its determination of the outcome.<sup>66</sup>

The same types of concerns arise in national court litigation, and in some instances may be exacerbated. In the United States, as noted, disputes are typically decided by juries (unless the parties have waived a jury trial). In most instances, jurors will not possess technical expertise and are not permitted to ask questions of witnesses, with the result that even the most earnest of jurors may have difficulty absorbing complex expert testimony and, therefore, may be more influenced by an expert's performance skills than the substance of the analysis. Typically, civil law court proceedings in civil law jurisdictions do not have juries, although the tribunals may include lay judges who do not necessarily have any expertise in the technical issues in dispute and, therefore, may see considerable value in the expert testimony proffered.

Some of the concerns outlined above could be addressed through the appointment of a neutral expert. Use of neutral experts is not common in court litigation, at least in the United States. Use of neutral experts is likewise not particularly common in many civil law jurisdictions, while at the same time it is worth highlighting that party-appointed experts in such jurisdictions are usually expected to be more proactive and overt in understanding that their duty is owed to the court itself, and not in the first instance to the party that hired them. In arbitration, by contrast, this option ordinarily would be available. However, expert analysis is already one of the biggest cost contributors to arbitral proceedings.<sup>67</sup> While differences in attitudes towards the role of the expert may generally be animated by common law and civil law divides,<sup>68</sup> the added cost and expenses of a tribunal-appointed expert in addition to the party-appointed experts may be viewed as a drawback in arbitration.<sup>69</sup> In any event, tribunals differ widely as to their inclination to exercise their power to appoint their own expert, and generally the parties should not rely on such an appointment being made in most cases. But, to the extent both parties support the proposal (and are willing to pay for it), the availability of a neutral expert is a benefit that arbitration can offer.

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66 Howard Rosen, How Useful are Party-Appointed Experts in International Arbitration?, in *Legitimacy: Myths, Realities, Challenges* at 379 (A.J. van den Berg ed., 18 ICCA Cong. Ser., 2015).

67 This is evident when considering all the time and expenses incurred in the preparation and submission of (multiple) expert reports on (multiple separate) expert issues; time spent examining experts at evidentiary hearings, possible hot-tubbing of experts; and drafting and submission of joint expert reports.

68 For practitioners from common law jurisdictions, extensive expert discovery by party-appointed experts may be standard, whereas the role of an expert may be far more limited in the civil law tradition.

69 Florian Haugeneder, Chapter II: The Arbitration Agreement and Arbitrability, Party-Appointed and Tribunal-Appointed Experts in International Arbitration 179, in *Austrian Yearbook on International Arbitration* (Christian Klausegger, Peter Klein, et al. eds., 2020).

## Arbitrability

Issues of arbitrability may arise where the subject matter in dispute is not capable of resolution by arbitration under the law at the seat of the arbitration or the laws of those jurisdictions where an award would be enforced, most commonly on public policy grounds.<sup>70</sup> Arbitrability is discussed in more detail in Chapter 2, but warrants brief consideration here.

Historically, a number of jurisdictions regarded IP disputes as non-arbitrable because they were perceived to be inherently intertwined with public policy and to be the exclusive province of the sovereign.

While many jurisdictions now provide that IP disputes are generally arbitrable,<sup>71</sup> non-arbitrability may nonetheless remain a concern depending on the parties' choice of forum and governing law, and the nature of the IP rights involved. For instance, in mainland China, patent and trademark disputes are in the exclusive purview of administrative agencies and courts.<sup>72</sup> A finding of non-arbitrability may result in the invalidation of the arbitration agreement, an anti-arbitration injunction from national courts, or the refusal to enforce an award premised on certain legal determinations. As a result, depending on the laws at the seat of arbitration and the place of enforcement, it may be necessary to litigate, in whole or in part, the substance of the parties' IP dispute, notwithstanding the existence of an arbitration agreement.

Parties concerned about arbitrability may take precautions in drafting the arbitration agreement and formulating their prayers for relief before an arbitral tribunal. For instance, an agreement could provide that the effect of a finding of invalidity will simply be to grant the prevailing party a free licence for the duration of a given patent.<sup>73</sup>

As discussed in more detail below, arbitrability issues may be more salient where they arise as a result of competition law claims and defences, which are frequently implicated in IP disputes.<sup>74</sup>

## Competition law claims

Competition law issues can arise in international IP disputes where a third party accuses an IP rights owner of obtaining exclusivity to the detriment of the public, or where an IP rights owner claims that a competitor is engaged in unfair competition. Such competition law claims are often an important component of international IP disputes, but may present certain challenges and limitations in arbitration.

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70 See Legler, *supra* n. 3 at 293–95; M. A. Smith, et al., *Arbitration of Patent Infringement and Validity Issues Worldwide*, 19 *Harv. J.L. & Tech.* 299, 305 (2006).

71 See Woller & Pohl, *supra* n. 26.

72 Smith, *supra* n. 70, at 346; Zhuan Li Fa [Patent Law] (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Mar. 12, 1984) Art. 45; Trade Mark Law of the People's Repub. of China (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 23, 1982, amended Aug. 30, 2012) Arts. 41, 42.

73 Legler, *supra* n. 3 at 295.

74 Richard Kreindler & Jean-Yves Garaud, Chapter 9: The Impact of Public Policy Considerations, in *Arbitrating International Intellectual Property Disputes* (Thomas D. Halket, ed.) (forthcoming, 2020) (manuscript at 485–486) (citing François Dessemontet, *Arbitration of Intellectual Property Rights and Licensing Contracts*, in *Enforcement of Arbitration Agreements and International Arbitral Awards: The New York Convention in Practice* 553, 556 (Emmanuel Gaillard & Domenico di Pietro eds., 2008)).

First, such competition claims may not be within the scope of the parties' agreement to arbitrate if the law at the seat of the arbitration (the *lex arbitri*) excludes competition claims from the categories of disputes that an arbitral tribunal has jurisdiction to adjudicate.<sup>75</sup> Second, notwithstanding any determination as to its own jurisdiction, the arbitral tribunal must separately determine whether the competition law claims are in fact arbitrable. While the arbitrability of competition law disputes is a well-established principle in many jurisdictions, including in the United States and the European Union,<sup>76</sup> this is not the case in certain other jurisdictions.<sup>77</sup> Lastly, arbitration of competition law claims can also implicate complex choice-of-law issues as to which substantive law should apply to the competition law claims. Many jurisdictions, including the United States and the European Union, deem antitrust and competition laws to be mandatorily applicable and non-derogable – so that these laws may apply to a matter even if the parties have chosen another country's law to govern their agreement. Relative to national courts, international arbitral tribunals – which frequently address issues concerning transnational public policy and enforceability away from the seat – may be more open to recognising and following the mandatory application of a separate, superseding body of competition law. The existence of competition law claims or defences may thus create added complexity to arbitral proceedings.

## Conclusion

The above discussion seeks to provide a high-level roadmap of the considerations parties should weigh in determining whether an arbitral tribunal or national court is the preferred forum for their international IP dispute. As a general matter, where the vindication of IP rights involves multiple jurisdictions, complex cross-border legal arrangements or the need to apply foreign law, international arbitration offers key potential advantages in the form of a single forum for resolving the dispute and by offering specialised tools and arbitrators with technical expertise.

Many of the pitfalls or perceived limitations of arbitration in the context of IP disputes can be mitigated by forethought and proper drafting of the arbitration agreement. For instance, the scope of confidentiality and jurisdiction of the tribunal is subject to customisation in the terms of the arbitration agreement itself. Selection criteria for members of the arbitral tribunal (neutral nationality, party input on presiding arbitrator, background, etc.) or designation of a specialised appointing authority, or both, may address any residual concerns regarding the independence and expertise of the adjudicator. Ultimately, parties should exercise their autonomy and affirmatively plan for and draft their arbitration agreements carefully to address any anticipated or potential shortcomings and limitations. In so doing, they can enhance the likelihood that arbitration of their IP-related disputes will proceed in a time- and cost-efficient manner with due regard to the particular commercial sensitivities and priorities of the parties.

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75 See, e.g., Arbitration Act 1996, c. 23 § 82(1) (UK) (defining 'dispute' broadly to 'includ[e] any difference' between the parties).

76 See *Mitsubishi Motors v. Soler*, 473 US 614 (1985); *Eco Swiss China Time v. Benetton Int'l*, Case No. C-126/97, [1999] E.C.R. I-3055 (E.C.J.).

77 See *Shell China Co. Ltd. v. Huili Hohhot Co., Ltd.* ([2019] Zhi Min Xia Zhong No. 47).

# 2

## Arbitrability of IP Disputes

**Matthew R Reed, Ava R Miller, Hiroyuki Tezuka and Anne-Marie Doernenburg<sup>1</sup>**

### The Common Law Perspective

#### Introduction

Arbitration is generally the result of a contract between parties, and most often the parties' contract determines rights and obligations only as between the parties to that contract. Even though the parties' contract establishes the matters that are subject to arbitration, the jurisdictional law where the arbitration will be held often delineates what subject matter the parties can agree to submit to arbitration. Whether a particular subject matter is arbitrable is often referred to as 'objective arbitrability.'<sup>2</sup> As used in this chapter, 'arbitrability' means the question of whether a particular issue in dispute is capable of resolution by arbitration or whether that issue is reserved for determination by the national courts or another forum under the relevant jurisdictional law.

Given that IP is eminently portable within and across national borders, most IP disputes are – or become – international in nature.<sup>3</sup> IP rights are usually granted and governed by individual states,<sup>4</sup> and national legal systems address issues of arbitrability differently. This

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2 For a distinction between objective arbitrability and subjective arbitrability, which refers to whether the parties to a particular matter are qualified to arbitrate, see M A Smith, M Cousté, T Hield, R Jarvis, M Kochupillai, B Leon, JC Rasser, M Sakamoto, A Shaughnessy, J Branch, *Arbitration of Patent Infringement and Validity Issues Worldwide*, *Harvard Journal of Law & Technology*, Vol. 1, 19, Number 2, Spring 2006 at 305 (Smith).

3 For a description of various contexts in which international IP disputes arise, see Ludovica Veltri, *International Arbitration in Intellectual Property Disputes: A Focus on the WIPO Arbitration Center* at 9–11 (Veltri).

4 However, some IP rights are granted and have effect in more than one sovereign state. For instance, the European Patent Office may grant a European patent that has effect in multiple jurisdictions. See generally, *European Patent Guide*.

chapter describes the various IP rights that may be arbitrated, explains unique issues that arise in the context of arbitrating these IP rights, and provides examples of the extent to which various common law jurisdictions allow arbitration of IP disputes.

### Nature of IP rights and IP disputes

Most jurisdictions recognise the same general categories of IP rights: patents, trademarks, copyright, trade secrets and domain names. Article 2(viii) of the Convention Establishing the World Intellectual Property Organization of 14 July 1967 (amended on 28 September 1979) defines intellectual property to include rights related to:

- literary, artistic and scientific works;
- performances of performing artists, phonograms, and broadcasts;
- inventions in all fields of human endeavour;
- scientific discoveries;
- industrial designs;
- trademarks, service marks, and commercial names and designations;
- protection against unfair competition; and
- all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

IP litigation and arbitration arise from disputes over infringement, validity, ownership, or breach of contract relating to IP rights.<sup>5</sup> As discussed in more detail below, infringement and breach of contract claims are considered arbitrable in most jurisdictions; however, because decisions as to the validity of IP typically require enforcement by the relevant country's IP office, validity challenges are often considered either not arbitrable at all or arbitrable with the limitation that any award binds only the parties to the arbitration. There are only a few jurisdictions, such as South Africa, that prohibit arbitrating intellectual property disputes entirely.<sup>6</sup>

### Applicable law

Challenges to the arbitrability of a particular dispute can be presented to either a national court or an arbitral tribunal. Both courts and arbitral tribunals take into consideration whether the underlying arbitration agreement contains a choice of law provision in determining the applicable law for arbitrability determinations. Absent a choice of law provision, a court generally will apply its own country's laws and public policy considerations while an arbitral tribunal will typically apply either the law of the seat of the arbitration or the law of the jurisdiction in which the arbitral award is likely to be enforced.<sup>7</sup>

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5 Thomas Legler, *Arbitration of Intellectual Property Disputes*, *ASA Bull.* 2/2019 at 291 (Legler).

6 Therese Jansson, *Arbitrability Regarding Patent Law – An International Study*, *Juridisk Publikation* 1/2011 at 58–59.

7 *id.*

## The common law perspective

One reason that arbitration is particularly attractive as a means of resolving international commercial disputes is that awards rendered by international tribunals are readily enforceable in most jurisdictions worldwide. This is in large part because of the New York Convention,<sup>8</sup> which provides for the enforcement of arbitral awards in the territory of any contracting state rendered in the territory of another contracting state. As of 2020, 166 states are signatories to the New York Convention, including the vast majority of the UN member states.<sup>9</sup> Article II(1) of the New York Convention provides for recognition of an international arbitration agreement ‘concerning a subject matter capable of settlement by arbitration’.<sup>10</sup> Among the limited grounds for opposing enforcement of an award under the Convention is when the national courts where enforcement is sought determine that ‘[t]he subject matter of the difference is not capable of settlement by arbitration under the law of that country.’<sup>11</sup> This raises the threshold question of arbitrability: what is – and what is not – capable of settlement by arbitration.

The existence of distinct national legal systems necessarily means that the scope of arbitrable subject matter varies from state to state. For the most part, national courts will enforce arbitral awards resolving disputes that are the subject of written agreements between parties. However, a subject matter may be determined to be ‘not capable of settlement by arbitration’ if national law forbids or restricts the arbitrability of particular claims or disputes.<sup>12</sup> Examples of non-arbitrable disputes include criminal, bankruptcy and consumer matters,<sup>13</sup> usually on grounds that private resolution of such disputes would be contrary to public policy.

With respect to IP rights specifically, issues such as the existence, validity, ownership, and scope of those rights are often in dispute. Some IP disputes involve rights or obligations derived from contracts, such as assignments of ownership or licence agreements, and such disputes are generally accepted as arbitrable. However, other IP disputes involve rights that devolve from local or central governmental entities, such as infringement or validity.<sup>14</sup> Whether these disputes are arbitrable varies by jurisdiction. The national law of many common law states allows arbitration of all IP disputes – including both infringement and validity of the IP – but awards determining infringement and validity might be enforceable only as between the parties to the arbitration. Such awards are deemed to have no effect as to the rights and obligations of third parties. A further explanation of the effect of such awards plus an examination of the arbitrability of IP disputes in select common law states follows.

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8 See NY Convention.

9 See [https://uncitral.un.org/en/texts/arbitration/conventions/foreign\\_arbitral\\_awards/status2](https://uncitral.un.org/en/texts/arbitration/conventions/foreign_arbitral_awards/status2).

10 NY Convention, Article II(a).

11 *id.*, Article V(2)(a).

12 Gary Born, *International Commercial Arbitration* (2nd edition, Wolters Kluwer) at § 6.02 [C].

13 *id.*, at § 6.02 [D].

14 While the precise definition of validity may vary from country to country, validity can be understood to mean the continuing existence or enforceability of the IP right. See Wei-hua Wu, *International Arbitration of Patent Disputes*, 10 *J. Marshall Rev. Intell. Prop. L.* 384 (2011) at 388.



*Arbitral awards may have effect erga omnes or inter partes*

Within a jurisdiction, IP rights are typically enforceable against all third parties: patent rights, trademarks, copyright, etc., normally can be enforced against any infringer in a national or local court of a sovereign state. Such rights have effect *erga omnes*, or ‘towards all.’ For example, in national courts, an IP owner can assert its rights against nearly any accused infringer. If, during the course of the court proceedings, the IP is deemed invalid by the national court, such a determination typically will have effect *erga omnes* and the owner cannot later assert the invalid IP against a third party. In contrast, a determination may be held to have effect only *inter partes*, or ‘between the parties,’ in certain circumstances.

Whether an arbitral award has an *inter partes* or *erga omnes* effect varies by jurisdiction as well as by type of IP.<sup>15</sup> In common law countries, most IP disputes are considered arbitrable at least to some extent. In many jurisdictions, an arbitral decision on patent validity only applies as to the parties in the arbitration because patent rights are considered to be an issue of public policy and usually can be deemed invalid only through state action.<sup>16</sup> Typically, therefore, only a national court decision as to patent validity can have effect *erga omnes*.<sup>17</sup> For this reason, some IP owners will consider arbitration less risky than court action because even if the arbitrator invalidates their IP, they will lose only the right to enforce that IP against the adverse party in the arbitration, rather than as to all third parties. There are trade-offs, however, because a determination of validity by a court may have some value vis-à-vis third parties, providing IP owners with increased certainty going forward and potentially limiting or eliminating the time and cost of repeatedly litigating the validity of the same IP.

With this understanding of the differences between awards that have effect *erga omnes* and *inter partes*, it is instructive to examine the arbitrability of IP disputes under the national law regimes of several common law jurisdictions.

*United Kingdom*

In the United Kingdom – comprising England and Wales, Scotland, and Northern Ireland – there is no statutory recognition of the arbitrability of IP disputes in the Arbitration Acts 1950, 1979 or 1996.<sup>18</sup> Moreover, the UK Patents Act 1977 explicitly allows for arbitration in only very limited circumstances;<sup>19</sup> for instance, when an application for a compulsory patent licence is opposed, the Comptroller General of Patents may order the proceedings, or any question or issue of fact arising in them, to be referred to an arbitrator if either the

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15 Kenneth R Adamo, Overview of International Arbitration in the Intellectual Property Context (2011) 2 *Global Bus. L. Rev.* 7 at 16 (Adamo); Legler.

16 Legler.

17 *id.*

18 Final Report on Intellectual Property Disputes and Arbitration, 9 *ICC International Court of Arbitration Bulletin* 42–43 (1998) ([https://library.iccwbo.org/content/dr/COMMISSION\\_REPORTS/CR\\_0013.htm?l1=Bulletins&l2=ICC+International+Court+of+Arbitration+Bulletin+Vol.+9%2FNo.1+-+Eng#footnote12](https://library.iccwbo.org/content/dr/COMMISSION_REPORTS/CR_0013.htm?l1=Bulletins&l2=ICC+International+Court+of+Arbitration+Bulletin+Vol.+9%2FNo.1+-+Eng#footnote12)).

The Arbitration Act of 1996 generally provides that parties have the freedom to agree on how disputes will be resolved, as long as this agreement is not contrary to public policy. Arbitration Act 1996 § 1(b).

19 *id.*

parties consent to arbitration, or the proceedings require a prolonged examination of documents or any scientific or local investigation that cannot, in the opinion of the Comptroller, conveniently be made before him or her.<sup>20</sup>

Instead, the arbitrability of IP disputes has largely been recognised judicially.<sup>21</sup> Trademark and copyright disputes are both fully arbitrable,<sup>22</sup> and while patent validity is as well, a validity determination only has *inter partes* effect under English law.<sup>23</sup> In general, English courts have interpreted arbitration agreements broadly.<sup>24</sup>

### United States

In the United States, federal statutory law expressly provides that parties can agree to arbitrate patent disputes, either by including an arbitration provision in a contract between them that involves a patent (i.e., a licence agreement, a joint development agreement, etc.) or by agreeing to arbitrate an existing patent dispute. The statute reads as follows:

*A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to the patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.*<sup>25</sup>

The same statute specifies that a resulting arbitral award will have only *inter partes* effect:

*An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other persons.*<sup>26</sup>

During an arbitration under this statute, an accused patent infringer could raise defences of non-infringement, unenforceability or invalidity. However, even if the asserted patent is determined to be invalid, that determination only has effect *inter partes*. In other words, an arbitral award invalidating a patent in the United States will not preclude the patent owner from asserting the same patent against third parties.

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20 UK Patents Act 1977 § 52-(5).

21 *Final Report on Intellectual Property Disputes and Arbitration*, 9 ICC International Court of Arbitration Bulletin 42–43 (1998) ([https://library.iccwbo.org/content/dr/COMMISSION\\_REPORTS/CR\\_0013.htm?l1=Bulletins&l2=ICC+International+Court+of+Arbitration+Bulletin+Vol.+9%2FNo.1+-+Eng#footnote12](https://library.iccwbo.org/content/dr/COMMISSION_REPORTS/CR_0013.htm?l1=Bulletins&l2=ICC+International+Court+of+Arbitration+Bulletin+Vol.+9%2FNo.1+-+Eng#footnote12)); Maurizio Crupi, *Patent arbitration: a European comparative analysis* at 58–62.

22 Adamo at 18–19.

23 *id.*

24 Dr Maxi Scherer, Kay Weinberg, Francis Hornyold-Strickland, Memorandum to IBA Subcommittee on how the English Courts Address the Issue of ‘Arbitrability’ in the Context of The New York Convention, at 9; Pascal Hollander, IBA Subcommittee Report on the concept of ‘Arbitrability’ under the New York Convention, at 13.

25 35 U.S.C. § 294(a).

26 35 U.S.C. § 294(c).

Unlike for patent disputes, there is no statute in the United States that expressly provides for binding arbitration of copyright disputes. However, US courts have held that copyright claims, including claims under the Digital Millennium Copyright Act, are arbitrable.<sup>27</sup> This includes the validity of a copyright.<sup>28</sup> Similarly, no US statute expressly provides for binding arbitration of trademark disputes.

### Canada

There is no Canadian counterpart to the US statute that explicitly authorises patent arbitration and the Federal Court of Canada has exclusive authority to make rulings that affect the registration of the patent and impact the rights of third parties.<sup>29,30</sup> Still, an arbitral award in Canada that concerns a patent generally can be enforced as between the parties to the arbitration.<sup>31</sup> That is, an arbitral award relating to the validity of the patent has effect *inter partes* but the Canadian Patent Office will not recognise arbitral awards that determine a patent is invalid.<sup>32</sup>

With respect to the arbitrability of copyright disputes, the Supreme Court of Canada has recognised 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>33</sup> In its 2003 decision, the court interpreted Article 2639 of the Civil Code of Quebec, which excludes from arbitration 'disputes over the status and capacity of persons, family matters or other matters of public order.'<sup>34</sup> According to the Supreme Court, 'the Court of Appeal took the view that cases relating to ownership of copyright, as well as cases concerning the scope and validity of copyright, must be assigned exclusively to the courts because the decisions made in such cases may, as a rule, be set up against the entire world.'<sup>35</sup> The Supreme Court found that the lower court 'was in error when it said that . . . problems relating to the

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27 See *Packeteer, Inc. v. Valencia Systems, Inc.*, 2007 WL 707501, 82 U.S.P.Q.2d 1216 (N.D. Cal. 2007) ('Courts, however, have held that copyright issues are subject to arbitration. The Ninth Circuit has assumed that copyright validity is arbitrable.'). *Boss Worldwide LLC v. Crabill*, 2020 WL 1243805 (S.D.N.Y. 2020) (holding that 'plaintiff's DMCA claim falls within the scope of the arbitration clause' and rejecting argument that 'Congress precluded DMCA claims from arbitration').

28 *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199 (7th Cir. 1987) ('We hold that federal law does not forbid arbitration of the validity of a copyright, at least where that validity becomes an issue in the arbitration of a contract dispute') abrogation on other grounds recognised by *Glickenhans & Co. v. Household Intern., Inc.*, 787 F.3d 408 (7th Cir. 2015).

29 Canadian Patent Act (R.S.C., 1985, c. P-4) § 60(1); Haller, *IP rights enforcement in Canada* at 1 (Haller).

30 Likewise, the Federal Court has exclusive jurisdiction to invalidate a trademark, or to issue a declaration of non-infringement. See Haller at 1.

31 Smith at 330 ('An arbitral award relating to the validity of the patent is in personam and thus acts *inter partes*' and 'Among the parties to the arbitration, the award of an arbitral tribunal can be enforced through the provincial superior courts of Canada').

32 Steven Garland, *Patent litigation in Canada: overview* at 18.

33 *Desputeaux v. Éditions Chouette (1987) inc.*, 2003 SCC 17 (Can. 2003) at 198.

34 *id.*, at 207 (quoting Civil Code of Quebec, S.Q. 1991, C. 64, Art. 2639).

35 *id.*, at 210.

ownership of copyright must be treated in the same manner as questions of public order, because they relate to the status of persons and rights of personality, and must therefore be removed from the jurisdiction of arbitrators.<sup>36</sup> The Supreme Court went on to state:

*The [Copyright] Act is primarily concerned with the economic management of copyright, and does not prohibit artists from entering into transactions involving their copyright, or even from earning revenue from the exercise of the moral rights that are part of it. . . . In addition, the Quebec legislation recognizes the legitimacy of transactions involving copyright, and the validity of using arbitration to resolve disputes arising in respect of such transactions.*

One indicator of the pro-arbitration sentiment in Canada can be seen in Quebec's 'Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters'.<sup>37</sup> Section 37 of that Act, which applies to 'every contract between an artist and a promoter which has a work of the artist as its object',<sup>38</sup> states as follows:

*In the absence of an express renunciation, every dispute arising from the interpretation of the contract shall be submitted to an arbitrator at the request of one of the parties.*<sup>39</sup>

As a result of this statute, arbitration is the default mechanism for resolving disputes between artists and promoters that arise from the interpretation of contracts regarding their artistic works.

### *Australia*

No statute speaks to the arbitrability of IP disputes in Australia, but Australian courts historically have started from the premise that 'any claim for relief of a kind proper for determination of a court' is arbitrable.<sup>40</sup> Specifically with respect to patents, the Supreme Court of New South Wales had occasion to address the arbitrability of patent disputes in *Larkden Pty Limited v. Lloyd Energy Systems Pty Limited*.<sup>41</sup>

In that case, two parties – Larkden and Lloyd – entered into a licensing agreement that contained an arbitration provision. When Lloyd raised a dispute regarding ownership of an invention on which it obtained a patent, Larkden objected that the dispute was not arbitrable. That is, Larkden argued that Lloyd improperly sought to use arbitration as a means of determining whether patent rights would be granted, which power, it claimed, vested exclusively with the Commissioner of Patents or the Federal Court.<sup>42</sup>

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36 *id.*, at 214.

37 Quebec Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters (R.S.C., 1988, c. S-32.01).

38 *id.*, § 30.

39 *id.*, § 37.

40 *Elders CED v. Dravco Corp* [1984] 59 ALR 206. See also *Larkden Pty Limited v. Lloyd Energy Systems Pty Limited* [2011] NSWSC 268, [62] ('Generally, any dispute or claim which can be the subject of an enforceable award is capable of being settled by arbitration').

41 *Larkden Pty Limited v. Lloyd Energy Systems Pty Limited* [2011] NSWSC 268.

42 *id.*, [43].

The Supreme Court upheld the jurisdiction of the arbitrator, noting that '[n]on-arbitrable matters include . . . whether or not a patent or trade mark should be granted. These matters are plainly for the public authorities of the state. Patents and trade marks are monopoly rights that only the state can grant.'<sup>43</sup> The Supreme Court also determined that arbitrators cannot determine validity in a situation in which the grant of a patent is opposed.<sup>44</sup>

However, the Supreme Court declared that there is 'no impediment to the parties investing in the arbitrator power to resolve a dispute as between themselves as to their rights in and entitlements to a patent application, or for that matter an invention.'<sup>45</sup> The Supreme Court was clear that the arbitral award would 'not, nor could it, bind the Commissioner of Patents or the Federal Court to declare who, as between [the parties], is or is not an eligible person under the Patents Act or who, as between them, should or should not be granted any patent.'<sup>46</sup>

In sum, while arbitrators in Australia cannot resolve IP disputes in such a way as to bind third parties or the public at large, arbitrators can issue determinations declaring the IP rights of parties.

### Singapore

In Singapore, the Intellectual Property (Dispute Resolution) Act of 2019 amended Singapore's Arbitration Act and the International Arbitration Act to specifically allow for the arbitration of IP disputes, regardless of whether an IP right is the central issue or incidental to the central issues in dispute.<sup>47</sup> Under the amendment, arbitral awards concerning IP rights have effect *inter partes*.<sup>48</sup>

The amendment includes the following IP rights: patent, trade mark, geographical indication, registered design, copyright, right in a protected layout-design of an integrated circuit, grant of protection in respect of a plant variety, right in confidential information, right in trade secret or know-how, right to protect goodwill by way of passing off or similar action against unfair competition, or any other IP right of whatever nature.<sup>49</sup> The amendment also encompasses the following IP disputes: '(a) a dispute over the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect of an IPR; (b) a dispute over a transaction in respect of an IPR; and (c) a dispute over any compensation payable for an IPR.'<sup>50</sup> Thus, the amendment explicitly authorises arbitration over patent validity with effect *inter partes*.

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43 *id.*, [64].

44 *id.*, [66].

45 *id.*, [67].

46 *id.*, [75].

47 Singapore Intellectual Property (Dispute Resolution) Act 2019.

48 *id.*

49 *id.*

50 *id.*

### *Hong Kong*

On 23 June 2017, as part of its ongoing efforts to become a leading centre for arbitration, Hong Kong issued the Arbitration (Amendment) Ordinance 2017 (the ‘Arbitration Ordinance’) to ‘clarify that disputes over IP rights may be arbitrated and that it is not contrary to the public policy of Hong Kong to enforce arbitral awards involving IP rights.’<sup>51</sup> The Arbitration Ordinance provides that ‘an IPR dispute is capable of settlement by arbitration as between the parties to the IPR dispute’ and applies ‘whether the IPR dispute is the main issue or an incidental issue in the arbitration.’<sup>52</sup>

The Arbitration Ordinance is similar in language to the Singapore Intellectual Property (Dispute Resolution) Act of 2019 and defines an IPR as a patent, trade mark, geographical indication, design, copyright or related right, domain name, layout-design (topography) of integrated circuit, plant variety right, right in confidential information, right in trade secret or know-how, right to protect goodwill by way of passing off or similar action against unfair competition, or any other IPR of whatever nature.<sup>53</sup> The Arbitration Ordinance defines an IP right dispute as ‘(a) a dispute over the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect of an IPR; (b) a dispute over a transaction in respect of an IPR; and (c) a dispute over any compensation payable for an IPR.’<sup>54</sup> In addition, the Arbitration Ordinance goes one step further and states that Hong Kong’s Patents Ordinance (Cap. 514) ‘does not prevent a party from putting the validity of a patent in issue in arbitral proceedings.’<sup>55</sup>

Along with standard patents, which extend rights to the owner for a maximum of 20 years, Hong Kong also offers protection of IP under short-term patents, which are renewable after four years from filing for a maximum term of eight years.<sup>56</sup> Under Hong Kong’s Patents Ordinance (Cap. 514), the owner of a short-term patent may only commence proceedings before a court to enforce its rights in the short-term patent if the following requirements are met:

- (a) a certificate of substantive examination has been issued in respect of the patent;
- (b) a request for substantive examination of the patent has been made under section 127B and the examination has not been terminated by a court order under section 101A(4)(b); or
- (c) a certificate has been granted by a court under section 84(1), certifying the court’s finding that –
  - (i) the patent is wholly valid; or
  - (ii) if the enforcement proceedings relate to a relevant respect of the patent, the patent is valid in that respect.<sup>57</sup>

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51 Hong Kong Arbitration (Amendment) Ordinance 2017; Teo and Hanusch (<https://globalarbitrationnews.com/new-arbitration-provisions-confirm-ip-disputes-arbitrable-hong-kong>).

52 Hong Kong Arbitration (Amendment) Ordinance 2017.

53 id.

54 id.

55 id.

56 See [https://www.ipd.gov.hk/eng/intellectual\\_property/patents/how\\_to\\_apply.htm](https://www.ipd.gov.hk/eng/intellectual_property/patents/how_to_apply.htm).

57 Hong Kong Patents Ordinance (Cap. 514) § 129(1).

However, under the Arbitration Ordinance, short-term patent rights can be arbitrated regardless of whether any of the above requirements have been met, unless the patent owner is seeking an injunction in an interlocutory proceeding.<sup>58</sup> As is the case in court proceedings in Hong Kong, in arbitrations it is the short-term patent owner's burden to establish the validity of the patent, and the fact that the patent has been granted is not itself evidence of validity.<sup>59</sup>

## Conclusion

In sum, whether by statute or judicial determination, the trend in many common law countries is generally to allow arbitration of IP disputes, but awards determining certain issues, such as validity, might only have *inter partes* effect. Therefore, it is important for parties to consider the law and policies of the particular jurisdiction in which an arbitration would take place when drafting and seeking to enforce an arbitration agreement.

## The Civil Law Perspective

### Kinds of IP disputes

As in most common law jurisdictions, IP disputes between private parties are to a large extent considered arbitrable in civil law jurisdictions. This is particularly so for IP arbitrations involving contractual claims and obligations.

Conversely, genuine IP right issues such as patent validity disputes are still brought largely before national courts and deemed non-arbitrable (or only arbitrable to a limited extent) in many jurisdictions. This is mainly because a patent is a right that is granted by a state to a patent holder and that is limited to a specific subject matter, territory and time.<sup>60</sup> Where the validity of a patent is in dispute, generally, only the national courts or competent patent authorities may declare that patent null and void *erga omnes*. Overall, three main tendencies can be distinguished in civil law jurisdictions:

- express recognition of full arbitrability, including patent invalidity declarations by arbitral tribunals (e.g., Switzerland and Belgium) or express prohibition (e.g., South Africa, considered as a hybrid legal system),<sup>61</sup> which is the exception;

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58 Hong Kong Arbitration (Amendment) Ordinance 2017.

59 *id.*; Hong Kong Patents Ordinance (Cap. 514) § 129(2).

60 See, e.g., Erik Schäfer, 'Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany', in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 910.

61 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, pages 153 and 157; David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edition, Kluwer Law International, 2018, pages 957–960; Thomas Legler, 'Arbitration of Intellectual Property Disputes', in Matthias Scherer (ed), *ASA Bulletin*, Kluwer Law International, 2019, 37(2), pages 293–294; Alejandro Garcia and Sophie Lamb, 'Arbitration of Intellectual Property Disputes', *The European & Middle Eastern Arbitration Review 2008*, Global Arbitration Review.

- the acceptance of *inter partes* awards or incidental decisions on patent validity without *res judicata* effect (e.g., France, Italy and Portugal);<sup>62</sup> and
- absent express laws, so far a matter of debate (e.g., Spain and China).<sup>63</sup>

### The approach of different legal systems to arbitrability of IP disputes

Against this background, this chapter assesses the arbitrability of patent validity disputes in key modern civil law jurisdictions. In doing so, first we briefly set out the situations in Switzerland and France where arbitral tribunals have the power to decide on patent validity *erga omnes* or *inter partes*, respectively.

Then we assess the legal practice in their respective jurisdictions: Germany and Japan. Despite being known for their arbitration-friendly climates, traditionally neither Germany nor Japan recognised patent validity arbitrations. Rather, patent validity questions are subject to the exclusive competence of special courts (in Germany) or the patent office (in Japan). This may now be changing, following reforms introduced in 1998 and 2004, respectively, as is discussed below in more detail.

#### *Switzerland*

Switzerland has undoubtedly adopted one of the most liberal and pro-arbitration stances among other civil law jurisdictions.<sup>64</sup> Under Swiss law, IP disputes have long been considered arbitrable and not subject to any statutory restrictions.<sup>65</sup> Specifically in the context of international arbitration, Section 177(1) of the Swiss International Private Law contains a broad definition of arbitrability and stipulates that '[a]ll pecuniary claims may be submitted to arbitration'.<sup>66</sup> Swiss courts have regularly interpreted this to cover any claims with a pecuniary value for the parties.<sup>67</sup> Arbitral awards on patent validity are recognised and enforced by the Swiss Federal Institute on Intellectual Property (for the purposes of

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62 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, pages 154–156.

63 'Chapter 5: The Arbitrability of Matters in International Arbitration', in Miguel Gómez Jene, *International Commercial Arbitration in Spain*, Kluwer Law International, 2019, pages 61–62; 'Chapter 8: Arbitrability and Arbitral Scope', in Lin Yifei, *Judicial Review of Arbitration: Law and Practice in China*, Kluwer Law International, 2018, pages 218ff; William Grantham, 'The Arbitrability of International Intellectual Property Disputes', *Berkeley Journal of International Law* 14, 1996, page 204.

64 See, e.g., David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edition, Kluwer Law International 2018, pages 957–958.

65 In 1945, the Swiss Federal Supreme Court recognised that IP rights are not subject to the exclusive jurisdiction of the courts. Subsequently, in 1975 the Federal Office of Intellectual Property held that arbitral tribunals are competent to decide on patent issues, including their validity. See Robert Briner, 'The arbitrability of intellectual property disputes with particular emphasis on the situation in Switzerland', in WIPO, Worldwide Forum on the Arbitration of Intellectual Property Disputes, 3–4 March 1994, Para. 2.2.

66 See the English translation of the Swiss International Private Law, available at: <https://www.trans-lex.org/602000>.

67 'Chapter 6: Nonarbitrability and International Arbitration Agreements', in Gary B Born, *International Commercial Arbitration*, 2nd edition, Kluwer Law International 2014, pages 960–961.



making the necessary entries in the patent register) provided that they have been declared enforceable by a Swiss court. Through that process, recognised arbitral awards will have an *erga omnes* effect.<sup>68</sup>

Remarkably, the Swiss approach remained unchanged even after the establishment of the Federal Patent Court in 2012. Despite its exclusive jurisdiction in civil matters relating to patent validity and infringement, the majority view in Switzerland continues to allow patent arbitrations.<sup>69</sup>

### France

An alternative, more restrictive tendency to patent validity arbitrations has recently emerged in France. Contrary to Switzerland, France traditionally denied IP arbitrations.<sup>70</sup> In 2008, the Paris Court of Appeal accepted the arbitrability of patent validity as long as the issue was raised incidentally as a defence or counterclaim in a contractual dispute. Arbitral awards on patent validity would, however, not have *res judicata* force and remain *inter partes*.<sup>71</sup> Subsequently, the arbitrability of IP disputes was expressly stipulated in Law No. 2011-525 dated 17 May 2011 (amending the Intellectual Property Act).<sup>72</sup>

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68 This involves a certificate of enforceability by the Swiss court at the seat of the arbitral tribunal pursuant to Section 193(2) of the Swiss International Private Law. Such a certificate does not involve a merits review of the award. Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, page 157; Thomas Legler, *Arbitration of Intellectual Property Disputes*, page 294; Alejandro Garcia and Sophie Lamb, *Arbitration of Intellectual Property Disputes*, *The European & Middle Eastern Arbitration Review 2008*, Global Arbitration Review.

69 David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edition, Kluwer Law International 2018, page 959.

70 This was in spite of the fact that the rather broad rule under Section 2059 of the French Civil Code provides that matters subject to the parties' free disposition may be arbitrated. See unofficial English translation of the French Civil Code, available at: <http://www.fd.ulisboa.pt/wp-content/uploads/2014/12/Codigo-Civil-Frances-French-Civil-Code-english-version.pdf>. Section 2060(1) of the French Civil Code excludes from arbitration matters of status or capacity of natural persons, divorce or legal separation and public policy. The latter exclusion does not apply in international arbitration. See Court of Appeal of Paris, *Ganz v. Société Nationale des Chemins de Fer Tunisiens (SNCFT)*, 29 March 1991, Rev. Arb., 1991, page 478. The Court of Appeal held that 'in international arbitration, an arbitrator ... is entitled to apply the principles and rules of international public policy ... except in cases where the non-arbitrability is a consequence of the subject-matter in that it implicates international public policy and absolutely excludes the jurisdiction of the arbitrators because the arbitration agreement is void'. See also Court of Appeal of Paris, *Société Labinal v. Sociétés Mors et Westland Aerospace*, 19 May 1993, Rev. Arb., 1993, page 654, where the Court of Appeal ruled that 'the arbitrability of a dispute is not excluded by the mere fact that rules belonging to public policy are applicable to the disputed legal relationship'.

71 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, page 155; Yves Derains and Laurence Kiffer, 'National Report for France (2013 through 2020)', in Lise Bosman (ed), *ICCA International Handbook on Commercial Arbitration*, ICCA and Kluwer Law International 2020, Supplement No. 110, April 2020, pages 25–26.

72 Article L 615-17 of the Intellectual Property Act, as amended by Law No. 2011-525 dated 17 May 2011 provides: 'Civil actions and claims related to patents ... are exclusively submitted to courts of great instance ... The preceding provisions do not prevent recourse to arbitration in the conditions set forth in articles 2059 and 2060 of the civil code ...' See also Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, pages 154–155.

## Germany

### Introduction

In Germany, arbitrations concerning genuine IP law issues, such as patent validity, remain rare.<sup>73</sup> As in France, IP disputes were traditionally considered non-arbitrable. Instead, patent litigation continues to be the norm. This is particularly attributable to the fact that Germany operates under a ‘split’ or ‘bifurcated’ patent litigation system. Other countries following the bifurcated system include Austria, Hungary, Korea, China and – with certain restrictions (see below) – Japan.<sup>74</sup>

Unlike in many jurisdictions,<sup>75</sup> patent validity proceedings are tried separately from infringement claims. The latter involve an action by a patent holder for damages or injunctive relief resulting from an alleged infringement of the patent. In Germany, jurisdiction over infringement claims is concentrated in 12 regional courts with specialised divisions.<sup>76</sup> Conversely, patent validity disputes (also known as ‘revocation actions’) are subject to the exclusive jurisdiction of the Federal Patent Court (FPC) in Munich.<sup>77</sup> The FPC’s decision to partially or fully revoke a patent it considers invalid has *erga omnes* effect.<sup>78</sup>

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73 Erik Schäfer, ‘Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany’, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 908. While the exact number is unknown, according to Schäfer, the IP share of published institutional cases (e.g., ICC, DIS) ranged from 3 per cent to 10 per cent. See Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, Practical Law, 2020.

74 See World Intellectual Property Indicators 2018, Special theme, page 13, available at: [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_941\\_2018-chapter1.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter1.pdf). Matthew Bultman, ‘What You Need to Know about Patent Litigation in Germany’, Law 360, 2018.

75 Jurisdictions with non-bifurcated patent litigation systems include Switzerland, France, Netherlands, the United States and the United Kingdom. See World Intellectual Property Indicators 2018, Special theme, page 13, available at: [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_941\\_2018-chapter1.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter1.pdf).

76 Section 143(2) of the German Patent Act (GPA). English translation of the GPA, available at: [http://www.gesetze-im-internet.de/englisch\\_patg/](http://www.gesetze-im-internet.de/englisch_patg/). The 12 specialised patent courts in Germany are the regional courts in Berlin, Braunschweig, Düsseldorf, Erfurt, Frankfurt, Hamburg, Leipzig, Magdeburg, Mannheim, Munich I, Nuremberg and Saarbrücken. The vast majority of cases are filed before the regional courts in Düsseldorf, Mannheim, Munich I and Hamburg. See Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, Practical Law, 2020. Proceedings are heard by three-judge panels with substantial experience in technical matters.

77 Sections 22(1), 65(1) and 81(1), (4) of the GPA. See website of the Federal Patent Court (FPC), available at: [https://www.bundespapentgericht.de/EN/TheCourt/theCourt\\_node.html](https://www.bundespapentgericht.de/EN/TheCourt/theCourt_node.html). The FPC has seven ‘Nullity Boards’ each consisting of five judges – three of which have technical training, while the other two are legally qualified. The average annual caseload amounts to approximately 200–300 revocation actions, of which around 75 per cent are at least partially successful. See Federal Patent Court, Annual Report 2019, Business Report 2019, pages 163–164; Bardehle Pagenberg, Patentnichtigkeitsverfahren, IP Fachbrochüre, 2019, available at: <https://www.bardehle.com/de/ip-news-wissen/publikation/publikationen/ipnews/info/patentnichtigkeitsverfahren.html>.

78 The revocation is subsequently noted in the patent register and published in the patent bulletin. See Sections 22(1), 30(1) and 81 of the GPA.

Revocation actions are typically a response by the alleged infringer to an infringement claim.<sup>79</sup> Despite their interrelation, both proceedings are tried separately and at a considerably different pace.<sup>80</sup>

Unsurprisingly, the bifurcated system has been subject to considerable criticism. A key concern, apart from the additional costs of parallel proceedings, has been the fact that an alleged infringer cannot bring a defence or counterclaim based on patent invalidity in infringement proceedings.<sup>81</sup> Since infringement claims are regularly concluded before revocation actions,<sup>82</sup> patent holders may provisionally enforce a successful infringement judgment, irrespective of a pending appeal or parallel revocation action. This increases the risk that a patent may be enforced despite actually being invalid, leaving the parties in a state of legal uncertainty until the revocation action has been decided (the ‘injunction gap’).<sup>83</sup>

Under the current law, an alleged infringer has the following three main options:

- making an application for suspension of the infringement proceedings;<sup>84</sup>
- seeking a provisional stay of enforcement of the infringement judgment;<sup>85</sup> or
- seeking an action for retrial of the case.<sup>86</sup>

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79 A revocation action is inadmissible, as long as an ‘opposition proceeding’ can be filed before the German Patent and Trademark Office in the case of regular German patents, or the European Patent Office in the case of European patents, both of which are located in Munich. An opposition proceeding is admissible within nine months of the publication of a patent grant, and if successful, results in the partial or total revocation of such patent. See, in particular, Sections 21, 26, 27, 59, 61 and 81(2) of the GPA.

80 Revocation actions in the first instance typically last for around 27.8 months, with upward tendency. A judgment by the FPC can be appealed exclusively before the Federal Court of Justice both on points of fact and law. Federal Patent Court, Annual Report 2019, Business Report 2019, pages 163–165. In contrast, infringement proceedings only take around a year in the first instance. An appeal on points of fact and law can be filed before the higher regional courts and, with restrictions, a further appeal on points of law before the Federal Court of Justice. Daniel Seitz, Bill of the German Federal Ministry of Justice and Consumer Protection for a Second Act concerning the Simplification and Modernisation of German Patent Law (Second Patent Law Modernisation Act (2. PatMoG)), 2020.

81 European Patent Office, *Patent Litigation in Europe: An Overview of National Law and Practice in the EPC Contracting States*, 5th edition, 2019, page 37; Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, Practical Law, 2020.

82 See footnote 80 above.

83 Katrin Cremers, Fabian Gässler, Dietmar Harhoff, Christian Helmers and Yassine Lefouili, ‘Invalid but Infringed? An Analysis of the Bifurcated Patent Litigation System’, *Journal of Economic Behavior and Organization*, 2016, 131, page 221.

84 Section 148 of the German Code of Civil Procedure (GCCP): ‘Where the decision on a legal dispute depends . . . on the question of whether a legal relationship . . . exist[s], and this relationship forms the subject matter of another legal dispute that is pending . . . the court may direct that the hearing be suspended until the other legal dispute has been dealt with and terminated . . .’

85 Sections 719(1) and 707(1) of the GCCP (by analogy): ‘Section 707 Temporary stay of compulsory enforcement: (1) . . . the court may direct, upon corresponding application being made, that compulsory enforcement be temporarily stayed, against or without provision of security, or that it be pursued only against the provision of security, and that the enforcement measures are to be revoked against provision of security . . .’; ‘Section 719 Provisional termination in the case of appellate remedies and protests having been filed: (1) Insofar as a judgment declared provisionally enforceable is protested against or appealed, the stipulations of section 707 shall apply mutatis mutandis.’

86 Section 580 No. 6 of the GCCP: ‘An action for retrial of the case may be brought: . . . 6. Where judgment by a court of general jurisdiction, by a former special court, or by an administrative court, on which the judgment had been based, is reversed by another judgment that has entered into force.’

Suspension applications are subject to the (infringement) courts' discretion and are generally denied. A patent holder's interest in the continuation of the proceedings is considered to outweigh the alleged infringer's interest in a suspension in light of the registration of the patent and limited duration of the right of exploitation.<sup>87</sup> In order to succeed, an applicant must show that a patent will 'in all probability' be revoked.<sup>88</sup> A suspension will also be granted where the FPC notifies the infringement court that it considers the patent invalid (or revokes it).<sup>89</sup>

The second option, a request for provisional stay of enforcement, applies where an appeal against an infringement judgment is pending. As in the case of a suspension, provisional stays are granted in limited cases (i.e., where irreversible damage is at stake or the judgment was manifestly incorrect), but will generally succeed where the FPC subsequently revokes the patent.<sup>90</sup>

Once an infringement court judgment has become final and binding, an infringer's last resort is an action for retrial. A patent revocation by the FPC may constitute a ground for retrial, provided the infringer could not raise a particular defence earlier or through an appeal.<sup>91</sup> A failure to appeal an infringement judgment, however, does not necessarily make an action for retrial inadmissible. It has been held that, after all, an infringement court would not have been competent to decide on patent validity.<sup>92</sup>

In January 2020, to remedy the effects of an injunction gap and to avoid an injunction before a decision on patent validity has been rendered, the German government introduced a bill stipulating the possibility for the FPC to notify the infringement court *ex officio* of its preliminary view on patent validity.<sup>93</sup> This should increase the chances that an infringement

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87 Pursuant to Sections 1, 9 and 16 of the GPA, a patent holder is granted the exclusive exploitation right of an invention for 20 years.

88 OLG Düsseldorf (2. Zivilsenat), Beschluss vom 24 August 2017 – 2 U 75/16. See also BGH (Kartellsenat), Beschluss vom 17 July 2018 – KZR 35/17, Para. 10. In a rare decision in 2018, the Federal Court of Justice granted a suspension since it considered it 'appropriate in order to guarantee a uniform interpretation' between the infringement court and the FPC. However, the Federal Court of Justice did not expressly override the principles established in its prior case law requiring a high probability for a suspension to be granted. See BGH (X. Zivilsenat), Beschluss vom 5 June 2018 – X ZR 58/16.

89 See, e.g., BGH (Kartellsenat), Beschluss vom 17 July 2018 – KZR 35/17. This notification requirement is stipulated under Section 83(1) of the GPA, which does not, however, expressly require that the FPC notify the (infringement) court: 'In the proceedings for revocation of the patent . . . the Federal Patent Court shall indicate to the parties as early as possible those aspects which will presumably be of particular significance in respect of the decisions or which are helpful for concentrating the oral proceedings upon the issues which are essential for the decision'.

90 BGH, Beschluss vom 16 September 2014 – X ZR 61/13; BGH (Kartellsenat), Beschluss vom 17 July 2018 – KZR 35/17.

91 Section 582 of the GCCP: 'An action for retrial of the case may admissibly be brought only if the party, through no fault of its own, was unable to assert the cause for retrial of the case in the earlier proceedings, in particular by filing a protest or an appeal, or by joining an appeal'.

92 LG München I (21. Zivilkammer), Schlussurteil vom 13 December 2013 – 21 O 19618/12. See also OLG Düsseldorf, Urteil vom 19 December 2019 – 2 U 41/19.

93 Section 83(1) sentence 2 of the bill amending the GPA: 'Such indication should take place within six months of the service of the claim. If a patent litigation case is pending, such indication should also be communicated to the other court *ex officio*'. Diskussionsentwurf des Bundesministeriums Justiz und für Verbraucherschutz Entwurf eines Zweiten Gesetzes zur Vereinfachung und Modernisierung des Patentrechts, available at: <https://www.bmjv>.

court may take into account the FPC's view and suspend its proceedings. The bill is expected to pass the German Federal Parliament in early 2021. Whether this effort to streamline infringement and revocation proceedings will be fruitful remains to be seen.

*Arbitrability of patent validity disputes*

The bifurcated patent litigation system in Germany has traditionally been used to explain its reluctance to accept patent validity arbitrations.<sup>94</sup> So far, German law does not expressly regulate whether patent validity disputes are arbitrable. At the same time, following the amendments of the German Code of Civil Procedure (GCCP) in 1998,<sup>95</sup> a new debate has sparked with increasing voices recognising patent validity arbitration.<sup>96</sup>

Section 1030 of the GCCP is modelled after Section 177(1) of the Swiss International Private Law and reads:

*Eligibility for arbitration*

- (1) *Any claim under property law may become the subject matter of an arbitration agreement. An arbitration agreement regarding non-pecuniary claims has legal effect insofar as the parties to the dispute are entitled to conclude a settlement regarding the subject matter of the dispute.*
- (2) *An arbitration agreement regarding legal disputes arising in the context of a tenancy relationship for residential space in Germany is invalid . . .*
- (3) *Any stipulations of the law outside of the present Book, according to which disputes may not be subjected to arbitration proceedings, or only if specific prerequisites have been met, shall remain unaffected hereby.*

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de/SharedDocs/Gesetzgebungsverfahren/Dokumente/DiskE\_2\_PatMoG.pdf?\_\_blob=publicationFile&v=1.

See also Entwurf eines Zweiten Gesetzes zur Vereinfachung und Modernisierung des Patentrechts, dated 28 October 2020, available at: [https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/Dokumente/RegE\\_PatMog2.pdf?sessionid=E807C54CC4D836923BDD7CE57AE2B069.2\\_cid334?\\_\\_blob=publicationFile&v=2](https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/Dokumente/RegE_PatMog2.pdf?sessionid=E807C54CC4D836923BDD7CE57AE2B069.2_cid334?__blob=publicationFile&v=2).

94 See, e.g., different positions under Zöllner (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Paras. 7 and 14.

95 See website of the Federal Ministry of Justice and Consumer Protection for the English translation of the GCCP, available at: [https://www.gesetze-im-internet.de/englisch\\_zpo/index.html](https://www.gesetze-im-internet.de/englisch_zpo/index.html).

96 See Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 333–334. Zöllner (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 14. Stein, Jonas (eds), *Kommentar zur Zivilprozessordnung*, §1030, 22nd edition, 2002, Para. 3. Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 241.

As under Swiss law, German law adopts the general principle that all proprietary and pecuniary claims<sup>97</sup> may be subject to an arbitration agreement, and thus be arbitrated. Patents, as exclusive exploitation rights granted to a patent holder, fall under this category.<sup>98</sup> Non-pecuniary claims under Section 1030(1), sentence 2 of the GCCP, in contrast, may only be submitted to arbitration insofar as they can be the object of a settlement.<sup>99</sup>

Exceptions to the rule of arbitrability only arise from arbitration agreements in connection with residential leases, which are considered void (Section 1030(2)) and express provisions outside the GCCP rules on arbitral proceedings (Section 1030(3)). While the exact scope of disputes excluded from arbitration under Section 1303(3) is arguable, certain disputes related to, for instance, employment law, family law and insolvency law are considered non-arbitrable (or are subject to restrictions).<sup>100</sup> It is in this regard that the arbitrability of patent validity matters continues to cause friction. After all, even if an arbitral tribunal were to admit a patent validity dispute, the annulment or enforcement courts may reach a different conclusion.<sup>101</sup> At the same time, case law on this has yet to provide guidance.<sup>102</sup>

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- 97 Pecuniary claims involve rights to which a commercial or financial value is attached. These include monetary claims or claims directed at assets and rights with a commercial or monetary value, irrespective of whether the underlying legal relationship is of a non-pecuniary nature. Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 1; Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, page 37, Para. 2.17. Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 240.
- 98 See footnote 87 above. Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, page 37, Para. 2.17. Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 1; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 240; Anna Mantakou, 'Part II Substantive Rules on Arbitrability, Chapter 13 Arbitrability and Intellectual Property Disputes', in Loukas A. Mistelis and Stavros Brekoulakis (eds), *Arbitrability: International and Comparative Perspectives*, International Arbitration Law Library, Kluwer Law International, 2009, 19, page 266.
- 99 In other words, a right or claim must be disposable. In the past, this 'disposability' criterion also applied to pecuniary claims but was limited to non-pecuniary claims during the 1998 GCCP amendment to allow for a broader scope of arbitrability. Bundesjustizministerium, Kommission zur Neuordnung des Schiedsverfahrensrechts: Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO, 1994, pages 91–92. Gesetzesentwurf der Bundesregierung, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, page 34.
- 100 Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Para. 1a; Musielak-Voit, §1030, 17th edition, 2020, Paras. 2–3; MüKoZPO/Münch, §1030, 5th edition, 2017, Para. 33; BeckOK ZPO, Vorwerk-Wolf, §1030, 37th edition, 2020, Paras. 12–13.
- 101 Under the GCCP, an arbitral award may be annulled where the subject matter of the dispute is not eligible for arbitration under German law, or the recognition or enforcement of the arbitration award would be contrary to public order. See Section 1059(2) No. 2(a), (b) of the GCCP. Similarly, the New York Convention provides that an award need not be recognised or enforced if it has been set aside, the award concerns a subject matter not amenable to arbitration in the state of recognition, or the award violates principles of public policy in the enforcement state. See Article V(1)(e), V(2)(a) and V(2)(b) of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards.
- 102 Annulment and enforcement courts appear to generally show deference to tribunals' awards and to decide in favour of arbitrability, particularly where there is an arbitration agreement between the parties.

### *Reservation to Federal Patent Court as a 'special court'*

The proponents of a restrictive interpretation of 'arbitrability' point to the creation of the FPC as a 'special court' to decide revocation claims pursuant to Section 65(1) of the German Patent Act (GPA), which they consider an explicit exclusion provision within the meaning of Section 1303(3) of the GCCP.<sup>103</sup> While admitting that an 'exclusive jurisdiction' provision alone is not sufficient to reject arbitrability, a different consideration would apply when a 'special court' (such as the FPC) has been established. This is what the Federal Parliament's commentary to the bill for the 1998 GCCP revision would provide. Other IP disputes (including infringement claims) merely subject to an exclusive jurisdiction would remain arbitrable.<sup>104</sup>

According to the opposing view, the mere existence of a special court (or exclusive jurisdiction) for certain matters cannot be equated with an express prohibition to arbitrate such matters. Reference is made to an expert report commissioned by the Federal Ministry of Justice (prior to the Federal Parliament's commentary) unequivocally confirming that all pecuniary claims are arbitrable, including patent validity disputes – despite their reservation to the FPC. Coincidentally, the language of the Federal Parliament's commentary is not regarded as entirely conclusive.<sup>105</sup>

### *State monopoly and patent disposability*

Another key consideration raised relates to the intent and purpose of the GPA. The traditional view rejecting the arbitrability of patent validity suggests that state monopoly over these matters ought to be guaranteed. Since patents concern rights granted by sovereign act, they may only be judged and revoked *erga omnes* by the state (i.e., the FPC).<sup>106</sup>

According to the contrary view, this point essentially concerns the 'disposability' of a patent. As mentioned above, this criterion is now limited to non-pecuniary claims that are considered to warrant special protection by the state and thus are not at a private person's disposition. Conversely, disposability should, so the argument goes, be irrelevant for assessing pecuniary claims as a patent remains at its holder's full disposal. A patent holder may voluntarily surrender a patent anytime by making the necessary representations

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103 See, e.g., Musielak-Voit, *Zivilprozessordnung*, §1030, 17th edition, 2020, Para. 3; MüKoZPO/Münch, §1030, 5th edition, 2017, Para. 33. See generally Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, page 306.

104 Gesetzesentwurf der Bundesregierung, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, page 35. See also Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Paras. 4, 7 and 14; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 335–336.

105 Bundesjustizministerium, Kommission zur Neuordnung des Schiedsverfahrensrechts: Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO, page 92; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, pages 241–242; Zöller (ed), *Zivilprozessordnung*, §1030, 31st edition, 2016, Paras. 4, 7 and 14; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 306–307.

106 Gesetzesentwurf der Bundesregierung, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, page 35. See generally Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 306–307. BGH, 25 January 1983 – X ZR 47/82.

before the competent authority.<sup>107</sup> The judiciary does not initiate revocation proceedings or actively investigate the validity of patents on its own motion, unless a revocation action is filed and the necessary evidence adduced. In fact, some voices stress that all commercial arbitration is based on the state's willingness to cede part of its decision-making power, as even private rights are granted by the sovereign. Hence, the same would apply to patent validity arbitration.

### *Effect of arbitral awards*

Closely linked to the above argument of state monopoly is concern about the limited powers of arbitral tribunals. Only the FPC (not a tribunal or any other German court) would be competent to revoke a patent.<sup>108</sup>

While recognising the above, those with the opposing view counter that arbitral awards generally only have *inter partes* effect and leave the FPC's competence to an *erga omnes* patent revocation fully intact.<sup>109</sup> Arbitral awards on patent validity could thus be twofold:

- First, they could make a finding on patent validity and order the patent holder to relinquish the patent under the applicable domestic procedures. Such an award should be unproblematic as it would only affect the parties at issue.<sup>110</sup>
- Alternatively, a tribunal may examine the patent validity issue incidentally. The resulting award would thus be for damages, specific performance or otherwise. No finding on patent validity would be made. Any incidental conclusion on the patent's validity would not have preclusive effect. This is particularly so since preclusion under German law (*Rechtskraft*) would be limited to the actual relief granted, not the reasoning or incidental determinations.<sup>111</sup>

These alternatives would eventually coincide with the Swiss and French approaches presented above.

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107 See Sections 20, 58 and 64 of the GPA. Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, page 24; Jochen Pagenberg, 'The Arbitrability of IP disputes in Germany', 1994; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 306–307.

108 See, e.g., Musielak-Voit, *Zivilprozessordnung*, §1030, 17th edition, 2020, Para. 3.

109 See, e.g., Stein, Jonas (eds), *Kommentar zur Zivilprozessordnung*, §1030, 22nd edition, 2002, Para. 3; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, pages 242–243; Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 307 and 336–337; Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, Para. 2.17.

110 Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19, pages 335–336; Peter G. Picht, 'Einheitspatentsystem: Die Kompetenzreichweite des Mediations- und Schiedszentrums', *GRUR International*, 2018, 67(1), page 4; ICC, Final Report on Intellectual Property Disputes and Arbitration, *ICC International Court of Arbitration Bulletin* 9(1), 1998, Para. 2.17.

111 Erik Schäfer, Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, pages 913 and 916 and footnote 47. Contrary to the German law concept of *Rechtskraft* the common law understanding of 'preclusion' or 'res judicata' is wider.



### EU developments

Recent developments in the EU also seem to support the view that patent validity disputes are arbitrable. The EU is in the process of revamping its patent system with the unitary patent (UP) and the Unified Patent Court (UPC).<sup>112</sup> The new system reaches beyond the existing European patent (EP) and is intended to harmonise the protection of EPs and UPs within the EU. In the future, national patents will coexist with EPs and UPs, but under separate systems. The UPC will hear disputes concerning EPs and UPs, including revocation claims. An affiliated patent mediation and arbitration centre will be established. Remarkably, as in the case of Germany, the applicable EU framework does not expressly prohibit patent validity arbitrations. While an arbitral tribunal may not revoke a patent,<sup>113</sup> it may order a party to surrender its patent.<sup>114</sup> The latter appears to indicate that *inter partes* awards on EP and UP validity will be possible.<sup>115</sup>

### Summary

In Germany, opinion seems to be shifting towards an increased acceptance of patent validity arbitration. This is based on the broad language of Section 1030 of the GCCP and the lack of an express prohibition in the law. It is generally recognised that tribunals can sufficiently address the parties' interests via *inter partes* awards while guaranteeing state monopoly and protecting public interests.<sup>116</sup> This is also the path the EU appears to be taking. This trend further conforms to the principle of effectiveness: if infringement claims are arbitrable, it would be odd to prohibit an alleged infringer from disputing the patent validity in the same arbitration or a separate (counter-)claim. Future case law will tell which approach tribunals and courts will be adopting.

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112 The UP and UPC is expected to be operative by 2022 but has suffered setbacks following the UK's Brexit and the German Federal Constitutional Court's latest decision dated 13 February 2020 declaring void Germany's ratification of the UPC project. See: <https://www.epo.org/law-practice/unitary.html>. <https://www.unified-patent-court.org/news/federal-constitutional-court-decision>.

113 Article 35(2), sentence 3 UPC Agreement, available at: <https://www.unified-patent-court.org/sites/default/files/upc-agreement.pdf>; see also Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, 2014, 4/14, pages 245–246.

114 See Rule 11(2) of Preliminary set of provisions for the Rules of Procedure of the Unified Patent Court, 18th draft, 1 July 2015 (as updated on 15 March 2017), available at: [https://www.unified-patent-court.org/sites/default/files/upc\\_rules\\_of\\_procedure\\_18th\\_draft\\_15\\_march\\_2017\\_final\\_clear.pdf](https://www.unified-patent-court.org/sites/default/files/upc_rules_of_procedure_18th_draft_15_march_2017_final_clear.pdf) ('Pursuant to Rule 365 the Court shall, if requested by the parties, by decision confirm the terms of any settlement or arbitral award by consent (irrespective of whether it was reached using the facilities of the Centre or otherwise), including a term which obliges the patent owner to limit, surrender or agree to the revocation of a patent or not to assert it against the other party and/or third parties.'). See also UPC website in general, available at: <https://www.unified-patent-court.org/>.

115 Erik Schäfer, Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 915; Thomas Legler, 'Arbitration of Intellectual Property Disputes', in Matthias Scherer (ed), *ASA Bulletin*, Kluwer Law International, 2019, 37(2), pages 294–295.

116 Some commentators argue that patent validity arbitrations are contrary to public policy but have failed to explain why.

## Japan

### Introduction

Japan is another civil law jurisdiction that has adopted the German bifurcated system. Traditionally, the bifurcation of revocation claims and infringement claims was strict. However, in the early 2000s, and in light of the criticism of the bifurcated system, Japan started innovating its patent litigation. As a result, Japan substantially eased the separation between infringement and validity proceedings, thus distinguishing itself from the German model.<sup>117</sup> This, in turn, has had the interesting effect of potentially increasing the acceptance of patent validity arbitrations seated in Japan.

In Japan, infringement proceedings are subject to the exclusive jurisdiction of either the Tokyo or Osaka District Courts with special divisions for IP matters.<sup>118</sup> Meanwhile, only the Japan Patent Office (JPO) in Tokyo has exclusive authority to revoke an invalid patent.<sup>119</sup> This means that an alleged infringer could not bring a revocation claim or defence against an infringement claim, unless the JPO had first decided on patent validity. In order to correct the defects of the bifurcated system, Japanese infringement courts increasingly admitted validity defences.

In 2000, the Supreme Court accepted the infringement courts' practice in its seminal *Kilby* ruling and held that an infringement claim could be dismissed where obvious sufficient grounds for patent invalidity exist.<sup>120</sup> Subsequently, the *Kilby* precedent was cast into law during the 2004 amendments of the Patent Act. Pursuant to Article 104-3(1) of the Patent Act, infringement courts are now expressly authorised to refuse to enforce a patent if they consider that there are sufficient grounds for invalidation:

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117 See further Simon Klopschinski, *Der Patentverletzungsprozess in Japan und Deutschland – Bericht über ein internationales Symposium der Deutsch-Japanischen Juristenvereinigung (DJJV), der Japan Intellectual Property Association (JIPA), der Japan Patent Attorneys Association (JPAA) und der International Association for the Protection of Intellectual Property of Japan (AIPPI Japan)* am 23. September 2009 in Munich, *GRUR International* 2020, 309.

118 An initial appeal may be brought before the IP High Court in Tokyo on points of fact and law, and further to the Supreme Court on points of law. Article 6(1)(3) of the Code of Civil Procedure, Articles 7(i) and 16(i) of Court Act and Article 2(i) of the Law for Establishing the IP High Court. The IP High Court was established as a special branch of the Tokyo High Court for IP matters in 2005 and decides in panels of three or five judges. Appeals to the Supreme Court are heard by five judges from one of its three benches.

119 Articles 178(6) and 123 of the Japanese Patent Act. See website of the JPO available at: <https://www.jpo.go.jp/e/>. As in infringement disputes, an appeal may be brought first to the IP High Court which can only decide on whether to confirm or vacate the JPO's decision (but not revoke a patent) and then to the Supreme Court.

120 Judgment of the Supreme Court of Japan, 11 April 2000, *Minshu* Vol. 54, No. 4 at 1368. The Supreme Court ruled that: '[a] court considering a claim of patent infringement should be capable of judging whether or not there obviously exists sufficient grounds to invalidate the patent, even prior to the issuance of a final decision invalidating the patent. If during the hearings the court finds that there obviously exist sufficient grounds to invalidate the patent, a claim of injunction, damages, or other claims based on such patent would be an abuse of rights beyond the scope contemplated under the act unless it can be demonstrated that circumstances exist which justify special treatment.'

*If it is found, in litigation involving the infringement of a patent right or the violation an exclusive license, that the patent should be invalidated . . . the rights of the patentee or exclusive licensee may not be exercised against the adverse party.*<sup>121</sup>

However, given that an infringement court's determination on patent validity only has *inter partes* effect, there was a risk that a patent would remain valid *erga omnes* if the JPO decided not to revoke it. To address this risk of conflicting decisions, Article 168 of the Patent Act empowers both infringement courts and the JPO to suspend their respective proceedings and requires them to notify each other of any pending patent claims, much like the recent reforms in Germany.<sup>122</sup>

Article 168 of the Patent Act reduces the risk of conflicting decisions but does not eliminate it. Where such conflict arises due to a patent revocation after an infringement judgment (in favour of a patent holder) has become final and binding, such conflict cannot be 'corrected' with an action for retrial. Previously, a JPO decision could potentially qualify as a ground for initiating a retrial,<sup>123</sup> but ever since the introduction of Article 104-4 of the Patent Act in 2011 this is now prohibited.<sup>124</sup> This may however lead to the somewhat

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121 In the interest of a swift resolution of patent disputes, the requirement of an 'obvious' patent invalidity under the *Kilby* case was dropped.

122 Article 168 of the Patent Act: '(1) Where deemed necessary during a trial, the [JPO] proceedings may be suspended until the ruling on an opposition to a granted patent or the decision in another trial has become final and binding or court proceedings have been concluded. (2) Where an action is instituted or a motion for order of provisional seizure or order of provisional disposition is filed, the court may, if it considers it necessary, suspend the court proceedings until the [JPO] decision becomes final and binding. (3) Where an action with respect to infringement of a patent right . . . is instituted, the court shall notify the [JPO] thereof . . . (4) Where the [JPO] receives the notice as provided in the preceding paragraph, the [JPO] shall notify the court of whether a request for a [JPO proceeding] with regard to the said patent right has been filed. . . . (5) Where the court receives the notice [by the JPO], if a document stating a method of allegation or defence as provided in Article 104-3(1) has already been submitted . . . the court shall notify the [JPO] thereof. (6) Where the [JPO] receives the notice as provided in the preceding paragraph, the [JPO] may request the court to deliver copies of any record of the said action which the trial examiner considers necessary for the trial.' The power of the JPO and infringement court to suspend proceedings under Article 168(1) and (2) already existed prior to the 2004 reform of the Patent Act. Article 168(3)-(6), however, were newly introduced in 2004.

123 Before 2011, a JPO decision determining patent invalidity was considered an 'administrative decision' modifying the original patent grant, and could thus qualify as a valid ground for an action for retrial pursuant to Article 338(1)(viii) of the Code of Civil Procedure: 'If any of the following circumstances are present, a party may protest a final judgment that has become final and binding through a demand for a retrial; provided, however, that this does not apply if a party, when filing the appeal to the court of second instance or the final appeal, alleged those circumstances or knew of them but did not allege them: . . . (viii) the civil or criminal judgment or other judicial decision, or the administrative disposition, on which the judgment in question was based has been modified by a subsequent judicial decision or administrative disposition'. However, according to a line of thought (supported by case law) a retrial based on a decision by the JPO invalidating a patent ought to be admitted in limited cases only. See judgment of the Supreme Court of Japan, dated 24 April 2008, *Minshu* Vol. 62, No. 5 at 1262; judgment of IP High Court, dated 14 July 2008, *Hanrei-jiho* No. 2050 at 137.

124 Article 104-4: 'If one of the following ruling or decision on a trial or appeal has become final and binding after a final judgment becomes final and binding in litigation involving the infringement of a patent right, . . . a person that was a party to the litigation may not assert that the trial or appeal in respect to the final judgment . . . : (i) a ruling to the effect that the patent is to be revoked or a decision on the trial or appeal to the effect that the patent is to be invalidated; . . .'

unsatisfactory result that the JPO's revocation of a patent may not 'trump' an infringement court's judgment.<sup>125</sup> Effectively, the JPO's exclusive authority to make *erga omnes* decisions appears to have been weakened. Time will tell how these developments will shape the future of Japan's IP litigation.

### *Arbitrability of patent validity disputes*

Japan is generally recognised as an arbitration-friendly jurisdiction, albeit still lagging behind Germany in terms of caseload and international arbitration practice. In the past 15 to 20 years, Japan has been undertaking substantial efforts to promote itself as an international arbitration hub,<sup>126</sup> which has led to the establishment of various arbitration and mediation facilities, including the Japan International Dispute Resolution Centre (JIDRC) in Osaka and Tokyo, the Japan International Mediation Centre (JIMC) in Kyoto and the International Arbitration Centre in Tokyo (IACT) for IP disputes.<sup>127</sup> Meanwhile, Japan is in the process of amending its Arbitration Act of 2003.<sup>128</sup>

The current Arbitration Act does not contain any explicit provision on arbitrability. However, Articles 2(1) and 13(1), which regulate the scope of a valid arbitration agreement, provide:

*Article 2(1) The term 'Arbitration Agreement' as used in this Act means an agreement to refer the resolution of all or certain civil disputes which have already arisen or which may arise in the future in respect of a certain legal relationship (irrespective of whether contractual or not) to one or more arbitrators, and to accept the award made therefor (hereinafter referred to as an 'Arbitral Award').*

*Article 13(1) Except as otherwise provided for in laws and regulations, an Arbitration Agreement shall be effective only when the subject thereof is a civil dispute (excluding disputes of divorce or dissolution of adoptive relation) which can be settled between the parties.*

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125 See also Christopher Heath, 'Two Decisions on Patent Law: "Seaweed Purifying Apparatus" and "Fuminosuke Original Ball Point Pen"', *ZJapanR*, 17 No. 33 (2012), pages 244–245.

126 On a background of the introduction to the 2003 Arbitration Act, see Hiroyuki Tezuka, 'New Arbitration Act and International Commercial Arbitration' in Koichi Miki et al, *International Arbitration and Corporate Strategy*, Yuhikaku, 2014.

127 Separately, the Japan Intellectual Property Arbitration Center (JIPAC), founded in 1998 by the Japan Patent Attorneys Association and the Japan Federation of Bar Associations, offers various IP dispute resolution services including arbitration and mediation. The IACT is more globally oriented than JIPAC and focuses on international IP disputes (e.g., standard essential patents) with an international panel of arbitrators. See <https://www.ip-adr.gr.jp/eng/> and <https://www.iactokyo.com/>. See also Lars Markert and Anne-Marie Doernenburg, 'Japan's dawn of a new era – also in international arbitration?', IBA, 2019, available at: <https://www.ibanet.org/Article/NewDetail.aspx?ArticleUId=FA52ADC9-09FB-4D3B-9F32-E4B12FA0B03F>

128 See Act No. 138 of 2003. See also the report of the Study Group for the Amendment of Arbitration Law (Hiroyuki Tezuka, co-author of this chapter, participated as a member), 2020, available at [https://www.jurists.co.jp/sites/default/files/tractate\\_pdf/ja/13711.pdf](https://www.jurists.co.jp/sites/default/files/tractate_pdf/ja/13711.pdf); Hiroyuki Tezuka and Yutaro Kawabata, 'New Trends of International Commercial Arbitration and Further Modernisation of Arbitration Law', *Jiyu to Seigi*, 67(7), 2016, pages 14–20.

Article 13(1) allows a civil dispute to be arbitrated if the parties can freely dispose of it.<sup>129</sup> The disputes that are ineligible for arbitration and must remain under the exclusive power of the state include divorce matters, dissolution of adoptive relations and certain labour disputes.<sup>130</sup> While no express restrictions exist in relation to infringement or patent validity arbitrations,<sup>131</sup> only infringement claims have regularly been considered arbitrable.<sup>132</sup> Patent validity arbitrations remain contested.

### *Express reservation of revocation competence*

Traditionally, patent validity arbitration has been disputed by reference to the JPO's exclusive authority to grant and revoke patents under Articles 66, 123 and 178(6) of the Patent Act. This provision has thus been regarded as an express restriction of arbitrability since all matters related to patents were considered to be reserved to the state, including any (incidental) determination of their validity.<sup>133</sup>

As in Germany, the opposing line of thought points to the fact that patent holders may dispose of their patents anytime by way of surrender.<sup>134</sup> Consequently, in light of a patent's disposability, patent validity disputes ought to be arbitrable. The JPO's exclusive authority of revocation with *erga omnes* effect would remain intact since arbitral awards are only *inter partes*.

### *Post-Kilby approach*

Following the relaxation of the bifurcated system with the *Kilby* case and the 2004 Patent Act reform, the traditional view that Article 178(6) of the Patent Act per se precludes patent validity arbitration appears to have become moot.<sup>135</sup> Instead, in line with the past opposing view's reliance on a patent's disposability, it is argued that just as it is possible to raise validity challenges before infringement courts, the same ought to apply to arbitral tribunals. If an infringement court is empowered to issue an *inter partes* judgment on

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129 Takashi Inomata, 'Arbitration Agreement: Its Purpose and Arbitrability', *JCA Journal* 2, 2006, 53(7), pages 3–4.

Article 13(1) is in line with the French Civil Code (see footnote 70 above) but differs from German law in that under the latter, the disposability criterion now only applies to non-pecuniary claims. See footnote 99 above.

130 Masaaki Kondo et al (eds), 'Arbitration Act: a Commentary', 2003, page 48. Article 4 of the Supplementary Provisions of the Arbitration Act.

131 Matthew A. Smith, Marina Couste, Temogen Hield et al, Arbitration of patent infringement and validity issues worldwide, *Harvard Journal of Law and Technology*, 2006, 19, page 352.

132 Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, pages 81–82; Yoshimitsu Aoyama, 'Article 786: Conditions of an Arbitration Agreement', in Yasuhei Taniguchi and Harunori Inoue (eds), *New Commentary with Judicial Precedents on the Code of Civil Procedure* 6, 1995, pages 623–624. See, e.g., Matthew A. Smith, Marina Couste, Temogen Hield et al, Arbitration of Patent Infringement and Validity Issues Worldwide, *Harvard Journal of Law and Technology*, 2006, 19, page 352.

133 Shigetoshi Matsumoto, 'Intellectual Property and Arbitration', *Jurist* 1988, 924, page 56, cited in Matthew A. Smith, Marina Couste, Temogen Hield et al, 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law and Technology*, 2006, 19.

134 Yoichi Okada, 'Arbitrability of Patent Validity', *Horitsu Ronso*, 2016, 89(1), page 133–137.

135 See, e.g., Naoki Idei and Takayuki Miyaoka, *Q&A New Arbitration Act*, page 50; Takashi Kojima and Akira Takakuwa, *Arbitration Act: Commentaries and Issues*, 2007, page 62; Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, page 82.

patent validity, arbitral tribunals should be equally competent to do so.<sup>136</sup> Again, in neither case would the JPO's exclusive revocation authority be affected, as no *erga omnes* finding on patent validity would be made. This is particularly so absent any express statutory provisions to the contrary.

In fact, patent validity arbitration may also prevent contradictory results. While a final and binding infringement judgment may not be retried despite a subsequent patent revocation by the JPO due to Article 104-4 of the Patent Act,<sup>137</sup> no such prohibition exists under the Arbitration Act. Thus, an award granting a patent holder's claim could, in theory, be set aside on public policy grounds following the JPO's patent revocation.<sup>138</sup>

### Summary

Japan's recent changes to its patent litigation system may have loosened the strict separation of infringement and revocation proceedings but the possibility of conflicting decisions persists. This in turn may strengthen support for patent validity arbitration.

### Conclusion

Patent validity arbitration, while still controversial in jurisdictions such as Germany and Japan, seems to be increasingly accepted in the civil law world, particularly in Switzerland and France. While Germany and Japan are making efforts to reform their patent litigation systems, in the (near) future, patent holders and alleged infringers may have a broader spectrum of dispute settlement methods to choose from.

In this regard, it might be worth citing an ICC arbitral tribunal that, as early as 1989, confirmed that it saw no conflict between the jurisdiction of national courts and arbitral tribunals.<sup>139</sup> The claimant, a Japanese company, had sued a German company based on alleged breaches of patent licensing contracts and patent infringement by the respondent. The latter in turn challenged the patent's validity. The tribunal found that it was empowered to find on patent validity in line with the parties' intention to confer on it broad jurisdiction and noted that any award would only have *inter partes* effect. Remarkably, the tribunal relied on Japanese law (which governed the contract) and its principle favouring arbitration over litigation, as well as German law (which governed the patent issue) emphasising that it did not expressly prohibit patent validity arbitration.

The outlook is promising.

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136 Takao Asai, 'Pros and Cons of Use of Arbitral Proceedings', *NBL*, 2003, 755, page 44. See also 'Chapter 4: Arbitrability of IP Disputes', in Trevor Cook and Alejandro Garcia, *International Intellectual Property Arbitration, Arbitration in Context Series*, 2, Kluwer Law International, 2010, page 52.

137 See footnote 124 above.

138 Tatsuya Nakamura, 'Issues on Arbitration Law', *Seibundo*, 2017, page 105.

139 Interim Award in Case 6097, *ICC International Court of Arbitration Bulletin*, 1993, 4(2). 'Chapter 4: Arbitrability of IP Disputes', in Trevor Cook and Alejandro Garcia, *International Intellectual Property Arbitration, Arbitration in Context Series*, 2, Kluwer Law International, 2010, pages 74–75. In fact, it appears that a German federal judge acted as presiding arbitrator in this case. See Erik Schäfer, 'Part IV: Selected Areas and Issues of Arbitration in Germany', *Arbitration of Intellectual Property Related Disputes in Germany*, in Patricia Nacimiento, Stefan Kroll et al (eds), *Arbitration in Germany: The Model Law in Practice*, 2nd edition, Kluwer Law International, 2015, page 914.

# 3

## Drafting Arbitration Clauses in IP Agreements

**Rachel Thorn<sup>1</sup>**

### Introduction

When drafting dispute resolution provisions, parties would do well to keep in mind the maxim ‘an ounce of prevention is worth a pound of cure’. Clear and thoughtful drafting helps to ensure the parties’ chosen method (or methods) for resolving disputes will function as the parties intended, is effective and maximises the likelihood that any disputes will be resolved in a timely and cost-effective manner. Poor or imprecise drafting risks the opposite because it invites arguments over the scope and operation of provisions and diverts resources away from resolving the merits of the disputes these provisions were supposed to settle.

The same drafting principles that underpin well-drafted dispute resolution clauses in other types of agreements are equally applicable in IP agreements.<sup>2</sup> In addition, however, there are a number of unique factors that parties should also consider, including the fundamental question of whether disputes involving IP rights should be excluded from arbitration altogether. This chapter discusses those factors and how they may influence the ways in which parties approach structuring and drafting dispute resolution provisions in IP agreements.

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1 Rachel Thorn is a partner at Cooley LLP. The author wishes to thank Lorenzo Sordi, an international arbitration consultant at Cooley, for his assistance with the research and drafting of this chapter.

2 IP agreements run the gamut from licensing agreements, and manufacturing, co-marketing and distribution agreements to technology transfer agreements, collaboration, joint development or research and development agreements, joint venture agreements, and information sharing or non-disclosure agreements.

## Drafting considerations

### Validity

Frequently described as a creature of contract, arbitration requires that parties consent to resolving their disputes through arbitration. The essential elements of a valid agreement to arbitrate are simple. As reflected in Article II(1) of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) and most national laws, the parties must agree to arbitrate and the arbitration agreement must be in writing and must concern a subject matter capable of settlement by arbitration.<sup>3</sup>

In IP agreements, the writing requirement should be easily met because we are speaking of written commercial agreements.<sup>4</sup> The arbitrability requirement, however, can become more complex depending on what the parties have agreed to submit to arbitration, as certain types of IP disputes (e.g., patent invalidity and infringement) may be arbitrable in one country but not another. Thus, the validity of the agreement to arbitrate may turn on the seat, or legal place of arbitration, and the place where enforcement of the award will be sought. Both subjects are discussed further below.

### Scope

The scope of the arbitration clause or its ‘charging language’ answers the questions of who is bound to arbitrate and what they agreed to arbitrate. Careful drafting is therefore critical to ensure that the clause clearly reflects the parties’ intent.<sup>5</sup>

Where the parties have agreed that all disputes between them should be resolved through arbitration, there is simple and universally (or almost universally) accepted language that accomplishes this objective. This language is reflected in the model clauses recommended by the leading international arbitration institutions and is usually understood to encompass contractual, tort and statutory claims. Such clauses typically involve some variant of the words: (1) ‘all’ or ‘any’; (2) ‘disputes,’ ‘claims,’ ‘differences’ or ‘controversies’; (3) ‘arising out of and relating to’ or ‘arising under and in connection with’; and (4) ‘the agreement’ or ‘the contract’.<sup>6</sup>

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3 Two further requirements are found in Art.V(1)(a), according to which recognition and enforcement of an award may be refused when (1) the parties were ‘under the law applicable to them, under some incapacity’ or (2) the arbitration agreement ‘is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the country where the award was made.’

4 The writing requirement is also met when the arbitration agreement is contained in an exchange of ‘letters and telegrams’ (Art. II(2) of the New York Convention), which has been interpreted as extending to any means of written communication, including electronic communications. The UNCITRAL Model Law explicitly provides that the writing requirement is met by ‘an electronic communication if the information contained therein is accessible so as to be usable for a subsequent reference’, including electronic mail and ‘means of telecommunication which provide a record of the agreement’. UNCITRAL Model Law, Art. 7(4) (Option 1).

5 For instance, if other corporate entities are (or will be) involved in concluding, performing or terminating the contract, the parties may wish to describe the parties who are bound by the agreement to arbitrate broadly to capture affiliates, subsidiaries or other related entities and thereby minimise a dispute down the road over whether the arbitration clause can be extended.

6 See, e.g., ICC model clause (‘All disputes arising out of or in connection with the present contract . . .’); LCIA model clause (‘Any dispute arising out of or in connection with this contract, including . . .’); ICDR model



Conventional wisdom usually favours broadly drafted arbitration clauses because, among other things, they help to reduce the risk of threshold arguments over where a given dispute should be resolved, as well as the risk of parallel proceedings in more than one forum. It is for these reasons that the IBA Guidelines for Drafting International Arbitration Clauses (2010) cautions against limiting the scope of disputes subject to arbitration ‘[a]bsent special circumstances,’ observing that:<sup>7</sup>

*even when drafted carefully, exclusions may not avoid preliminary arguments over whether a given dispute is subject to arbitration. A claim may raise some issues that fall within the scope of the arbitration clause and others that do not. . . . [A] dispute over the ownership or validity of intellectual property rights under a licensing agreement [which had been carved out] may also involve issues of non-payment, breach and so forth, which could give rise to intractable jurisdictional problems in situations where certain disputes have been excluded from arbitration.*

This guidance notwithstanding, clauses excluding certain disputes from arbitration are common in IP agreements, particularly for disputes involving validity, patentability, inventorship and ownership of IP rights, and sometimes for scope and infringement. This primarily occurs because of concerns that these kinds of disputes may not be arbitrable or will hinder the enforceability of an eventual award.<sup>8</sup> Moreover, even in jurisdictions where these types of disputes may be arbitrated, most limit the binding effect of the award.<sup>9</sup> Parties may also exclude certain IP disputes because they are concerned about the right to appeal or wish to avail themselves of certain procedures more commonly associated with court proceedings (such as a claim construction hearing, a common proceeding in US courts, in which a judge determines the meaning of terms used in patent claims).

However, before reflexively excluding these types of disputes from arbitration, parties should carefully consider whether doing so is necessary and will promote efficient dispute resolution. For instance, depending on the geographic scope of the parties’ IP agreement, disputes concerning validity and infringement may entail litigating before multiple foreign courts (which cannot be consolidated), involving different procedural and substantive treatment of very similar issues before judges with varying degrees of experience. In this

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clause (‘Any controversy or claim arising out of or relating to this contract, or the breach thereof . . .’); SIAC model clause (‘Any dispute arising out of or in connection with this contract, including . . .’); and HKIAC model clause (‘Any dispute, controversy, difference or claim arising out of or relating to this contract, including . . .’). The WIPO model clause goes further than the other institutions to expressly include non-contractual claims: ‘Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including . . . non-contractual claims.’

7 IBA Guidelines for Drafting International Arbitration Clauses (2010), Guideline 3.

8 One of the few grounds for refusing to enforce an arbitral award under the New York Convention is if ‘[t]he subject matter of the difference is not capable of settlement by arbitration under the law of ‘the country where recognition and enforcement is sought’. (Art.V(2)(a).) In light of this, the parties should consider whether IP disputes are arbitrable in the jurisdictions where they anticipate enforcing an eventual award.

9 Switzerland is a notable exception. See Swiss Federal Office of Intellectual Property Ruling of 15 December 1975 and Dário Moura Vicente, *Arbitrability of Intellectual Property Disputes: A Comparative Survey* (2015) 31 *Arb Int'l*, 157–158.

situation, arbitration offers the possibility of resolving the disputes in a single proceeding before experienced decision makers, thereby reducing costs and minimising the risks of inconsistent judgments.

Moreover, even if the award does not bind third parties, an award *inter partes* may suffice because many IP disputes brought in arbitration are primarily contractual (e.g., relating to royalties obligations, assignment of rights or infringement). Indeed, one can readily imagine a scenario where a confidential award *inter partes* is preferable because it resolves the dispute at hand while limiting the downstream impact of an adverse award (e.g., a public finding of invalidity).

The difficulty with carve-outs is that even when they are well drafted, it is not always possible to draw the dividing line between disputes involving IP rights and commercial disputes. Take, for instance, a common situation involving a licensing agreement where the licensor brings a claim for breach and infringement, and in defence, the licensee denies any breach and argues the patents are invalid.

If the parties have excluded infringement and validity from arbitration, they will need to litigate these issues in a parallel court proceeding (and possibly in more than one court proceeding where different jurisdictions are implicated). This, in turn, risks spawning disputes over which claims must be submitted to the courts, which claims must be submitted to the arbitrators, which claims should proceed first, which claims should be stayed and who should decide these questions. Moreover, parallel proceedings are not only inefficient and costly, but they also inject uncertainty and complexity into the dispute resolution process, are more difficult to coordinate and run the risk of inconsistent outcomes.

As illustrated by the US court case *Oracle America, Inc v. Myriad Group AG*, these risks are not theoretical.<sup>10</sup> In that case, Oracle sued Myriad Group in the federal court in the Northern District of California for trademark infringement, copyright infringement, breach of California's unfair competition law and breach of various licensing agreements for failing to report and pay royalties. In response, Myriad Group moved to compel arbitration in accordance with the terms of one of the licence agreements, which provided that '[a]ny dispute arising out of or relating to this License shall be finally settled by arbitration'.<sup>11</sup>

After finding this charging language reached every dispute that touched upon the licence, the district court turned to the scope of the exclusion for 'dispute[s] relating to . . . Intellectual Property Rights.' It then ruled that the carve-out was unambiguous and excluded all of Oracle's non-contract claims from arbitration, granting the motion to compel solely with respect to the claim for breach of contract.<sup>12</sup>

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10 *Oracle Am., Inc. v. Myriad Grp. A.G.*, 724 F.3d 1069 (9th Cir. 2013).

11 The arbitration clause at issue read in full: 'Any dispute arising out of or relating to this License shall be finally settled by arbitration as set out herein, except that either party may bring any action, in a court of competent jurisdiction (which jurisdiction shall be exclusive), with respect to any dispute relating to such party's Intellectual Property Rights or with respect to Your compliance with the TCK license. Arbitration shall be administered: (i) by the American Arbitration Association (AAA), (ii) in accordance with the rules of the United Nations Commission on International Trade Law (UNCITRAL) (the "Rules") in effect at the time of arbitration as modified herein; and (iii) the arbitrator will apply the substantive laws of California and United States. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction to enforce such award.' *Oracle*, 724 F.3d at 1071.

12 *Oracle Am. Inc. v. Myriad Grp. AG*, 2011 WL 3862027, at \*6-7 (N.D. Cal. Sept. 1, 2011).

That decision was later reversed by the Ninth Circuit Court of Appeals on the grounds that the parties had delegated questions of arbitrability to the arbitrators by incorporating the UNCITRAL Arbitration Rules into the arbitration clause. Thus, the question of whether the non-contractual claims were excluded from arbitration should have been decided by the arbitrators in the first instance, not the court, and the case was remanded.

With over two years spent litigating who should decide the scope of the arbitration agreement and the exclusion and how that exclusion should be read, this case serves as a cautionary tale about the downside of carve-out provisions. It also speaks to the need for careful drafting. For instance, parties who decide to include a clause excluding all or some IP disputes from arbitration may also wish to consider expressly stating whether the arbitrators or the courts shall decide the scope and applicability of the agreement to arbitrate, including the exclusions.

In the same vein, while broad charging language such as ‘any dispute or claim which may arise out of or in connection with this Agreement’ should be naturally read to encompass disputes relating to validity and infringement,<sup>13</sup> where the parties have agreed to submit such disputes to arbitration, they should nonetheless consider saying so expressly to reduce the risk of future disputes.<sup>14</sup> A recent US court decision, *AbbVie Inc v. Novartis Vaccines and Diagnostics Inc*,<sup>15</sup> illustrates why. In that case, AbbVie brought an action to declare certain patents invalid, and Novartis moved to compel arbitration. Before the court was AbbVie’s claim that the licence agreement carved out patent validity disputes from arbitration notwithstanding an arbitration clause that stated ‘any dispute regarding this Agreement’ would be resolved through arbitration. AbbVie’s argument rested on another provision of the agreement, which it contended effectively functioned as a carve-out.<sup>16</sup> While the court ultimately rejected AbbVie’s construction, this dispute might have been avoided entirely with clearer drafting.

## The seat of the arbitration

The seat of arbitration is the legal place of arbitration. The seat is important because, among other things it determines the powers of the arbitrators, the supervisory role of the courts during the arbitration and the legal grounds for challenging (or setting aside) the award.

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13 See, e.g., *Polymer Tech. Sys., Inc. v. Roche Diagnostics Corp.*, 2010 WL 3782173, at \*2 (S.D. Ind. Sept. 20, 2010).

14 For instance, the American Arbitration Association’s model arbitration clause for its Supplementary Rules for the Resolution of Patent Disputes provides: ‘[a]ny controversy or claim arising out of or relating to this contract, or the breach thereof, including any dispute relation to patent validity or infringement, shall be settled by arbitration administered by the American Arbitration Association under its Supplementary Rules for the Resolution of Patent Disputes . . .’

15 *AbbVie Inc., v. Novartis Vaccines and Diagnostics, Inc.*, 2017 WL 383540 (N.D. Cal. Aug. 31, 2017).

16 The provision at issue was the definition of the term ‘valid claim’, which included ‘any claim of an issued (or granted) and unexpired patent which has not been held unenforceable, unpatentable or invalid by a decision of a court or governmental agency of competent jurisdiction’. *AbbVie*, 2017 WL 383540, at \*2. In advancing its argument, Abbvie relied on an earlier case decided under New York law, which held that language submitting disputes ‘arising under or regarding the interpretation of [the sublicensing] Agreement’ to arbitration did not include challenges to patent validity. *Abbott Labs. v. Mathilda & Terence Kennedy Inst. of Rheumatology Trust*, 2011 U.S. Distr. LEXIS 158511 (S.D. N.Y. Oct. 14, 2011).

From a New York Convention perspective, the seat also determines the nationality of the award,<sup>17</sup> which is especially important if recognition and enforcement will be sought in a signatory state that requires reciprocity.<sup>18</sup>

It should be noted that the term ‘seat’ is not interchangeable with the term ‘venue’ in some jurisdictions, where it merely connotes the geographical location of the hearings. Moreover, regardless of the seat, most arbitral rules permit the tribunal to convene hearings anywhere in the world, as well as virtually.

Best practice is to agree on the seat in advance and specify that location (usually a city) in the arbitration clause. The parties should endeavour to choose a seat in an arbitration-friendly jurisdiction, which means the laws and courts of the seat support arbitration. It should also be located in a signatory state to the New York Convention to facilitate enforcement for the reasons discussed above.

In IP agreements, additional considerations should include (1) the extent to which IP disputes are arbitrable at the seat and (2) the availability of effective interim relief. Turning first to arbitrability, certain IP disputes are not arbitrable in many jurisdictions. Thus, parties should consider the types of disputes they may wish to arbitrate and select a seat where those disputes are arbitrable. For example, if the parties want to submit disputes regarding patent invalidity, enforceability and infringement to arbitration, they should consider seating the arbitration in countries such as Belgium,<sup>19</sup> France,<sup>20</sup> Switzerland,<sup>21</sup> the United Kingdom<sup>22</sup> or the United States,<sup>23</sup> rather than in countries where arbitrability is excluded (South Africa) or limited to certain issues (Germany).<sup>24</sup>

Because access to interim relief can often be critical in IP agreements – for instance, to prevent disclosure of confidential information or use of a misappropriated trade secret – the parties should consider choosing a seat in a jurisdiction where arbitrators have the power to grant interim relief, the courts have a good track record of enforcing interim awards and effective interim relief is otherwise available in the courts.

Finally, if agreement on the seat is not possible (because, for instance, the counterparty is insisting on a seat that is not neutral or is not suitable for other reasons), the parties should, as a last resort, ensure they select an arbitral institution or rules that will designate a seat, taking into account the circumstances of the arbitration.<sup>25</sup>

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17 Art. I(1) of the New York Convention.

18 Pursuant to Art. I(3) of the New York Convention, a signatory state may limit application of the Convention to awards made only in the territory of another signatory state on the basis of reciprocity, rather than to all foreign arbitral awards, irrespective of where they are ‘made’.

19 See Vicente, *supra* note 9.

20 See *Liv Hidravlika DOO v. SA Diebolt*, No. 05-10577, Paris Court of Appeal, 28 February 2008.

21 See Vicente, *supra* note 9.

22 See ICC Final Report on Intellectual Property Disputes and Arbitration, 2.12 (‘[T]here is no reason of principle in English law why an intellectual property dispute should not be referred to arbitration.’).

23 See 35 USC Section 294(a)–(c), which allows the parties to submit to arbitration ‘any dispute relating to patent validity or infringement’. In the United States, the award only binds the parties to the arbitration and is not enforceable until it has been registered with the US Patent and Trademark Office.

24 See Vicente, *supra* note 9 at 153–154.

25 For instance, Art. 18(1) of the UNCITRAL Arbitration Rules reserves this choice for the arbitral tribunal, while Art. 18(1) of the ICC Arbitration Rules leaves it to the ICC Court.

The law governing the contract and the law governing the arbitration agreement. With most IP agreements, it is possible that multiple laws will apply substantively and to the arbitral proceedings. First, there is the substantive law governing the agreement. This is the law that controls the parties' rights and obligations under the agreement and, depending on its wording, may extend to non-contractual rights and obligations. Governing law clauses are routinely included in IP agreements to avoid the uncertainty, time and cost of arguing over the applicable law.

Second, there are the laws governing IP rights. These are the laws of the country where the IP is registered or granted, or from which the IP protection emanates (e.g., the validity of a Spanish patent will be governed by Spanish law). Where the IP agreement is governed by the laws of one jurisdiction and the underlying IP is subject to the laws of another, the parties may wish to specify which laws apply to the IP claims (such as validity and infringement) to avoid disputes over the applicable law. In choosing that law, the parties should consider any restrictions imposed by the law at the seat of arbitration or at the expected place of enforcement.

Third, there are the laws governing the agreement to arbitrate. This is the law used to interpret the arbitration clause and determine its scope and validity. Frequently, parties do not specify this law, perhaps because they assume that law governing the agreement to arbitrate will be the same as the substantive law of the agreement. While in many cases that assumption may prove accurate, it is not a given, especially when the substantive governing law differs from the seat of arbitration. Moreover, different jurisdictions take different approaches and many arbitration rules are silent on this topic.<sup>26</sup> Thus, to save the time and expense of arguing over which law governs the agreement to arbitrate, parties may wish to specify it in the agreement itself. In most cases, the parties should choose between the laws at the seat of arbitration or the substantive law of the agreement.

### Institutional or ad hoc arbitration

Another element that the parties need to consider is whether the arbitration will be conducted under the auspices of an arbitral institution – and, if so, which institution – or if the arbitration will be ad hoc (i.e., not administered by an institution). Both options present their own advantages and disadvantages for parties to IP disputes.

Parties that prefer ad hoc arbitration put a premium on flexibility and the freedom such an agreement gives the parties to craft bespoke procedures specifically tailored to their IP needs. Often taking the form of dispute resolution schedules or annexes to the IP agreement, these procedures may include, for instance, streamlining pleadings, bringing in discrete elements of civil procedure, fast-tracking to hearings and providing for non-reasoned awards or limiting the arbitrators' powers to adopting one party's proposed rulings and

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<sup>26</sup> Exceptions to this include the LCIA Arbitration Rules, Article 16.4 ('the law applicable to the Arbitration Agreement and the arbitration shall be the law applicable at the seat of the arbitration', unless the parties have agreed in writing otherwise and 'such agreement is not prohibited by the law applicable at the arbitral seat'); the WIPO Arbitration Rules, Article 61(b) (same); and the JAMS International Arbitration Rules, Article 19.2 (same). The HKIAC is one of the few arbitral institutions that recommends specifying the law applicable to the arbitration agreement as part of its model clause.

relief.<sup>27</sup> Some parties also perceive that ad hoc arbitration may be less expensive than institutional arbitration because it avoids the administrative costs and filing fees associated with the latter.

There are, however, several potential drawbacks to ad hoc arbitration that parties should consider. First and foremost, unless the parties have designated an appointing authority, constituting a tribunal can become time-consuming and expensive if one party is unwilling to cooperate or the parties are unable to agree on the third (presiding) arbitrator. In institutional arbitration, there are rules to address this situation, and the institution is on standby and ready to assist. Equally important, most institutional rules expressly require an arbitrator to be impartial and independent, incorporate an affirmative duty of disclosure and establish a procedure for pre-award challenges. In ad hoc arbitration, if the parties do not expressly include these elements, they must rely on the *lex arbitri* or the law at the place of enforcement after the award has been rendered. Notably, many jurisdictions do not permit pre-award challenges to arbitrators in court. Instead, the only recourse is to set aside proceedings after the arbitration is over.

Another downside to ad hoc arbitration is the lack of an arbitral institution to help the proceedings run smoothly, born out of decades of experience administering arbitrations. Institutions also play an important role in setting and collecting the arbitrators' remuneration. In ad hoc arbitration, the parties and the arbitrators must reach an agreement on the arbitrators' fees and allowable expenses. This can result in potentially uncomfortable discussions over what amounts are reasonable and may leave the parties more vulnerable to abuse.

Institutional rules also fill gaps in arbitral procedure. They have been refined to avoid procedural breakdowns when one party is uncooperative, and they have evolved based on user feedback. For instance, many institutions now have an emergency arbitrator feature, which permits parties to obtain urgent interim relief before constitution of a full tribunal.<sup>28</sup>

If, on balance, the parties opt for ad hoc arbitration, the parties should, at minimum, include procedures (with timing) for appointing the tribunal and designate an appointing authority so they do not waste significant time and expense before the arbitration has really begun. The parties may also wish to choose set rules designed for ad hoc arbitration, such as the UNCITRAL Arbitration Rules.

If the parties opt for institutional arbitration, there are many reputable institutions that the parties should consider based on the needs of the arbitration. Those institutions include, but are not limited to: the International Chamber of Commerce (ICC); the American Arbitration Association (AAA) or the International Centre for Dispute Resolution (ICDR); the London Court of International Arbitration (LCIA); the Swiss Chambers' Arbitration Institution; the Singapore International Arbitration Centre (SIAC); and the Hong Kong International Arbitration Centre (HKIAC).

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27 Some collaboration and development agreements, for instance, contemplate the possibility of future royalty-bearing licences upon the occurrence of certain events and use a form of 'baseball arbitration' as a vehicle to move forward in the event the parties cannot agree on the terms. The arbitrator's remit is to select the term sheet for the deal based on pre-agreed parameters, such as comparable market terms, scope, state of development and similar.

28 The ICDR and the ICC were among the first institutions to establish such a procedure, quickly followed by the LCIA (Art. 9B), WIPO (Art. 49), the Swiss Chambers' Arbitration Institution; (Art. 43), JAMS (Art. 2), SIAC (Rule 30) and the HKIAC (Art. 23).

In selecting an institution, one factor the parties may wish to consider is whether the institution has developed rules with an IP dispute in mind. The World Intellectual Property Organization (WIPO) and the AAA stand out in this regard. WIPO specialises in IP and technology disputes (although the scope of disputes that are submitted to WIPO is broader). Its arbitration rules include a number of provisions focused on the taking of evidence and proofs in IP disputes (such as requiring parties to conduct tests and experiments, ordering site visits and permitting the tribunal to request technical primers, drawings and models).<sup>29</sup> The WIPO Rules also incorporate comprehensive confidentiality protections that go beyond the existence of the arbitration proceedings to include disclosures made during the arbitration and the award.<sup>30</sup> The WIPO Rules further provide a wide and inclusive definition of ‘confidential information’.<sup>31</sup>

The AAA has promulgated the Supplementary Rules for the Resolution of Patent Disputes (the AAA Patent Arbitration Rules), which adopt specialised procedures, including elements more typically featured in US federal patent proceedings. In particular, the AAA Patent Arbitration Rules recommend a framework of sequential steps, beginning with the disclosure of the patent infringement contentions and extending to the disclosure of the preliminary patent invalidity claims, the production of technical documents and the progressive shaping of each party’s ‘claim construction’, culminating in a claim construction hearing before the arbitrators.<sup>32</sup>

### The number and qualifications of arbitrators

If the parties have chosen institutional arbitration, the institutional rules will provide a default approach to the number of arbitrators and their method of appointment.<sup>33</sup> The approach differs across institutions, and parties should familiarise themselves with the relevant provisions in the rules they have selected when drafting their arbitration clauses. If the parties have chosen ad hoc arbitration, there may or may not be a default mechanism; this will depend on whether the parties have adopted a set of rules and what those rules provide.<sup>34</sup>

In practice, most parties prefer to specify the number of arbitrators and the method of appointment. Parties that choose a sole arbitrator usually do so because they believe the arbitration will be more efficient and less costly. These benefits primarily come from a reduction in arbitrators’ fees (one versus three) and the efficiency gains associated with a single decision maker. For instance, scheduling hearings may be easier because there are fewer potential conflicts. Parties that choose three arbitrators often do so because they see value in being able to select their own arbitrator. They also believe a three-person tribunal

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29 WIPO Arbitration Rules, Arts. 51–53.

30 *id.*, Arts. 75–78.

31 Article 542 of the WIPO Arbitration Rules defines confidential information as ‘any information, regardless of the medium in which it is expressed, which is: (1) in the possession of a party; (2) not accessible to the public; (3) of commercial, financial or industrial significance; and (4) treated as confidential by the party possessing it’.

32 See e.g., AAA Patent Arbitration Rules, Rule 3.

33 See e.g., ICC Arbitration Rules, Art. 12; WIPO Arbitration Rules, Art. 14; LCIA Arbitration Rules, Art. 5; ICDR Arbitration Rules, Arts. 11–12; SIAC Arbitration Rules, Rule 9; HKIAC Arbitration Rules, Art. 6; Swiss Arbitration Rules, Art. 6.

34 See e.g., UNCITRAL Arbitration Rules, Arts. 7–10.

enhances the decisional process, with the idea being that three arbitrators are less prone to errors of law or fact. Because there is generally no right of appeal in arbitration, this is important, especially for complex or high-stakes disputes. Both perspectives have merit.

At the clause drafting stage, it can be difficult to predict what kinds of disputes are likely to arise. Consequently, parties may want to adopt a more flexible approach towards the constitution of the tribunal. For instance, they could agree that lower value (e.g., less than US\$5 million)<sup>35</sup> or specific types of disputes shall be resolved by a sole arbitrator,<sup>36</sup> while all other disputes shall be decided by a three-member tribunal.

Whether they opt for a sole arbitrator or a three-member panel (or some combination thereof), the parties should specify how the arbitrators will be appointed. For three-member tribunals, a common method is for each side to select an arbitrator and for the third (or presiding arbitrator) to be selected by agreement of the parties or appointed by the institution administering the arbitration.

Parties should also consider what happens if one party fails to select its arbitrator in a timely manner or the parties are unable to agree on the sole or presiding arbitrator. If the parties have agreed to institutional arbitration, this prospect is likely addressed in the associated rules, and they do not need to do anything further.<sup>37</sup> For ad hoc arbitrations, parties should consider as a best practice naming a third-party institution to act as the appointing authority.<sup>38</sup> Otherwise, they will have to rely on provisions of the *lex arbitri*, which usually provides for the appointment to be made by a competent national court.

Another point to consider is the qualifications of the potential arbitrators. For many parties, one of the benefits of arbitration is the ability to choose decision makers who have technical or legal expertise in specific areas. This can be especially important in IP agreements because the disputes are often technically complex. If this is important to a given transaction, parties may wish to consider including criteria or qualifications for the arbitrators in the arbitration clause.<sup>39</sup>

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35 Lower-value disputes may also qualify for expedited or fast-track procedures. See e.g., ICC Expedited Procedural Rules; ICDR International Expedited Procedures; SIAC Arbitration Rules, Rule 5(1); Swiss Arbitration Rules, Art. 42(2); HKIAC Arbitration Rules, Art. 42. Again, institutions differ on whether the expedited procedures that apply should be default or opt-in, and the amount in dispute as the trigger.

36 Where the clause is silent on the number of arbitrators, most institutional rules default to a sole arbitrator unless the amount in dispute or the complexity of the case warrants otherwise. See e.g., ICC Arbitration Rules, Art. 12(2); LCIA Arbitration Rules, Art. 5(8); SIAC Arbitration Rules, Rule 9(1); WIPO Arbitration Rules, Art. 14(b); ICDR Arbitration Rules, Art. 11; Swiss Arbitration Rules, Art. 6(2).

37 See e.g., ICC Arbitration Rules, Art. 12; WIPO Arbitration Rules, Art. 19; LCIA Arbitration Rules, Art. 5; ICDR Arbitration Rules, Art. 12; SIAC Arbitration Rules, Rules 10–11; HKIAC Arbitration Rules, Arts. 7–8; Swiss Arbitration Rules, Arts. 7–8.

38 For example, the ICC recommends that parties that wish to designate the ICC as an appointing authority for their ad hoc proceedings include the following language in their arbitration agreement: 'The International Chamber of Commerce ("ICC") shall act as appointing authority in accordance with the Rules of ICC as Appointing Authority in UNCITRAL or Other Arbitration Proceedings.' Rules of ICC as Appointing Authority (2018), Suggested Wording.

39 As the parties weigh the pros and cons of arbitrator qualifications, it should be recalled that avenues exist within the arbitration to ensure arbitrators become educated on any technical issues in dispute. For instance, parties are free to present expert evidence, and most institutional rules permit arbitrators to appoint experts to assist them in the proceedings.



In so doing, parties should be careful not to draw these qualifications too narrowly at the risk of limiting the pool of available candidates or even eliminating arbitrators who otherwise have the right experience, background or knowledge to resolve the dispute. The more specific the qualifications, the higher the risk, particularly in smaller industries where the only arbitrators meeting the criteria may have conflicts or limited availability. In addition, experience may not always be a good thing. For example, based on his or her experience, an arbitrator may hold entrenched views that do not align with a party's case theory or that otherwise may be difficult to overcome.

Furthermore, the scope of arbitration clauses usually encompasses all disputes arising out of or relating to the agreement, not solely technical disputes. It may be difficult to anticipate what experience and qualifications will ultimately best serve the parties' interests. Another approach is to provide that the qualifications apply only if certain issues are in dispute. For example, the parties could state that the arbitrators shall have 15 years of experience in patent prosecution if the dispute concerns patent infringement or patent invalidity. For parties considering this approach, one difficulty is how it plays out in practice, as one or more arbitrators may be appointed before the full contours of the dispute are known.

Where parties have decided to include arbitrator qualifications, they should take steps to minimise the risk of delays in the constitution of the tribunal or challenges after the fact based on whether an arbitrator satisfies the criteria. The qualifications should be clearly stated, broad and, as much as possible, objective. In addition, the arbitration clause should provide a 'sunset' date from the nomination of the arbitrator, after which time the arbitrator will be deemed to have met any qualifications to both parties' satisfaction.

Another option for parties that believe it is important to select arbitrators with technical expertise is to choose institutional rules with a dedicated arbitrator list for IP disputes, such as those of WIPO, JAMS, SIAC, the HKIAC, the LCIA or the ICDR, and to agree to select arbitrators from that list. The Silicon Valley Arbitration and Mediation Center also maintains a peer-vetted 'Tech List' of arbitrators and mediators with expertise in the technology sector and specific industry focuses.

### Interim relief and equitable relief

Parties to an IP agreement often have a critical interest in ensuring they can obtain interim and injunctive relief, as it may be instrumental to preventing a breach of a non-disclosure agreement, preserving a trade secret, enjoining patent infringement or removing infringing goods from the market, among other things.

Most arbitration rules address interim relief.<sup>40</sup> They usually empower arbitrators to grant provisional measures, and most rules now provide some form of emergency arbitration. Emergency arbitration permits the parties to obtain such relief on an expedited basis before the constitution of the tribunal. In general terms, it involves the prompt appointment of an arbitrator (within a couple of days of the request) and a decision to be made within a set number of days or weeks. The enforceability of the decision will depend on the place where enforcement is sought, as well as the rules governing the procedure.

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<sup>40</sup> See, e.g., ICC Arbitration Rules, Art. 28; LCIA Arbitration Rules, Art. 25; WIPO Arbitration Rules, Art. 48; SIAC Arbitration Rules, Rule 30; HKIAC Arbitration Rules, Art. 23; Swiss Arbitration Rules, Art. 26; ICDR Arbitration Rules, Art. 24; UNCITRAL Arbitration Rules, Art. 26.

Because interim relief may not always be effective or available in arbitration, parties will usually want to retain the right to go before the national courts of competent jurisdiction. Again, virtually all institutional rules permit the parties to seek interim relief in the national courts without waiving their right to arbitrate. Parties should keep in mind, however, that some rules take a more restrictive approach after the tribunal is formed.<sup>41</sup> Consequently, if parties wish to ensure they retain the unfettered right to seek interim relief from the courts at any point during the arbitration, they should make this explicit in the arbitration agreement. They may also wish to provide for the non-exclusive consent to jurisdiction in specified courts for interim and provisional remedies.

In addition, parties will sometimes seek to carve out equitable relief from the arbitration, particularly for alleged breaches of confidentiality or non-compete provisions. As a rule, carve-out provisions based on remedy should be approached with caution. Parties should balance the perceived benefits of the carve-out against the risk that it will lead to parallel proceedings (and correspondingly to increased costs and delays in resolution of the merits). For example, parties could find themselves simultaneously arbitrating one set of claims where the remedies and relief sought are contractual and litigating a set of related claims where the remedies sought are equitable. These clauses can also be prone to abuse; a party that prefers to avoid arbitration, for example, can use the carve-out to disrupt proceedings or otherwise gain procedural advantage.

## Confidentiality

In IP disputes, where highly sensitive commercial information is frequently at issue and even the existence of a dispute can have important commercial consequences, confidentiality may be a paramount concern. However, parties cannot assume that their proceedings will be confidential solely because they have chosen to arbitrate. This is because national laws and courts differ in the degree to which arbitrations will be treated as confidential.

In addition, arbitral institutions take varied approaches to confidentiality. Some rules include an express duty of confidentiality that extends both to the parties and the arbitrators.<sup>42</sup> As noted above, the WIPO Arbitration Rules go further, and include the existence of the arbitration, information disclosed during the arbitration and the award.<sup>43</sup> Others, such as the ICDR Arbitration Rules and the ICC Arbitration Rules, go in the opposite direction and provide relatively limited or almost no confidentiality protections.<sup>44</sup>

Consequently, where confidentiality is important to the parties, the best practice is to address it explicitly in the arbitration agreement itself (especially where the institutional rules are less protective). In so doing, parties should be cognisant that even if they have agreed to keep the arbitration confidential, the award may become public as part of an

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<sup>41</sup> See, e.g., LCIA Arbitration Rules, Art. 25.3 and SIAC Arbitration Rules, Rule 30.3.

<sup>42</sup> See, e.g., LCIA Arbitration Rules, Art. 30; Swiss Arbitration Rules, Art. 44; HKIAC Arbitration Rules, Art. 45; SIAC Arbitration Rules, Rule 39.

<sup>43</sup> WIPO Arbitration Rules, Arts. 75–78.

<sup>44</sup> ICDR Arbitration Rules, Art. 37 (confidentiality limited to the arbitrators and administrator with the tribunal empowered to make confidentiality orders); ICC Arbitration Rules, Art. 22(3) (arbitrators empowered to make confidentiality orders at the request of a party).

action to recognise and enforce it (or to set it aside).<sup>45</sup> Accordingly, where confidentiality is a primary concern, parties may wish to include language requiring the tribunal to issue a public version of the award that either redacts or does not include information they have previously identified as highly sensitive or confidential.<sup>46</sup> At the same time, parties should also consider what exceptions to confidentiality are required, such as disclosure to comply with a legal obligation, to enforce or to challenge an award or to obtain interim relief.

## **Conclusion**

Arbitration presents a number of advantages for the resolution of IP disputes, including efficiency, neutrality, flexibility, expertise and enforceability. But as shown by the discussion above, there is no one-size-fits-all approach and no substitute for thinking ahead and careful drafting of the arbitration agreement. Pathological arbitration clauses may at best cause delays and increase costs, and at worst be ineffective or result in an unenforceable arbitral award.

In most cases, parties will be better positioned if they start with the model clauses of the leading arbitral institutions and consider using rules that have been developed with IP disputes in mind (such as the WIPO Arbitration Rules). Parties will also be well served to avoid recycling dispute resolution clauses from one agreement to the next and consider: the scope of the arbitration agreement and the need and scope of carve-outs (if any); the seat of the arbitration; the laws governing the contract, the IP rights and the arbitration agreement; the availability of interim relief; and confidentiality.

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45 In some jurisdictions, parties may also be required to register the final award under the applicable IP law for it to be enforceable. In the United States, for instance, an award resolving a dispute relating to patent validity or infringement is not enforceable unless it is registered with the US Patent and Trademark Office. 35 USC Section 294(d)–(e).

46 In this respect, note that the ICC recently adopted the position that all ICC awards made from 1 January 2019 onwards may be published no less than two years after their notification unless the parties opt out. Prior to an award's publication, any party may object or require that the award be anonymised. Further, where a confidentiality agreement covers certain aspects of the arbitration or the award, the ICC will only publish the award with the parties' specific consent. ICC, Note to Parties and Arbitral Tribunals on the Conduct of Arbitration Under the ICC Rules of Arbitration (1 January 2019), Paras. 41–44.

# Part II

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Considerations Once a Dispute Has Arisen

# 4

## Strategic Considerations Once a Dispute Has Arisen

**Michael Nolan, Christopher J Gaspar, Nathaniel T Browand and Kamel Aitelaj<sup>1</sup>**

This chapter begins by exploring the somewhat unusual backdrop against which parties to IP disputes find themselves in arbitration rather than national courts or administrative bodies for intellectual property. We then explore a wide range of strategic considerations as the arbitration unfolds and progresses. Finally, we touch on potential roles of non-party funders in IP arbitrations, given the increasing prominence of such arrangements in IP disputes more generally.

### The context

Most IP disputes are between parties not in contractual privity. The owner or licensee of IP rights – the usual petitioner – will often be a competitor of its litigation opponent, or even an entity entirely unknown to the counterparty before the dispute begins. The rights owner itself is often an entity created for the purpose of litigation relatively soon before the dispute formally ensues.<sup>2</sup>

What types of IP disputes are resolved in arbitration?

IP arbitrations often concern a failed licensing arrangement, or one where the scope of permitted uses becomes disputed. The contracting parties may be collaborators in technology development. They may be sharing risk in a venture to commercialise intellectual property and products embodying the intellectual property. They may be at different vertical levels of a production and distribution chain.

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2 <https://law.stanford.edu/publications/whos-suing-us-decoding-patent-plaintiffs-since-2000-with-the-stanford-npe-litigation-dataset/>.

Regardless of the reason for the licence, questions about breach of an IP licence often quickly entangle themselves with questions about infringement. If a licensee has exceeded the scope of its licence, or otherwise breached the licence, it may be the case that it has relatively fewer (if any) tort-law defences to infringement claims. Meanwhile, infringement damages may exceed monetary relief for contract breach.

The next section discusses strategies when litigating IP claims along with commercial issues more typically found in arbitration (e.g., contract interpretation, breach and remedy).

## **Strategies**

### Preparing to bring or to defend against an IP claim in arbitration

Information exchange and discovery in an IP arbitration are likely to be substantially more limited than in IP cases litigated in a court, at least in the United States or some other common law countries. Whether bringing or defending against an IP claim in arbitration, care must be taken to understand the limitations on the extent and types of information exchange that will become available. Marshalling evidence before the proceeding begins is key.

When litigating in national courts or administrative bodies, parties to IP litigation in many jurisdictions typically participate in at least a modest degree of document exchange and perhaps other discovery. In the United States, discovery in an IP case is often extensive<sup>3</sup> and, particularly in complex cases, can last for years. The types of disclosures may include things as simple and available as documents describing the IP right (a patent, a copyright registration, etc.) to items as secret as source code for software accused of infringement or trade secret product designs. A patent is a publicly available document. But a licensor would, in rare cases, have access to details about a licensee's complex product, thus presenting the potential problem of information imbalance absent discovery. Where the IP claim in arbitration is not brought by the IP rights holder (e.g., a licensee seeking declaratory relief about the extent of permitted uses), the need for discovery from the IP rights holder may be reduced.

The methods of discovery in IP cases, particularly in US courts, often includes document exchange, written interrogatories, requests for admissions, and depositions of fact and expert witnesses regardless of whether they may testify at trial. And most federal courts in the United States now require litigants in patent cases to make a standard set of disclosures.<sup>4</sup> A patent owner typically must provide detailed contentions explaining how or where each aspect of an asserted patent claim is found in an accused product or process, and do so very early in the case. Shortly thereafter, an accused infringer discloses in detail the bases for any challenge to the validity or enforceability of the patent. In trade secret cases, the claimant often must identify the trade secret with particularity early in the case. These contentions often are prepared with the assistance of technology experts and can be quite voluminous.

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<sup>3</sup> cf. Fed.R.Civ.P.26-37.

<sup>4</sup> See, e.g., [https://www.nysd.uscourts.gov/sites/default/files/pdf/Standing\\_Order\\_In\\_re\\_Local\\_Patent\\_Rules.pdf](https://www.nysd.uscourts.gov/sites/default/files/pdf/Standing_Order_In_re_Local_Patent_Rules.pdf) (Local Patent Rules for the US District Court for the Southern District of New York).

They often guide the court and parties when disputes about the scope of discovery or trial arise. For example, they delineate which IP rights are asserted (and not asserted) and which products or services are deemed infringements.

A party interested in a particular mode and extent of discovery in arbitration must plan ahead and either secure the opponent's agreement to the procedure or obtain the tribunal's permission to include it. But because neither is guaranteed, it is usually prudent to:

- put your opponent on notice of evidence known to exist,<sup>5</sup> that such evidence must be preserved and that specific witnesses<sup>6</sup> (even if known only by function within an organisation) should be prepared to testify;
- collect and preserve evidence from relevant and cooperative third-party witnesses, of which there often are many in an IP dispute;<sup>7</sup>
- canvass your client for as much relevant information as reasonably accessible, particularly about your adversary; and
- retain experts on all relevant issues including, for example, infringement, patent invalidity, trademark secondary-meaning and likelihood-of-confusion surveys, damages theories, governing IP law, governing IP practice and procedure, and marketing customs.

If the intent is to have a more traditional US-style discovery procedure for IP disputes (particularly over patents), one should determine whether to exclude applicability of the IBA Rules on the Taking of Evidence in International Arbitration.<sup>8</sup> It has indeed become common practice for arbitral tribunals and parties to default to the IBA Rules with respect to evidentiary matters (whether by express reference in the arbitration clause contained in the underlying agreement or during the negotiations of the procedural ground rules for the arbitration proceedings).

### Constructing a tribunal

In IP licences or transfer agreements (e.g., an asset-purchase agreement) between unrelated parties, the arbitration clause often specifies attributes the tribunal must possess. Such attributes may include the number of members of the tribunal, certain subject-matter expertise or a panel from which the tribunal must be selected. Besides the World Intellectual Property Organization, more and more arbitral institutions have dedicated panels of IP arbitrators – for example, JAMS and the Hong Kong International Arbitration Centre. In such cases, there are fewer strategic considerations when constructing a tribunal.

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5 As noted above, IP arbitrations – unlike most IP disputes – often concern parties that know quite a lot about one another, and about the subject matter of the dispute.

6 Although it may be impractical to seek a subpoena in aid of arbitration, it is possible under most arbitral rules to request the tribunal's intervention in inviting a particular party-controlled witness to appear, failing which adverse inferences might be drawn.

7 Relevant third parties may include, e.g., a company that sold a product similar to a patented product, except earlier in time; a former employee of a company who designed a product accused of infringement; a former employee of a company who worked with the inventions but whose name does not appear on the patent.

8 [www.ibanet.org](http://www.ibanet.org).

When the agreement presents more flexibility, the parties should carefully consider a fundamental question: is the IP dispute sufficiently different from other complex disputes to require, for example, technologically experienced, industry-specific or IP-law trained arbitrators?

Biotechnology, genetics, semiconductor fabrication, chemistry for energy, optical networks, human disease treatment and many other technologies that are the subject of today's IP agreements may not immediately seem subjects accessible to a broad range of neutrals – whether arbitrators or not. Similarly, the nuances, customs, practices, judicial decisions and ever-changing statutes that define a particular body of IP laws often requires time and context before a neutral fully understands the rules of practice.

All this said, material risks may come with a tribunal having one or more specialised members. For example, will one specialised member among a tribunal of others without similar expertise be forced to play a different role than the others? Will the specialised member have the expertise on the subject matter or legal issue presented by the IP dispute, or will incomplete or irrelevant expertise be brought to bear? Will a specialised member be sufficiently versed in matters unique to international arbitration to participate fully within a tribunal that includes arbitration specialists who generally are not as tied to a particular technology, industry or body of IP law? And which party (if any) benefits? Care should be taken not to overlook the great many strategic considerations that come with tribunal selection, or to conclude reflexively that one or more specialists are required.

### Litigating in multiple jurisdictions

IP disputes, particularly concerning patents or brands, may be litigated in multiple jurisdictions. For example, patents on the same invention may be issued in several countries with mature markets for a covered product. Trademarks on the same logo, word or phrase can be registered in most countries where the brand is used. It is not uncommon for an IP rights owner to seek to enforce assets against a particular counterparty in multiple important jurisdictions.<sup>9</sup> And IP disputes can often be brought, properly, against a variety of counterparties<sup>10</sup> (entities or individuals who may not be in privity with the parties to the contract electing arbitration).

When defending against an IP claim, potential infringers challenging the validity or enforceability of an IP asset have recourse to post-grant proceedings in many IP offices worldwide. The validity of patents can be challenged in administrative proceedings<sup>11</sup> and

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9 e.g., Albanesius, Chloe (September 14, 2011), 'Every Place Samsung and Apple Are Suing Each Other' (<https://www.pc-mag.com/article2/0,2817,2392920,00.asp>). PC Magazine. Ziff Davis. Retrieved August 11, 2012.

10 e.g., 35 U.S.C. § 284 ('whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent'). Many levels of a distributions chain, including end users and consumers, may fall within this statutory definition.

11 e.g., 35 U.S.C. § 311 (inter partes review); 35 U.S.C. § 324 (post-grant review); 35 U.S.C. § 302 (ex parte reexamination).



the enforceability of trademarks can also be litigated in national IP offices.<sup>12</sup> Some of these proceedings permit discovery. Rarely do arbitration clauses expressly forbid such administrative challenges.

These example scenarios present an opportunity for parallel litigation that may: (1) impact the arbitration; (2) end before the arbitration, giving rise to arguments that IP rights at issue in an arbitration have been terminated or solidified; and (3) involve information exchange that is different from the arbitration. There is also the potential for proliferation of procedural issues in the arbitration itself if there is disagreement as to the scope of the consent to arbitrate (e.g., whether the arbitration clause in a licence agreement binds entities related to or in privity with the licensee).

The differences in disclosure and timing raise a host of strategic considerations and typically the need for centralised or coordinated decision-making by each counterparty to the dispute in addition to the need for venue-specific expertise.

### The initial procedural conference with the tribunal

If the arbitration clause does not require IP-trained arbitrators (see below), which frequently is the case, then a reasonable portion of the initial conference should be devoted to educating the tribunal about how the particular IP claim would be litigated if pending in the relevant national court or administrative body. Of course, the tribunal is not required to apply or accept this context. But if the parties are aligned about particular nuances of local IP litigation practices, now may be the time to determine and memorialise this. The initial conference should be a relatively safe vehicle in which to hold these conversations even if they have not been discussed between the parties beforehand. For example, in most jurisdictions, the words of a patent's 'claims' – numbered paragraphs found at the end of the legal document – define the metes and bounds of the invention and, thus, the scope of the patent owner's right to exclude. Like contracts, the words of those patent claims often require interpretation. In the United States, where juries often decide the question of infringement when an IP dispute is pending in a district court, it is the judge, not jury, who issues an order binding the parties and jury to apply a specific interpretation of the words of a patent's claim.<sup>13</sup> It may be that the parties prefer the tribunal to issue interim guidance on this issue at a relatively early stage of the arbitration.

It is also common in IP litigation to bifurcate individual issues such as liability and remedy, wilful or intentional infringement, invalidity or inoperability of the intellectual property, and so on. Staging an IP dispute with ordered and incremental pre-award guidance from the tribunal is often perceived to favour an accused infringer because of (1) the potential for termination of the proceedings before evidence on all issues is presented, (2) the possible need for the IP rights holder to prevail on all or most interim issues to maintain its IP claim and (3) the risk of delay. But staging of some sort is worth serious consideration by both sides of the dispute before the initial conference. The benefits of staging do not all favour the accused infringer.

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<sup>12</sup> e.g., 15 U.S.C. § 1064 (trademark cancellation).

<sup>13</sup> *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996) (judges, rather than juries, are responsible for determining the meaning of the words in patent claims).

The initial conference also affords an opportunity to learn an opponent's general strategy for case presentation. IP litigation typically requires expert testimony on a broad range of issues, related to both liability and remedy. A patent infringement trial may include testimony from a technology expert to opine about infringement *vel non*, a source-code expert to explain how the accused product works, a survey expert to explain what drives demand for the product, an economist to explain the damages theory, and so on. Arbitration of IP claims raises the additional possibility of expert testimony on the scope and application of IP laws. It is common in many jurisdictions not to permit expert testimony on the scope and application of local law. But in arbitration, the parties or tribunal may invite the opportunity to involve experts on this topic.

Finally, the initial conference is a time to begin educating the tribunal about non-monetary relief that often is the primary remedy pursued in certain types of IP litigation outside of arbitration. A remedy for infringement of most types of IP in most developed legal systems is an injunction or a cessation order. This is not the typical remedy in arbitrations, of course, even though the IP owner may pursue injunctive relief through interim measures under most, if not all, institutional rules. But whether non-monetary relief is awarded or not, a patent owner should consider whether to present it as an alternative when also quantifying a proper damages or other monetary remedy. Put simply, if non-monetary relief is compelled by the governing law, but cannot practically be awarded, a theory for monetary relief perhaps more comprehensive than otherwise likely may be put into reach.

## Settlement

IP disputes tend to offer a great many points during the case at which the parties can reassess risk and consider settlement.<sup>14</sup> In a patent litigation, for example, the judge's interpretation of the words of the patent's claim often causes settlement soon thereafter. In a trademark dispute, the IP owner's disclosure of a survey expert's opinions about the validity of the trademark right typically signals strengths or weaknesses in the claim. Summary determination before trial, on some or all issues, is common in IP cases. And one category of IP cases (lower exposure) may settle very early in the formal proceedings once the parties have exchanged the initial round of contentions so that both the IP right at issue and the accused item are better understood.

To open opportunities to settle, and potentially minimise costs, one or more parties to the arbitration may suggest staging the proceedings. It is indeed common in traditional commercial arbitration to bifurcate or even trifurcate the proceedings by distinguishing jurisdictional issues, the merits of the case and an evaluation of monetary relief. IP arbitration may be structured with these points of risk reassessment in mind (e.g., a claim construction phase) followed by a phase where patent infringement and invalidity claims are heard, followed by a damage assessment phase. The parties are likely to have less flexibility to settle once an award exists. But careful consideration of whether and how to stage interim guidance from a tribunal can support a parallel settlement process.

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<sup>14</sup> For parties used to litigating in US courts and administrative bodies, arbitration presents an often material additional risk: legal fees awarded to the prevailing party.

## **Funding**

It is common for litigation funders to support an IP owner's programme to monetise the asset pool via litigation in national courts. Patent infringement litigation, particularly in US district courts, is a prime example. Enforcing copyrights on music libraries is another.

There are a great many ways in which a funding arrangement may be structured. A simple example contemplates the following: a funder offers monetary support to the IP owner (or perhaps its counsel) for some or all litigation expenses in exchange for a return of that capital and an investor's premium if the campaign succeeds in producing revenue from accused infringers. Two criteria often impact the funding arrangement. First, the flexibility, size and internal interdependence of the pool of asserted IP claims. Second, the number and scale of potential infringers.

With regard to the first criterion, funded IP monetisation programmes often involve the assertion of a relatively flexible portfolio of IP with numerous assets that can succeed or fail independently of one another. A large portfolio of patents may cover various but materially different aspects of a product line. Each patent may cover a different component of the product. If litigation reveals that a subset of the patent portfolio is unenforceable or does not cover the accused product, the remaining subsets of the portfolio would be unaffected and a request for a substantial monetary award could persist.<sup>15</sup> The fact that such a dispute is decided via arbitration rather than a national court should not, in most cases, look unattractive to potential funders. That said, some national courts may present more flexibility to assert additional or different IP assets as the proceedings unfold. In an IP arbitration, the accused infringer would presumably try to include procedural safeguards (in the terms of reference, if applicable, or other initial procedural orders) to minimise this type of IP asset substitution as the arbitration progresses.

With regard to the second criterion, funded IP monetisation programmes that implicate multiple unrelated companies as respondents are potentially more attractive to funders than a single-respondent model. An IP monetisation programme in a national court may present more opportunity to pursue multiple unrelated counterparties than in an arbitration, where the disputes are typically between two parties in contractual privity before the IP dispute arose. The structural reality of arbitration – a bilateral dispute between parties known to one another and in contractual privity with one another beforehand – is unlike many funded IP disputes in national courts. Query, however, whether the pre-existing relationship between the IP rights holder and alleged infringer in an IP arbitration might be an attractive feature for litigation funders, particularly where an established revenue stream or valuable asset already exists and substantial licensing fees or other bases for large monetary awards present themselves.

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15 Monetary relief for patent infringement is often linked to sales revenues of the infringing product, with some attention paid to the relative importance of the infringed technology to the product's sales or expected success in the marketplace. cf. 35 U.S.C. § 284 ('Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.').

If funding before or during an arbitration is not the right fit, a very different calculus and opportunity presents itself after a successful arbitration. Once an award exists, challenges to enforceability may persist for months or years.<sup>16</sup> During this time, funders present the award winner a means to de-risk potential losses and provide access to a percentage of the award more quickly. Award winners with nascent product lines (e.g., clinical-stage pharmaceuticals or biotechnology companies) may be particularly interested in mechanisms to extract themselves from award-enforcement litigation and to enjoy an amount of cash soon after the award issues.

The funding requirements and offerings for IP disputes have developed quickly during the past decade and continue to evolve rapidly. In addition to the monetary implications of such arrangements, parties in arbitration about IP considering funding should consider how much influence (if any) a funder may wish to exert in the proceedings, as many such funders have by now become subject-matter experts in the types of assets in which they invest.

## Conclusion

This chapter highlights a small number of the great many opportunities for strategic decision-making presented before, during and after an arbitration of IP disputes. Strategies bespoke to the specific type of IP at issue – patents, trade secrets, copyrights, trademarks, data rights, a combination of the foregoing, etc. – are beyond the scope of this chapter, but present an equally rich body of opportunity for each side of a dispute. Parties to an IP arbitration also must take into account the many nuances of IP law provided by the applicable law and practice governing the arbitration. That said, arbitration presents an excellent means for resolving IP disputes and, in important ways, affords the parties opportunities not traditionally available in national courts or administrative proceedings.

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<sup>16</sup> Non-enforcement is the very unusual exception to the rule that arbitration awards are enforced by national courts. See, e.g., *Bayer Cropscience AG v. Dow Agrosciences LLC*, 680 Fed.Appx. 985, 992 (Fed. Cir. 2017) (‘Judicial review of the arbitral award at issue here is very limited even if, as we assume for present purposes, the standards governing both international and domestic arbitration apply. In numerous ways, the relevant federal statutes and precedents make clear that ordinary legal or factual error is not a ground for disturbing an arbitral award like the one at issue here.’). Indeed, post-award proceedings in IP arbitration are rare. *id.*, at 991 (‘We are unaware of any instance in which the regional circuits have decided an appeal involving the confirmation or vacatur of an arbitral award for patent infringement.’).

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## Confidentiality in International IP Arbitration

**Robert Wachter, Grace Yoon and Han Ah Lee<sup>1</sup>**

### Introduction

A common misunderstanding persists among many arbitration users that selecting arbitration as a dispute resolution mechanism automatically means that the proceedings will remain confidential. However, that is not the case. Although some legal systems provide that arbitration proceedings are confidential, this is not a universal rule. Even in those legal systems that provide for confidentiality as a general rule, there are many exceptions. In addition, there are practical limits on enforcement mechanisms even when confidentiality applies.

As with the various approaches among legal systems, not all institutional arbitration rules provide that the proceedings shall remain confidential. Even when rules stipulate that the proceedings shall be confidential, most rules fail to provide adequate assurance that all materials exchanged during the course of the arbitration shall remain confidential after the conclusion of the case. By themselves, arbitration rules also fail to provide for an effective enforcement mechanism after the arbitral tribunal's mandate ends.

For all of these reasons, parties and counsel involved in IP-related arbitrations need to be proactive in cases where maintaining confidentiality is particularly important. This chapter explains how different jurisdictions and institutional rules address the question of confidentiality, and also suggests how users might supplement these provisions to create more robust and effective confidentiality protections in IP arbitrations.

At the outset, it is necessary to be clear about terminology, particularly the difference between privacy and confidentiality in the context of international arbitration. By definition, arbitration is a private dispute resolution regime. Hearings are not open to the public in the same way that court proceedings are often open to the public. In principle, only the parties to the proceedings have the right to be present at the hearing or to receive copies

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<sup>1</sup> Robert Wachter is a partner, and Grace Yoon and Han Ah Lee are associates at Lee & Ko.

of the communications and submissions. Yet the private nature of arbitration does not necessarily mean that parties have an obligation to maintain confidentiality of the existence of the arbitration itself, the submissions in the arbitration, the materials submitted into evidence or other documents that the parties exchange during document production. Privacy does not necessarily imply that parties are precluded from disclosing facts about the arbitration or using materials exchanged during the arbitration for other purposes. Rather, the privacy of the proceedings limits who is entitled to be present and to participate in the proceedings while the arbitration is pending, but it does not regulate activities outside of the proceedings.<sup>2</sup>

In contrast, the question of confidentiality generally concerns whether and under what circumstances a party or participant in an arbitration may be bound by an affirmative duty not to disclose information related to the arbitration. Broadly speaking, there are two categories of circumstances where the issue may arise. The first is where a party wishes to make a disclosure or actually makes a disclosure, whether voluntarily or inadvertently. Here, the question is whether the disclosure gives rise to a cause of action. Where disclosure has not yet been made, but only threatened, the party wishing to maintain confidentiality may wish to seek injunctive relief. In the case where the disclosure has already been made, a party may wish to seek damages.

A second category arises where a party or participant does not wish to disclose certain information, but might nevertheless be bound by a competing legal obligation to do so. For example, a party to an arbitration may have an obligation to make disclosures to its regulator. Or a third party in an unrelated litigation proceeding might request discovery of confidential materials that a party came to possess because of an arbitration. Or a governmental entity might request documents or other information as part of an investigation. In these circumstances, the question is whether a duty of confidentiality overrides a competing duty to disclose, and whether it is possible to invoke confidentiality to resist or limit the scope of disclosure.<sup>3</sup>

Sometimes the confidentiality provisions in the underlying contract will be drafted broadly enough to include the confidentiality of the arbitration proceedings. Sometimes parties separately address confidentiality in the arbitration agreement. Many times commercial parties are prepared to agree, at the time when they make their contract, that they will maintain confidentiality in the event of a future dispute. But far more often than not, they fail to draft the arbitration agreement with this level of particularity.

In ICC arbitration proceedings, arbitral tribunals will sometimes invite parties to consider inserting a confidentiality clause in the terms of reference.<sup>4</sup> Signing terms of reference with a confidentiality clause might be regarded as creating a new and independent contractual obligation if there was no such undertaking in the underlying contract. But parties are under no obligation to agree on confidentiality after a dispute arises, and in many cases,

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2 See Young Seok Lee & Robert Wachter, Confidentiality in International Arbitration: Including a Korean Law Perspective, *Dong-A Journal of IBT Law* Vol. 1:2 (2010), pp. 65–66.

3 See Michael Hwang SC & Katie Chung, Defining the Indefinable: Practical Problems of Confidentiality in Arbitration, 26(5) *Journal of International Arbitration* (2009), Paras. 15–26.

4 See Nicholas Lingard & Smitha Menon, Confidentiality in International Arbitration: A Comparative Jurisdictional and Institutional Review, *Singapore Arbitration Journal* (May 2020), Paras. 42–43.

after the dispute arises, one of the parties might perceive that a stringent confidentiality undertaking is not in its best interests and therefore might be reluctant to agree to include a confidentiality clause in the terms of reference.

Sometimes the parties' interests are aligned on this matter, but not always. There are many reasons why one of the parties might prefer more flexibility or might even suggest that there should be no confidentiality obligation at all. For example, one party might perceive that publicity about a dispute would increase pressure on the other party to reach a quick settlement, and may wish to disclose the existence of a dispute and at least some information about the claims and defences. Or a party may conclude that in some circumstances there may be a strong public interest for disclosure, even of a dispute between private parties.<sup>5</sup>

Another situation that sometimes arises is a multi-contract, multi-party dispute with back-to-back contracts, such as a licence and sublicense. If the entire dispute cannot be resolved in a single proceeding, the party in the middle position may wish to use documents and evidence that it obtains in the first arbitration in a separate proceeding against a different party. In other multi-party disputes, parties whose interests are aligned may wish to coordinate and share material, but this might not be possible when the parties have agreed on strict confidentiality obligations. In all of these circumstances, an argument can be made that there is nothing unique about arbitration that should impede a party from making disclosures that it would otherwise be entitled to make if the dispute was resolved in the national courts.

Although it is not always possible for the parties to agree on the scope of confidentiality, most legal systems and institutional rules confer powers on tribunals to resolve these disputes as a matter of procedure and to issue orders to maintain confidentiality and to protect confidential information. Sometimes these orders are temporal in nature, and sometimes they are incorporated into the award to ensure that the obligations will continue to bind the parties even after the conclusion of the arbitration.

We now turn to a brief overview of selected legal systems and arbitration rules to consider common features and differences across the arbitration landscape. After completing this survey, we offer suggestions for how parties might utilise and supplement the tools that are available to fashion the degree of confidentiality that is appropriate in a particular case.

## Confidentiality under national arbitration laws

While more than 80 countries have adopted the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration of 1985, whether in whole or in part, with or without the 2006 amendments, the Model Law does not contain any provisions on confidentiality. The UNCITRAL Arbitral Rules appear to recognise an implied duty of privacy of the arbitral proceedings<sup>6</sup>

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5 See Kyriaki Noussia, *Confidentiality in International Commercial Arbitration: A Comparative Analysis of the Position under English, US, German and French Law* (2010), pp. 22–23.

6 UNCITRAL Arbitration Rules, Art. 28(3) ('Hearings shall be held *in camera* unless the parties agree otherwise ...').

and an implied duty of confidentiality regarding the arbitral award,<sup>7</sup> but do not provide for a duty of confidentiality in relation to arbitral proceedings and documents produced therein. The UNCITRAL Notes on Organizing Arbitral Proceedings states that the question of confidentiality is subject to national legislation and that, absent an express agreement on confidentiality, parties ‘cannot assume that all jurisdictions would recognise an implied commitment to confidentiality’.<sup>8</sup>

While a few jurisdictions address the issue of arbitral confidentiality in statutory law, most jurisdictions defer this issue to case law. We briefly survey the national arbitration laws in a sampling of six major jurisdictions – England, Germany, the United States, France, Singapore and Hong Kong.

## England

In England, the Arbitration Act 1996 is silent on the issue of arbitral confidentiality. Nevertheless, English courts have consistently held that there is an implied duty of confidentiality in arbitration.

*Dolling-Baker v. Merrett*<sup>9</sup> is one of the first cases in which the concept of an implied duty of confidentiality was propounded by English courts. In this case, the English Court of Appeal rejected a party’s request for discovery of arbitral documents from a previous arbitration. The court reasoned that there is an implied obligation of confidentiality arising out of ‘the nature of arbitration itself,’<sup>10</sup> which would impose an implied obligation on both parties ‘not to disclose or use for any other purpose any documents prepared for and used in the arbitration’.<sup>11</sup>

In *Hassneh Insurance Co of Israel and Others v. Steuart J Mew*,<sup>12</sup> the plaintiffs requested the court to issue an injunction against the defendant, where the defendant tried to use documents it procured from a previous arbitration between the plaintiffs and the defendant in a separate proceeding. The plaintiffs argued that this would constitute a breach of confidentiality in arbitration. In its decision, the English High Court recognised a duty of confidentiality in arbitration as an implied term in the parties’ agreement to arbitrate. The court derived confidentiality from privacy of the arbitration, reasoning that ‘disclosure to a third party [a note or transcript of the evidence] would be almost equivalent to opening the door of the arbitration room to that third party’.<sup>13</sup>

Similarly in *Ali Shipping Corp v. Shipyard Trogir*,<sup>14</sup> the English Court of Appeal held that an implied duty of confidentiality arises as an essential corollary of the privacy of arbitral proceedings, and that the duty is implied as matter of the law. At the same time, the court

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7 UNCITRAL Arbitration Rules, Art. 34(5) (‘An award may be made public with the consent of all parties or where and to the extent disclosure is required of a party by legal duty, to protect or pursue a legal right or in relation to legal proceedings before a court or other competent authority’).

8 United Nations Commission on International Trade Law, UNCITRAL Notes on Organizing Arbitral Proceedings, p. 13.

9 *Dolling-Baker v. Merrett* [1990] 1 W.L.R. 1205.

10 *id.*, at 1213.

11 *id.*

12 *Hassneh Insurance Co of Israel and Others v. Steuart J Mew* [1993] 2 Lloyd’s Rep. 243.

13 *id.*, at 247.

14 *Ali Shipping Corp v. Shipyard Trogir* [1999] 1 W.L.R. 314.



indicated that general exceptions to the broad rule of confidentiality recognised by English law will also apply to the duty of confidentiality, namely, consent, order of the court, leave of the court, disclosure being reasonably necessary for the protection of the legitimate interests of an arbitrating party and public interest.

It is important to note that arbitral privacy or confidentiality does not always override the principle of open justice. In *City of Moscow v. Bankers Trust*,<sup>15</sup> the English Court of Appeal clarified that while arbitration-related hearings are often held in private, the same rule of privacy does not apply to judgments rendered in relation to those hearings. Judgments should be published if they can be made public without disclosing significantly sensitive or confidential information.

## Germany

In Germany, the arbitration act as codified under the German Code of Civil Procedure does not contain any express provision on confidentiality. Germany defers this issue of confidentiality to the parties' agreement, to be executed separately or to be incorporated through the institutional rules the parties adopt. In this regard, the Arbitration Rules of the German Arbitration Institute expressly provides for a strict arbitral confidentiality: Article 44 of the Rules provides that unless the parties agree otherwise, the parties and their outside counsel, the arbitrators, the DIS employees, and any other persons associated with the DIS who are involved in the arbitration shall not disclose to anyone any information concerning the arbitration, including in particular the existence of the arbitration, the names of the parties, the nature of the claims, the names of any witnesses or experts, any procedural orders or awards, and any evidence that is not publicly available.<sup>16</sup>

There are diverging scholarly views in Germany as to whether parties to an arbitral proceeding have an implied duty of confidentiality. The academic debate is still unresolved and there is little case law on the issue. However, it appears to be widely accepted that the arbitrators (not the parties) are under an implied duty of confidentiality.<sup>17</sup>

## United States

The legal regime for arbitration in the United States is complicated because of the overlap between federal and state law. The Federal Arbitration Act does not address the question of arbitral confidentiality. State laws supplementing the Federal Arbitration Act are not uniform, and generally remain silent on the question of confidentiality. The Revised Uniform Arbitration Act 2000 has only been adopted by a handful of states. This act merely authorises the arbitral tribunal to issue a protective order to prevent the disclosure of privileged and confidential information in arbitration, but only to the extent that a court could if the controversy were the subject of a civil action in the state.<sup>18</sup> As in England, the question of a general duty of confidentiality is deferred to courts.

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15 *Department of Economic Policy and Development of the City of Moscow v. Bankers Trust* [2004] EWCA Civ. 314.

16 DIS Arbitration Rules, Art. 44.

17 *Arbitration Guide, Germany*, IBA Arbitration Committee (updated Feb 2018).

18 The Revised Uniform Arbitration Act of 2000, Sec. 17(e).

In contrast to the approach adopted by English courts, US courts have been reluctant to recognise the existence of a broad implied duty of confidentiality in arbitration. While US courts consider confidentiality agreements in arbitration as common<sup>19</sup> and enforceable,<sup>20</sup> absent such a confidentiality agreement, parties cannot expect the arbitration proceedings and the documents and information exchanged in arbitration to receive any special confidentiality protection.

The issue of confidentiality most frequently arises in the US courts in connection with requests for discovery of arbitral documents in subsequent proceedings. The 1988 decision in *United States v. Panhandle Eastern Corp.*<sup>21</sup> is a leading case on this issue. In that case, the plaintiff sought discovery of the defendant's documents from a previous ICC arbitration to which the defendant's subsidiary was a party. The defendant filed a motion for a protective order to preserve confidentiality of the arbitration documents, relying on the ICC Rules and the parties' 'general understanding . . . that the pleadings and related documents in the arbitration would be kept confidential'.<sup>22</sup> The US District Court in Delaware rejected the defendant's request for a protective order and ordered disclosure of the documents, finding that the ICC Rules in effect at the time only governed the internal functioning of the ICC Court and did not apply to the parties and the arbitral tribunal.<sup>23</sup> The decision further stated that the defendant failed to 'point to any actual agreement of confidentiality, documented or otherwise',<sup>24</sup> effectively refusing to recognise an implied confidentiality obligation.

Other US courts have reached similar conclusions, denying an implied duty of confidentiality in absence of an express agreement. In *Industrotech Constructors, Inc. v. Duke University*,<sup>25</sup> the defendant was ordered to produce transcripts from a previous arbitration that involved the defendant and a third party. The defendant appealed, arguing that the parties to the arbitration stipulated that the arbitral proceedings would remain confidential. The defendant further contended that, even without a stipulation of confidentiality, the public policy required confidentiality of arbitration. The North Carolina Court of Appeals dismissed the defendant's appeal, concluding that nothing in the relevant arbitration rules or the state's arbitration statutes required 'strict confidentiality'.<sup>26</sup> It must be noted that US courts generally acknowledge the common law right of access to judicial records, and may allow the arbitral award and other arbitral information to become public in court proceedings seeking confirmation or challenge of an arbitral award. The parties' confidentiality agreement alone may not be sufficient for the court to order all arbitration information to be sealed in the court proceedings.

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19 The courts noted confidentiality clauses to be so common in the arbitration context that an 'attack on the confidentiality provision is, in part, an attack on the character of arbitration itself'. See *Guyden v. Aetna, Inc.*, 544 F.3d 376, 385 (2d Cir. 2008), quoting *Iberia Credit Bureau, Inc. v. Cingular Wireless LLC*, 379 F.3d 159, 175 (5th Cir. 2004).

20 For example, see *ITT Educational Services v. Arce*, 533 F.3d 342 (5th Cir. 2008).

21 *United States v. Panhandle Eastern Corp.*, 118 F.R.D. 346 (D. Del. 1988).

22 *id.*, at 350.

23 *id.*, at 349-350.

24 *id.*, at 350.

25 *Industrotech Constructors v. Duke University*, 314 S.E.2d 272 (N.C. Ct. App. 1984).

26 *id.*, at 274.

## France

In 2011, France updated both its domestic and international arbitration laws in the French Code of Civil Procedure. Under the new arbitration regime, domestic arbitrations are now confidential unless the parties agree otherwise.<sup>27</sup> But for international arbitrations, there is no equivalent confidentiality provision, save the requirement that the arbitral tribunal's deliberations are to be kept secret.<sup>28</sup>

Nevertheless, French courts have historically taken an approach similar to their English counterparts in recognising an implied confidentiality obligation in arbitration. In *Aïta v. Ojje*,<sup>29</sup> where the petitioner sought to annul an arbitral award issued in London, the Paris Court of Appeal rejected the petition, decided that the annulment proceedings violated the duty of arbitral confidentiality and subjected the petitioner to penalties. The court concluded that the annulment petition was merely an attempt to disclose confidential arbitral information and found that attempt to be against 'the very nature of arbitral proceedings to ensure the highest degree of discretion in the resolution of private disputes in accordance with the parties' agreement'.<sup>30</sup> Similarly in *Bleustein et al v. Société True North et Société FCB International*,<sup>31</sup> the Commercial Court of Paris found that the defendant breached its duty of confidentiality when it issued a press release involving the disclosure of the existence of an arbitral proceeding without a legal obligation to report.

A more recent decision in *Nafimco v. Foster Wheeler Trading Company*<sup>32</sup> in 2004, however, indicates that French courts are now taking a more reserved position on arbitral confidentiality. In this case, the Paris Court of Appeal stated that the party claiming breach of the duty of arbitral confidentiality had the burden of proving the existence of such duty.

## Singapore

In Singapore, the International Arbitration Act allows a party to apply for arbitration-related proceedings to be heard otherwise than in open court.<sup>33</sup> If the arbitration-related proceedings are held otherwise than in open court, the court shall not give directions for the publication of information without the parties' consent or the court's own judgment that the information will not reveal any confidential matter.<sup>34</sup> In this regard, the Singapore High Court confirmed in the decision of *BBW v. BBX*<sup>35</sup> that Singapore courts have the inherent power to grant orders to seal court files in the interest of preserving the confidentiality of related arbitration proceedings.

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27 French Code of Civil Procedure, Art. 1464(4).

28 *id.*, Art. 1469.

29 *Aïta v. Ojje*, Paris Court of Appeal, 18 February 1986, Rev. Arb. 1986.583.

30 *id.*, at 283.

31 *Bleustein et autres v. Société True North et Société FCB International*, Commercial Court of Paris, 22 February 1999, Rev. Arb. 2003.189.

32 *NAFIMCO v. Société Foster Wheeler Trading Company AG*, Paris Court of Appeal, 22 January 2004, Rev. Arb. 2004.647.

33 Singapore International Arbitration Act, Sec. 22.

34 *id.*, Sec. 23.

35 *BBW v. BBX and Others* [2016] SGHC 190.

Singapore statutory law does not codify a general duty of confidentiality in arbitration. Nevertheless, Singapore courts have followed the English position and recognise a common law duty of confidentiality. In *Myanma Yaung Chi Oo Co Limited v. Win Win Nu*,<sup>36</sup> a party made references to the proceedings and documents from a previous arbitration, alleging that the disclosure was required for its case before the court. The High Court of Singapore recognised an implied obligation of confidentiality, quoting a number of English court cases on this issue. The court reasoned that as arbitrations are private hearings, the parties' expectation is that 'the proceedings are confidential'.<sup>37</sup> The court, however, noted that if the disclosure is reasonably necessary to protect a party's legitimate interest, one may be excused from the duty of confidentiality, and leave of the court is not required for disclosure.<sup>38</sup>

The decision of *International Coal Pte Ltd v. Kristle Trading Ltd and Another and Another Suit*<sup>39</sup> provides further guidance on the duty of confidentiality in arbitration. In that case, the High Court of Singapore held that there should be no generalisation on what the duty of confidentiality encompasses and concluded that the question of the duty of confidentiality should be evaluated in each case in the context of circumstances.<sup>40</sup> The court also drew a distinction between different types of confidentiality attaching to different types of documents, such as arbitral awards, which would be treated differently from the materials used or disclosed in the course of arbitration proceedings. According to the court, once an arbitral award is registered as a judgment, it enters the realm of the public domain and cannot be protected by the rule of privacy.<sup>41</sup>

## Hong Kong

Hong Kong is one of the very few jurisdictions that has an express statutory duty of confidentiality provided under its arbitration law, the Hong Kong Arbitration Ordinance, Chapter 609. Under the Ordinance, no party may publish, disclose or communicate any information relating to the arbitral proceedings or an award (Section 18(1) of the Ordinance).<sup>42</sup> This duty is imposed on the parties by virtue of law, although the duty can be limited or lifted if the parties 'otherwise agree' (Section 18(1) of the Ordinance).<sup>43</sup>

There are certain statutory exceptions, which are listed under Section 18(2) of the Ordinance.<sup>44</sup> These exceptions include disclosure in legal proceedings to protect a party's legal right or interest or to enforce or challenge the arbitral award, and disclosure to a party's professional or other advisers. Disclosure is also permitted if there is a legal obligation to disclose.

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36 *Myanma Yaung Chi Oo Ltd. v. Win Nu* [2003] 2 S.L.R. 547.

37 *id.*, at 17.

38 *id.*, at 19.

39 *International Coal Pte Ltd. v. Kristle Trading Ltd and Another and Another Suit* [2008] SGHC 182.

40 *id.*, at 84.

41 *id.*, at 84–85.

42 Hong Kong Arbitration Ordinance (Cap 609), Section 18(1).

43 *id.*

44 *id.*, Section 18(2).

In general, court hearings related to arbitral proceedings are not to be heard in open court, unless the court decides otherwise based upon a party application or the court's own discretion (Section 16 of the Ordinance).<sup>45</sup> If arbitration-related proceedings are held in closed court proceedings, a party can request the court's direction as to what arbitration information (if any) may be published (Section 17(2) of the Ordinance).<sup>46</sup> The court must not make a direction permitting information to be published unless all parties agree or the court is satisfied that publication of the information would not reveal any matter (including the identity of any party) that any party reasonably wishes to remain confidential (Section 17(3) of the Ordinance).<sup>47</sup>

## **Confidentiality under institutional arbitration rules**

Most major arbitral institutions at least mention confidentiality in their rules, but without going into significant detail. One common approach is to affirm the general principle that the proceedings should remain confidential, but without trying to determine the boundaries of any legally enforceable obligations, or when any exceptions might apply. Another common approach is to confirm that the arbitral tribunal has the authority to order measures to protect confidential information – and then leave it to the arbitral tribunal to deal with the issue. These approaches are not mutually exclusive.<sup>48</sup>

Some institutions expressly provide for more confidentiality protections than others. Some only impose confidentiality duties on members of the administrative body, while others may bind the tribunal and parties as well. Similarly, some institutions make it a default rule to allow publications of awards in some form (full, partial or redacted) unless a party objects, while the norm under other institutional rules is to require the parties to opt in to publication.

Even where an institution provides for express confidentiality protections under its rules, the protections and corresponding duties imposed are presumably subject to exceptions. In addition, confidentiality is difficult to enforce owing to the lack of any meaningful remedy. These are issues that institutions have been trying to tackle as they continue to revise and update their rules. A summary of the confidentiality protections that are currently offered under the rules of some of the major arbitral institutions is provided below.

### **International Chamber of Commerce**

The International Chamber of Commerce (ICC) only expressly imposes confidentiality duties on members of the court<sup>49</sup> and does not extend similar duties to the arbitral tribunal or parties. Instead, the most recently revised 2021 version of the ICC Rules, as with previous versions of the rules, defers to the arbitral tribunal to order confidentiality and other similar measures to protect trade secrets and confidential information pursuant to a party's request, under Article 22.<sup>50</sup>

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45 *id.*, Section 16.

46 *id.*, Section 17(2).

47 *id.*, Section 17(3).

48 See Hwang, Paras. 75–77.

49 ICC Arbitration Rules, Appendix I, Art. 6 and Appendix II, Art. 1.

50 *id.*, Art. 22(3).

In effect, the measures that may be ordered by the arbitral tribunal under Article 22 are up to the tribunal's discretion, limited in part by the confines of the procedural or other applicable law of the arbitration. Whether parties will actually comply with such tribunal-ordered measures is an entirely different issue, as parties only undertake to comply with any tribunal order<sup>51</sup> and no sanctions or potential remedies are prescribed under the rules for a breach of such an order.

With respect to the publication of awards, the ICC has confirmed that all awards made as from 1 January 2019 may be subject to publication in full at the ICC Secretariat's discretion, unless a party objects to publication or only agrees to publication subject to the removal of identifying information.<sup>52</sup> Such an approach reflects the ICC's ongoing efforts to introduce greater transparency in arbitrations administered by the court. Therefore, should parties to an ICC proceeding wish to keep their award confidential, they must be mindful to proactively oppose publication of their award.

### London Court of International Arbitration

In contrast to the ICC, the London Court of International Arbitration (LCIA) offers some of the strongest confidentiality protections of all the various institutions, expressly providing for a broad scope of confidentiality duties under the most recent version of the LCIA Arbitration Rules, which were adopted in 2020.

Under Article 30, the arbitral tribunal and the parties are bound to keep confidential all materials created for purposes of an arbitration, and any documents produced during an arbitration that is not in the public domain, as well as any award.<sup>53</sup> The 2020 version of the rules extends that obligation to all persons involved in the arbitration, including the parties' authorised representatives, fact and expert witnesses, and service providers, by imposing a positive duty on parties to obtain confidentiality undertakings from them – presumably when their involvement in the arbitration has been fixed.<sup>54</sup>

The high level of confidentiality imposed on the persons involved in a LCIA arbitration is mirrored by the LCIA's own confidentiality undertakings. The LCIA has confirmed that it will not provide any information to any third party about a pending or completed LCIA arbitration.<sup>55</sup> The LCIA will also not publish arbitral awards in any form, partial or even redacted,<sup>56</sup> without the consent of the tribunal and the parties.<sup>57</sup>

The LCIA Rules also recognise exceptions to confidentiality. For instance, parties may be excused from their confidentiality obligations where disclosure is required by 'legal duty, to protect or pursue a legal right, or to enforce or challenge an award in legal proceedings'.<sup>58</sup>

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51 *id.*, Art. 22(5).

52 ICC Note to Parties and Arbitral Tribunals on the Conduct of the Arbitration under the ICC Rules of Arbitration (1 January 2019), Paras. 41–46.

53 LCIA Arbitration Rules, Art. 30.

54 *id.*

55 LCIA Notes for Parties (18 August 2017), Paras. 101–104. As at the date of this chapter, the LCIA has not yet published its updated guidance notes for the 2020 edition of the LCIA Rules.

56 *id.*, Para. 103.

57 LCIA Arbitration Rules, Art. 30.

58 *id.*

Given the broad nature of these exceptions, particularly the broad exception ‘to protect or pursue a legal right,’ we will need to await further case law to see whether the LCIA Rules provide any protection greater than the English common law duty of confidentiality.

#### American Arbitration Association – International Center for Dispute Resolution

The American Arbitration Association – International Center for Dispute Resolution (ICDR) strikes a balance between the American tradition of favouring disclosure in adversarial proceedings and an acknowledgement that there may be a need to protect the confidentiality of certain information in international arbitration.

Under Article 37(1) of the ICDR Rules, the ICDR and the tribunal are prohibited from disclosing confidential information provided by parties and their witnesses during the course of an arbitration, as well as all matters relating to the arbitration and the award, subject to certain exceptions.<sup>59</sup> The same general confidentiality duties do not apply, however, to parties or other participants.

Like the ICC, the ICDR defers to the arbitral tribunal to manage confidentiality issues that may arise with respect to parties and other participants. Article 37(2) permits the tribunal to make orders regarding the ‘confidentiality of the arbitration or any matters in connection with the arbitration’ and to take measures to protect trade secrets and confidentiality at its discretion, and without the need for a party’s request to that effect.<sup>60</sup> The tribunal’s power to order confidentiality measures is again confirmed in Articles 21(5) and 22 in connection with the exchange of information subject to commercial or technical confidentiality and documents subject to privilege.<sup>61</sup>

In effect, the ICDR Rules take a similar approach to the ICC Rules, and raise similar questions on the discretionary nature of the measures that the arbitral tribunal may order to ensure confidentiality and the effectiveness of such measures where there are no prescribed sanctions or remedies for a breach.

With respect to awards, Article 30(3) makes it clear that parties must opt in to the publication of an award by requiring the consent of all parties for publication.<sup>62</sup> The award may also be made public as required by law.<sup>63</sup> Article 30(3) also permits the ICDR to publish or otherwise disclose awards and other decisions, subject to the parties’ consent and the removal of identifying information about the parties and the case.<sup>64</sup>

#### World Intellectual Property Organization

Among the major institutional rules, World Intellectual Property Organization (WIPO) arguably provides the most detailed confidentiality protections, in line with WIPO’s focus on IP-related disputes. Despite these detailed protections, however, the WIPO Rules also carve out a number of exceptions similar to those adopted by the institutions discussed above.

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<sup>59</sup> ICDR Arbitration Rules, Art. 37(1).

<sup>60</sup> *id.*, Art. 37(2).

<sup>61</sup> *id.*, Arts. 21(5) and 22.

<sup>62</sup> *id.*, Art. 30(3).

<sup>63</sup> *id.*

<sup>64</sup> *id.*

Specifically, parties must keep confidential all information concerning the existence of an arbitration under Article 75,<sup>65</sup> which includes, among others, the cause of action, remedies sought, IP rights at issue and the members constituting the arbitral tribunal.<sup>66</sup> Disclosure of information may be permitted to ‘the extent necessary in connection with a court challenge to the arbitration or an action for enforcement of an award’, and where a party is required to disclose ‘by law or by a competent regulatory authority’.<sup>67</sup> In the latter case, however, disclosure is only permitted in limited form, as parties may only disclose information to the extent that such disclosure is legally required, and must inform the other party (if the arbitration has concluded) or the other party and the tribunal (if the arbitration is still ongoing) of the details of the disclosure and the reasons why disclosure was necessary.<sup>68</sup>

Parties may also disclose party names and the relief requested ‘for the purpose of satisfying any obligation of good faith or candor owed’ to the third party,<sup>69</sup> although it is unclear what circumstances would constitute permissible disclosure in such cases.

In addition, all documents or other evidence given by a party, including its witnesses, are to be kept confidential under Article 76.<sup>70</sup> However, evidence may be disclosed by the other party if: information in the evidence is in the public domain; the other party knew the information prior to or otherwise apart from the arbitration; and either the evidence-giving party agrees to disclosure or disclosure is ordered by a court.<sup>71</sup> Likewise, the award must be kept confidential under Article 77.<sup>72</sup> Disclosure, however, is again permitted under specified circumstances including, among others, where disclosure is required to comply with a legal requirement imposed on a party or to establish or protect a party’s legal right against a third party.<sup>73</sup>

Meanwhile, Article 78 extends the same confidentiality duties stipulated for parties to members of WIPO and the tribunal, subject to similar exceptions.<sup>74</sup> In addition, under Article 78(b), WIPO has carved out the right to publish information concerning any arbitration, subject to the removal of identifying information about the parties and the circumstances of the dispute.<sup>75</sup>

## Singapore International Arbitration Centre

The Singapore International Arbitration Centre (SIAC), much like the LCIA, is another arbitral institution that expressly provides for confidentiality protections under its rules.

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65 WIPO Arbitration Rules, Art. 75.

66 WIPO Arbitration and Mediation Center Commentary on WIPO Arbitration Rules (2017), p 100. As at the date of this chapter, there has been no updated commentary issued by WIPO.

67 WIPO Arbitration Rules, Art. 75.

68 *id.*

69 *id.*

70 *id.*, Art. 76.

71 WIPO Arbitration and Mediation Center Commentary on WIPO Arbitration Rules (2017), p. 101.

72 WIPO Arbitration Rules, Art. 77.

73 WIPO Arbitration and Mediation Center Commentary on WIPO Arbitration Rules (2017), p. 102.

74 WIPO Arbitration Rules, Art. 78.

75 *id.*



For instance, under Rule 24.4, all materials and other documents used in relation to a SIAC arbitration must be kept confidential.<sup>76</sup> In addition, under Rule 39, the arbitral tribunal and parties must keep confidential ‘all matters relating to the proceedings and the Award’, which includes the existence of the arbitration itself, the award, and all materials submitted, used or produced during the course of the arbitration that are not in the public domain.<sup>77</sup> Those confidentiality duties also extend to any administrative secretary and any other person the arbitral tribunal appoints, but currently do not apply to other participants such as party representatives or witnesses. Meanwhile, under Rule 32, a SIAC award may only be published with the consent of the tribunal and the parties.<sup>78</sup> Even where there is consent, the award may only be published in redacted form, without any identifying information about the parties.<sup>79</sup>

Like the LCIA Rules, the SIAC Rules also recognise exceptions. Disclosure of matters relating to the proceeding or the award may be permitted if the parties agree, or if it is required by a court or under other circumstances prescribed in Rule 39.

Unique to the SIAC Rules is the express grant of power to the arbitral tribunal to impose sanctions, including costs, or take other measures following a breach of the confidentiality provisions under Rule 39.4.<sup>80</sup> It remains unclear how frequently this rule has been invoked, and whether the rule has been effective in curbing confidentiality breaches. In any case, SIAC will be releasing a new version of its rules in late 2021, which is expected to include revisions to the tribunal’s power to impose sanctions under Rule 39.<sup>81</sup> Any present concerns regarding the effectiveness of the arbitral tribunal’s power to impose sanctions against confidentiality breaches may be addressed in these revisions.

### Hong Kong International Arbitration Centre

In line with the express statutory provision for confidentiality in arbitration under the Hong Kong Arbitration Ordinance, the Hong Kong International Arbitration Centre (HKIAC) also expressly mandates that the arbitral process as a whole be kept confidential in its rules.

Under Article 45.1 of the HKIAC Rules, the parties are obliged to keep confidential all information relating to the arbitration itself and any award or emergency decision rendered in the proceeding, which presumably includes any information or documents submitted or used during the arbitration.<sup>82</sup> The same confidentiality obligations are extended to the arbitral tribunal, HKIAC, as well as experts and witnesses under Article 45.2.<sup>83</sup> As a general exception, however, disclosure is permitted for parties and party representatives where such disclosure is made, among others, to a governmental or regulatory body, court or tribunal

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76 SIAC Arbitration Rules, Rule 24.4.

77 *id.*, Rule 39.

78 *id.*, Rule 32.12.

79 *id.*

80 *id.*, Rule 39.4.

81 SIAC, SIAC Announces Commencement of Revisions for SIAC Arbitration Rules, 7 July 2020, <https://www.siac.org.sg/69-siac-news/669-siac-announces-commencement-of-revisions-for-siac-arbitration-rules> (last accessed 27 October 2020).

82 HKIAC Administered Arbitration Rules, Art. 45.1.

83 *id.*, Art. 45.2.

as required by law, to professional or other advisers (including actual and potential witnesses and experts), or even to any person ‘for the purposes of having, or seeking, third party funding’ in an arbitration.<sup>84</sup>

Meanwhile, Article 45.5 expressly provides that HKIAC may publish any award, in full or in part or even as a summary, so long as the parties’ identifying information are removed and no party objects to such publication.<sup>85</sup> In effect, HKIAC requires that parties proactively oppose the publication of any award, much like the ICC.

## **Conclusions and recommendations**

Against this background, it should be clear that the legal and institutional framework around an international arbitration will often not be sufficient, by itself, to protect all of the information that a party to an IP arbitration may wish to protect from disclosure. Although some common law jurisdictions (most notably, England) have recognised a common law duty of confidentiality, those same jurisdictions have also recognised exceptions that may weaken the degree of effective protection. The difficulty of identifying the boundaries of the exceptions makes it difficult to conclude that these protections are adequate to protect the parties’ interests. They also fail to address the practical difficulty of proving damages in the case of a breach.

Although institutional rules sometimes affirm the principle that the arbitration shall remain confidential, these rules are often phrased in general terms, are not exhaustive and sometimes do not take into account the circumstances under which any exceptions might apply. Moreover, it is unclear how much effective protection these rules can provide after the conclusion of the arbitration, particularly under circumstances where the award is silent regarding any ongoing confidentiality obligations.

In an IP arbitration, one or both of the parties is more likely to have a keen interest in limiting the disclosure of confidential information and carefully regulating how recipients use that confidential information. There are more likely to be specific concerns about maintaining confidentiality of particularly sensitive confidential information, as distinguished from a desire to maintain confidentiality of the proceedings generally, which may or may not be a concern to the parties. Rather than frame the issue of confidentiality in general terms, parties should focus on particular information they wish to protect and how to protect that information not only during the arbitration, but also after the proceedings end.

Adequate mechanisms are normally available to protect confidentiality, but parties and their counsel need to be proactive. Absent an agreement between the parties, it may become necessary to seek assistance from the arbitral tribunal and to ask the arbitral tribunal to incorporate certain provisions about confidentiality into the final award.

The following are some practical steps that parties can take to enhance the scope of effectiveness of confidentiality in IP arbitrations.

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84 *id.*, Art. 45.3.

85 *id.*, Art. 45.5.

## Contractual agreements

Perhaps the most effective protection is that which the parties have expressly agreed to in their contract. A well-drafted confidentiality agreement will clearly identify the scope of confidential information, the purposes for which the confidential information may be used, the medium in which confidential information may be stored or distributed, the security measures that parties are required to take to prevent unauthorised disclosure and the specific persons who are authorised to receive the confidential information. Parties can agree on measures to return or destroy confidential information once the contractual relationship ends or the purpose of the disclosure has been fulfilled. They can also define the scope of any permitted disclosure, including disclosures that may be required by law. They may require that a party that receives a third-party request for disclosure should notify the other party and provide the other party an opportunity to try to resist any order for disclosure. They may also stipulate the term of a party's confidentiality obligations. They may provide for liquidated damages for a breach, as proving actual damages is one of the most difficult elements to establish in a breach of confidentiality claim. It is always better to rely on any contractual provision with negotiated exceptions, rather than to rely on a default rule implied by law with exceptions that are also implied by law, the boundaries and contours of which may be difficult to define.

Generally speaking, arbitrators, tribunal secretaries, counsel and experts will be bound by their professional obligations to maintain confidentiality, which are often regarded as stringent enough that no additional protection is necessary. As discussed above, institutions also often impose additional obligations on the arbitrators and employees of the institution. Notwithstanding these protections, in IP arbitrations involving particularly sensitive confidential information, parties may sometimes request separate confidentiality undertakings from the non-party participants in the arbitration.

Most IP contracts include confidentiality covenants. Lawyers often draft these provisions in contemplation of the parties' obligations during the expected performance of the contract. They are usually not drafted to address confidentiality obligations after a dispute arises, or when one party claims the right to terminate or rescind the contract. However, there is no reason why parties cannot stipulate in the contract that the same degree of confidentiality shall continue to apply notwithstanding any dispute or conclusion of the contractual relationship.

After a dispute arises, it is usually more difficult to reach an agreement on such matters. Once a case commences, if one party raises concerns about protecting the confidentiality of particular information, the normal course is for the arbitral tribunal to invite the parties to try to reach an agreement. If they cannot reach an agreement, the arbitral tribunal may issue some form of protective order after hearing submissions and proposals from both parties.

## Confidentiality orders

When the parties cannot reach an agreement, the scope of the tribunal's authority to order protection of confidential information will be determined by, among other things, the law of the place of arbitration, as well as the applicable rules of the arbitration. Both of these sources of authority typically confer broad authority on the arbitral tribunal. In addition to the types of confidentiality terms that might normally appear in in the underlying

contract, an arbitral tribunal might also order specific protections taking into account that a dispute has arisen. These could include, for example, an order that certain documents may be produced with redactions, or on an ‘attorney eyes only’ basis, or that certain documents might be reviewed *in camera*. The tribunal may also order measures restricting how highly confidential information may be shared with experts, or how such information might be used at the evidentiary hearing.

Parties should consider not only the content of such an order, but whether and to what extent it should have any binding effect after the conclusion of the arbitration. Procedural orders normally lose their binding effect once the tribunal issues a final award and the tribunal’s mandate has concluded. If parties seek relief from the tribunal during the arbitration to protect the confidentiality of materials or information exchanged during the arbitration, parties may wish to consider whether it is advisable to make these protections permanent, as part of the relief requested in the final award. If the tribunal intends that the confidentiality provisions should have continued binding effect, this should be recorded in the award.

# 6

## Disclosure Issues in International IP Arbitration

**Alexander Blumrosen<sup>1</sup>**

### Introduction

When parties choose arbitration to resolve their IP disputes, there are certitudes to guide them on arbitration law and procedure, and how their case will be handled: the courts will help enforce their arbitration clause; an impartial tribunal will be selected to judge the case without a jury; and the final award will be widely enforceable in the signatory nations of the New York Convention.<sup>2</sup> But the details of what the particular procedure will be like are often not well known in advance, and in no area are these uncertainties greater than in the procedure the tribunal will adopt for the most important phase of fact-finding in IP and other disputes: disclosure and discovery – that is, the exchange among the parties of relevant documentary and testimonial evidence that can be used to build, or confirm, the legal arguments in the case.<sup>3</sup>

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2 The Convention on the Recognition and Enforcement of Foreign Arbitral Awards, also known as the New York Convention, United Nations, Treaty Series, 330 U.N.T.S. 3, Treaty No. 4739, 10 June 1958.

3 The process by which an arbitration tribunal or a court may authorise parties to request particular documents or categories of documents from the other party, or from non-parties, is the process of disclosure. This procedure is called ‘discovery’ in American court litigation owing to the broad scope of requests that are permitted by law, and that may be effectively enforced against a party. Disclosure in arbitration has traditionally been far more limited in scope, requiring specific and tailored requests for particular documents or categories of documents relevant to the dispute and not otherwise available. See IBA 2010 Rules, ‘A Request to Produce shall contain [...] a description in sufficient detail (including subject matter) of a narrow and specific requested category of Documents [and] how the Documents requested are relevant to the case and material to its outcome . . .’ (Article 3) ([https://www.ibanet.org/Publications/publications\\_IBA\\_guides\\_and\\_free\\_materials.aspx#collapse3](https://www.ibanet.org/Publications/publications_IBA_guides_and_free_materials.aspx#collapse3)). By contrast, the broad scope of US discovery is defined in the Federal Rules of Civil Procedure as, ‘any nonprivileged matter that is relevant to any party’s claim or defense and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the

In part, these uncertainties stem from the great cultural variety of arbitrators, as each arbitrator brings his or her own legal culture to the process of establishing an arbitral fact-finding procedure that will apply to all parties. Arbitrators trained in common law will have more familiarity with document discovery and depositions, and will expect parties to use available tools to develop and refine their arguments; arbitrators from civil law traditions will have less familiarity with disclosure tools, and may see a party's recourse to them as a sign that the party's claim is as yet unsupported by available evidence, or worse, unfounded.

However, the uncertainties also derive from a historical lack of procedural rules for this phase of the arbitration. In 1999, the IBA adopted the Rules on the Taking of Evidence in International Arbitration,<sup>4</sup> in a quite successful attempt to bridge the gap between common and civil law traditions in disclosure. Other institutions and actors contributed to rules and guidance that can frame the disclosure procedure.<sup>5</sup>

Even with this guidance, tribunals and parties are often left to their own devices to adopt the disclosure process that will be best suited to their dispute, and this should be seen as one of the advantages of arbitration: the ability to fashion procedural rules tailored to the needs of the dispute and reflecting the backgrounds of the participants. And nowhere is such flexibility welcome as much as in IP arbitration, where issues of confidentiality, privilege and trade secrecy are often asserted to limit the organised exchange of documents and testimony.

The arbitral tribunal has wide latitude in setting procedural rules for disclosure. In ICC arbitration, for example, the Rules provide that the 'arbitral tribunal shall proceed within as short a time as possible to establish the facts of the case by all appropriate means'.<sup>6</sup>

But their discretion is not complete. The rules must adhere to the principles of due process set out in the New York Convention, or else the ultimate arbitration award could risk annulment by a party dissatisfied with the outcome.<sup>7</sup> Accordingly, setting the rules of

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discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.' (FRCP, Article 26(b)(1)). The two terms are used interchangeably in this chapter, with the caveat that discovery in arbitration is more limited than in US court litigation, to distinguish the fact-finding process on the merits of a dispute from the mandatory arbitrator disclosures of conflicts of interest during arbitrator selection.

4 The original 1999 Rules were updated in 2010 (hereafter, the IBA Rules), [https://www.ibanet.org/Publications/publications\\_IBA\\_guides\\_and\\_free\\_materials.aspx#collapse3](https://www.ibanet.org/Publications/publications_IBA_guides_and_free_materials.aspx#collapse3). See also, Commentary on the revised text of the 2010 IBA Rules on the Taking of Evidence in International Arbitration (2013), IBA Working Party, <https://www.ibanet.org/Document/Default.aspx?DocumentUid=DD240932-0E08-40D4-9866-309A635487C0> (hereafter, the Commentary on the IBA Rules).

5 See, e.g., Rules on the Efficient Conduct of Proceedings in International Arbitration (the Prague Rules) (2018), [https://praguerules.com/prague\\_rules/](https://praguerules.com/prague_rules/) (proposing a more inquisitorial approach with the arbitral tribunal taking a more active role).

6 ICC Arbitration Rules (2017), Article 25(1).

7 See, *Celtic Bioenergy Ltd v. Knowles Ltd* [2017] EWHC 472 (TCC); *Fraport v. Philippines*, ICSID Case No. ARB/03/25, Annulment Decision (Dec. 23, 2010) Paras. 200, 202; see also, *Hooters of America, Inc. v. Phillips*, 173 F.3d 933 (4th Cir. 1999) (court invalidated the arbitration clause due to severe discovery limits and other unfair procedures violative of due process in a 'sham' arbitration). But see *Bromley Park Garden Estate Ltd v. Mallen* [2009] EWHC 609 (refusing to order a party's surveyor to disclose the documents requested by the other party's surveyor does not violate due process).

disclosure, and ensuring compliance, becomes indissociable from the tribunal's mission to reach a valid and enforceable award. These uncertainties should be addressed early on by the tribunals to avoid such later risks.

Certain procedural aspects of arbitration are fairly settled now, with the help of guidance and enforcement decisions. It is common, for example, for parties to exchange their requests for documents through the use of 'Redfern schedules',<sup>8</sup> which identify for each request the document sought and its relevance to the dispute. This is a handy and efficient way of narrowing disclosure disputes so that the tribunal may rule on unresolved matters or dispensing with witness depositions in favour of witness hearings before the tribunal.

But in the following areas there is still uncertainty and, therefore, risk, including a risk that the award may not survive in post-award court proceedings. This chapter will focus, in particular, on (1) privilege as a bar to disclosure, (2) recourse to national courts for assistance in obtaining disclosure and (3) compliance with the EU General Data Protection Regulation (GDPR) in arbitration discovery.

### Privilege as a bar to disclosure

Whichever rules are adopted to guide disclosure, the process may be blocked if the producing party can validly invoke legal privilege, such as attorney–client privilege, to prevent production. But which privilege? Since 2010, confusion has reigned over which legal counsel is covered by attorney–client privilege. This is particularly troubling in international arbitration, where counsel from diverse bars are allowed to practise, leading to inconsistent and unsatisfactory results. This is particularly so in IP arbitration where one party, but not the other, may be deprived of the confidentiality protections of attorney–client privilege, leading to an uneven playing field. Some institutional rules have attempted to rectify this, such as the ICDR Rules<sup>9</sup> and the IBA Rules,<sup>10</sup> but they do not fully resolve the issue.

In 2010, the European Court of Justice (ECJ) declared in the *Akzo Nobel* case<sup>11</sup> that the scope of legal privilege in Europe does not extend to in-house lawyers, based on established precedent that in-house counsel are not independent as they are bound to their client by

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8 <https://icsid.worldbank.org/node/20071>.

9 Article 22 of the ICDR Rules: 'When the parties, their counsel, or their documents would be subject under applicable law to different rules, the tribunal should, to the extent possible, apply the same rules to all parties, giving preference to the rule that provides the highest level of protection'.

10 Article 9.3 of the IBA Rules provides that, when considering issues of legal impediment or privilege, within the permitted mandatory legal or ethical rules, the arbitral tribunal may take into account: any need to protect the confidentiality of communications that were 'made in connection with and for the purpose of providing or obtaining legal advice', the expectations of the parties and their advisers at the time the legal impediment or privilege is said to have arisen, any possible waiver of said legal impediment or privilege by consent of the parties and 'the need to maintain fairness and equality as between the Parties, particularly if they are subject to different legal or ethical rules'.

11 *Akzo Nobel Chemicals Ltd and Akros Chemicals Ltd v. European Commission*, 2010, Case No. C-550/07 P. This case resulted from a series of dawn raids by the European Commission on the UK premises of Akzo Nobel Chemicals during which a considerable number of documents were seized, including internal emails exchanged with Akzo Nobel in-house counsel. Akzo Nobel asserted that the documents seized by the Commission were protected by legal professional privilege. The ECJ ruling confirmed the trial court decision that the documents were not protected by privilege.

an employment relationship.<sup>12</sup> The court held that legal privilege only protects independent attorneys – ‘that is to say lawyers who are not bound to the client by a relationship of employment’,<sup>13</sup> though each EU Member State may adopt more generous privilege rules.<sup>14</sup> This is the case in Spain, for example, where the rules do not distinguish between external and internal counsel.<sup>15</sup> Some states, such as Belgium, have adopted new statutes to provide in-house lawyers with the same degree of privilege and confidentiality as independent attorneys.<sup>16</sup>

Under the rules of the Dutch Bar, all admitted lawyers benefit from legal privilege, regardless of their position as in-house or external counsel. English courts also grant legal privilege to in-house lawyers, specifically with regard to their communications. During the 2010 appeal in *Akzo Nobel Chemicals Ltd and Akros Chemicals Ltd v. European Commission*, the United Kingdom and the Netherlands endorsed the order sought by the appellants Akzo and Akros,<sup>17</sup> as did the International Bar Association, the Association of Corporate Counsel Association, the European Company Lawyers Association and the Council of Bars and Law Societies of Europe.<sup>18</sup>

The United States does not view attorney independence as a cornerstone criterion for the existence of legal privilege. Accordingly, legal privilege extends to in-house counsel and accordingly communications between an in-house lawyer and his or her client are privileged, even if that client is the employer.<sup>19</sup>

Further, the *Akzo* ruling sheds doubt on whether the broad legal privilege that may apply to counsel outside the European Union, such as for in-house counsel in the United States, would even be recognised in the European Union or an arbitral forum. This leads to an increased risk of unwanted or unforeseen disclosures when non-EU parties produce legally privileged information in an arbitration the seat of which is in the European Union, creating further uncertainty for the parties.<sup>20</sup>

By way of example, imagine an arbitration seated in Paris over a failed joint venture involving a patent dispute, with US and French parties, represented respectively by US and French counsel each admitted to their respective bars. The US party asks for the documents and email addresses of the French company’s in-house counsel during the time when the French company’s inventors were preparing their patent, while the French party does the

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12 *AM&S Europe Ltd v. European Commission*, 1982, Case No. 155/79, Para. 21, p. 1,611 (the Commission may not require production of documents exchanged between a client and independent legal counsel).

13 *Supra* note 11, Para. 41, p. 8,381.

14 Though for appearances by counsel before EU regulators the *Akzo* rule will apply uniformly to all counsel.

15 See: Article 27.4 of the Spanish General Regulation of the Legal Profession (Estatuto General de la Abogacía).

16 Gauvain Report (2019), ‘Rétablir la souveraineté de la France et de l’Europe et protéger nos entreprises des lois et mesures à portée extraterritoriale’, 26 June 2019, p. 48; DLA Piper, ‘Legal privilege global guide’, p. 14.

17 *Supra* note 11, Para. 12, p. 8,372.

18 The scope of legal privilege has become a matter of geopolitical debate. In the Gauvain Report (2019), the threat that French companies’ in-house legal communications could be more easily disclosed in extraterritorial investigations implicating French companies than would be the case in countries with a broader legal privilege regime, is an argument to expand the French rule on legal privilege to include in-house counsel. *Supra* note 16, p. 50.

19 *Upjohn Co. v. United States*, 1981, US Supreme Court, Volume 449, US 383.

20 Hogan Lovells, Focus on Regulation, ‘Can US Attorneys Provide Privileged Advice In Europe?’, 2013. <https://www.hoganlovells.com/en/blogs/focus-on-regulation/can-us-attorneys-provide-privileged-advice-in-europe>.



same, each seeking to show the other venturer's lack of good faith performance of the joint venture agreement. As French in-house counsel do not benefit from any recognised legal privilege, they can be required to hand over these documents; but as US in-house counsel are covered by privilege, they can avoid this obligation unless the tribunal decides to alter, one way or another, the scope of applicable privilege.

However, assuming the tribunal applies each legal privilege according to its terms, the French party will be at a disadvantage as it is required to disclose this type of communication. If the tribunal rules in favour of the US party, basing its decision in whole or in part on the evidence produced by the French party's in-house counsel, this could be a basis for the French party to seek the annulment of the award for violating its due process rights under the New York Convention.<sup>21</sup>

What can a tribunal do to accommodate the varied privilege claims presented by parties subject to different national laws, and organise a fair hearing? The answer is to avoid applying rigid institutional rules that may not take into account the circumstances, and to address these issues early in the proceedings. Indeed, this is the type of issue that can and should be raised at the start of proceedings,<sup>22</sup> in the terms of reference or another initial procedural order agreed by the parties, once it is clear based on the composition of the parties and their counsel that issues could arise from unequal treatment of legal privilege.

After consulting with the parties, the tribunal can choose to apply:

- each party's privilege rules despite potential unfairness, but obtain, if possible, the parties' consent or waiver to avoid later attacks on the final award;
- the most limiting of the parties' privilege rules (in this case, the French rule) – however, the US party could complain that the tribunal's rule would require that it waive valid legal privilege and may have grounds to seek annulment or non-recognition of the award; or
- the most expansive of the parties' privilege rules (in the case, the US rule), rendering undisclosed by tribunal order the French parties' otherwise non-privileged documents that, if produced, could affect the outcome of the case.

It could be that the tribunal's ruling, by limiting otherwise available documents in discovery (in the case of the French party), or by imposing the waiver of a valid legal privilege (in the case of the US party), could create grounds to challenge the validity of the award if the tribunal has not sought and obtained the consent of the parties.

And so we return to the central point of the parties' consent, and the recommendation, if there are competing legal cultures present before the tribunal, to establish scope of privilege rules early in the proceedings before any dispute has arisen, and to obtain the parties' consent to such rules.<sup>23</sup>

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21 The conditions for award annulment at Article V of the New York Convention are implemented in French law at Article 1520 of the Civil Procedure Code.

22 Article 2.1 of the IBA Rules (2010) provides for a mandatory consultation between the arbitral tribunal and the parties 'at the earliest appropriate time in the proceedings.' See Commentary on the IBA Rules, *supra* note 4, at 5.

23 But see Ibrahim Shehata, Attorney-client privilege & International Arbitration, *Cardozo Journal of Conflict Resolution*, May 2019, p. 369.

## Recourse to national courts for assistance in obtaining disclosure

Tribunals and parties should also consider early in the proceedings whether national court discovery in aid of arbitration is appropriate, and if so, how it should be regulated by the tribunal. Fact-finding is at the centre of an arbitration, and the outcome can be greatly influenced by documents or witness testimony exchanged during the proceedings. Parties often commence arbitrations without having marshalled all of the facts that support their claim, or to better understand the position of their adversary, and the exchange of information through the discovery process can help narrow disputed factual and legal claims, and even lead to settlement.

The IBA rules on disclosure provide an invaluable framework for assessing discovery claims in arbitration, and have become a widely used resource for tribunals and parties alike.<sup>24</sup> But they do not address how an arbitral tribunal may regulate – or even allow – recourse by the parties to national courts for fact discovery. This is particularly significant in IP arbitration, where access to an adversary's internal documents, such as laboratory testing and meeting notes, engineer or accident reports, emails with patent agents, insurance claims and other internal documents, can often reveal whether a claim is well founded.

Below, we discuss two examples of national laws that may allow for such disclosure, followed by a recommendation on how a tribunal might address this issue.

Federal law in the United States permits any party or other interested person involved in proceedings before a foreign or international tribunal, or the tribunal itself, to make a request to a US federal district court to compel discovery from a person or entity found in the district in which the court sits. For years, however, there have been disagreements as to whether international arbitration proceedings constitute foreign or international tribunals under the statute.

Prior to 2004, the Second and Fifth Circuits had ruled that Section 1782 could not be used to obtain discovery in aid of private arbitration. This year, the Second Circuit had an opportunity to revisit the issue in its decision of *In re: Application and Petition of Hanwei Guo*,<sup>25</sup> in which it declined a request for discovery assistance in connection with a commercial arbitration, consistent with its past precedent.<sup>26</sup>

The US Supreme Court ruled in 2004, in *Intel v. AMD*,<sup>27</sup> that a complaining party that had filed an antitrust complaint before the EU competition authorities could obtain discovery from Intel in California of documents that had been compiled by Intel for use in that European investigation. The Supreme Court found that the Directorate General for Competition of the European Commission was a tribunal under Section 1782.

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24 *Supra*, note 4.

25 *In re: Application and Petition of Hanwei Guo*, Case No. 19-781 (2d Cir. 2020).

26 The Second Circuit has maintained this position, despite the resistance of New York arbitration practitioners, see '28 U.S.C. § 1782 as a means of obtaining discovery in aid of international commercial arbitration – applicability and best practices' (2008), [http://www.nycbar.org/pdf/report/1782\\_Report.pdf](http://www.nycbar.org/pdf/report/1782_Report.pdf).

27 *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 US 241 (2004).

Since *Intel*, US courts of appeal have differed on whether private arbitrations fall within the scope of Section 1782. In 2009, the Fifth Circuit reaffirmed its previous narrow interpretation that private foreign arbitrations do not fall within this scope,<sup>28</sup> while two circuits considering the question for the first time, the Sixth<sup>29</sup> and Fourth Circuits,<sup>30</sup> reached the opposite conclusion (in 2019 and 2020, respectively).

The Seventh Circuit<sup>31</sup> has now weighed in on the issue in a case that concerns the same parties and arbitration as the Fourth Circuit decision. Notably, the Seventh Circuit reached the opposite conclusion to the Fourth Circuit, thereby aligning itself with the Second and Fifth Circuits in determining that Section 1782 does not apply to private arbitral tribunals.

The uncertainty created by this law requires parties to international commercial arbitrations to carefully consider their discovery options in the United States. This situation of clear splits among circuit courts of appeal can only be resolved by the Supreme Court. However, this split has existed for years without once attracting the attention of the Supreme Court, and so it is likely that this discovery tool will not be uniformly available in all US jurisdictions to parties in international arbitration for the foreseeable future.

The author of Section 1782 stated that when the statute was revised in 1964, the hope was that, by allowing foreign tribunals to experience the advantages of US discovery through this tool, they would be inspired to adopt in their own countries broader availability of pretrial discovery; the objective was to lead by example, even if foreign countries did not then offer reciprocal discovery in aid of US litigation.<sup>32</sup>

In practice, many countries have efficient discovery tools that can be used in aid of international arbitration, even where the seat of the arbitration is located in a foreign country. In France, Article 145 of the Code of Civil Procedure provides the framework for court-ordered experts that can be used prior to any litigation or arbitration proceeding with a view to obtaining relevant documents related to potential claims. Article 145 enables a party to request from the French judge the production of documents that are held by another party and located in France – for use in French or foreign proceedings – without needing to prove ‘urgency’, which would generally be required in most other forms of summary court proceedings.

The procedure is typically started on motion by a party before the French judge, who will consider the types of discovery requested and hear the parties, and may then issue an order for production of documentary and testimonial evidence. The requests must be narrowly tailored but courts regularly accept requests for categories of documents provided such requests are limited in scope and relevant to the underlying claim. The court will appoint an expert who will gather the evidence ordered to be produced, and will make the evidence available to the parties.

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28 *El Paso Corp. v. La Comision Ejecutiva Hidroelectrica Del Rio Lempa*, 341 F.App’x 31, 33-34 (5th Cir. 2009).

29 *In re: Application to Obtain Discovery for Use in Foreign Proceedings*, 939 F.3d 710, 714 (6th Cir. 2019).

30 *Servotronics, Inc. v. Boeing Co.*, 954 F.3d 209, 210 (4th Cir. 2020).

31 *Servotronics, Inc. v. Rolls-Royce PLC*, No. 19-1847, — F.3d —, 2020, WL 5640466 (7th Cir., Sept. 22, 2020).

32 Hans Smit, ‘Assistance Rendered by the United States in Proceedings Before International tribunals’, 62 *Colum. L. Rev.* 1264, 1264-66 (1962); Hans Smit, ‘American Assistance to Litigation in Foreign and International tribunals: Section 1782 of Title 28 of the U.S.C. Revisited’, *Syracuse J. Int’l L. & Com.*, Vol. 25, No. 1, Article 2.

Filing an Article 145 motion is subject to two general conditions:

- the requesting party must demonstrate that its request is legitimate (that the evidence sought is necessary to protect its rights or prove its claims); and
- the proceeding must be filed in contemplation of future legal proceedings.

The Article 145 order may also be requested *ex parte*, but only if the applicant can show that circumstances – such as the need for surprise – require an *ex parte* solution.<sup>33</sup> The discovery is then maintained by the bailiff; if no application is made by the seized party within 30 days, the documents will be released to the applicant.<sup>34</sup>

Note that there is no obligation that the collected evidence be used in later legal proceedings, as it may be that the results of the discovery show there to be no basis for a claim. Nor is there any prohibition on such evidence being used in an arbitration, whether in France or abroad. And importantly, the French Supreme Court has confirmed that this procedure may be used to obtain evidence from non-parties.<sup>35</sup>

Accordingly, despite all the attention paid to the application of Section 1782 in the United States, and the uncertainty created by the post-*Intel* split among the circuit courts of appeal, in practice there are discovery solutions in other countries that are often more efficient and less uncertain than the procedures under US law.

The way parties resort to national judicial discovery techniques, however, should be organised and planned with the arbitral tribunal, so that the tribunal is notified and has the possibility to oversee, or potentially to prohibit, recourse to national courts to obtain discovery. As with privilege, this is an issue that can and should be raised with the parties early in the proceedings, at the time of the terms of reference or the initial procedural order. Even if the parties have not contemplated at that early stage of the proceeding that they might use such discovery tools, it is recommended that the tribunal include a reference to this type of discovery request if such requests are not addressed in any of the applicable institutional rules or guidance.

For example, there is no reference to discovery proceedings brought in national courts by the parties in the ICC Rules. However, these rules do provide that:

- ‘the arbitral tribunal and the parties shall make every effort to conduct the arbitration in an expeditious and cost-effective manner’ (Article 22); and
- ‘the arbitral tribunal shall proceed within as short a time as possible to establish the facts of the case by all appropriate means’ (Article 25).

On the strength of this institutional delegation to the tribunal to organise the proceedings, and the duty of the tribunal to reach an enforceable award, the terms of reference should require that recourse by any party to national courts for purposes of discovery must be notified in advance to the tribunal, failing which such evidence may not be used in the arbitration. Indeed, it would give the tribunal even more control of its proceedings if the parties were required not only to notify the tribunal of recourse to national courts,

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33 Court of Cassation, Civ. 2, 8 January 2015, No. 13-27.740 (requiring that this circumstance must be expressly stated in the motion, failing which the application would be inadmissible).

34 Article R153-1, Commercial Code.

35 Court of Cassation, Civ. 2, 27 February 2014, No. 13-10.013.

but also that such recourse be approved by the tribunal (though in practice this is rarely done). Although this might seem a severe restriction on the parties' rights to use available litigation tools, allowing parties free reign to seek discovery from national courts could be a recipe for procedural disaster as parties may be tempted to use such tools as much for purposes of delay – or to impose unnecessary costs on an adversary – as for legitimate fact-finding purposes.

## Compliance with GDPR in arbitration discovery

Much has been written since 2018, when the GDPR<sup>36</sup> came into effect, about the impact of the new rules on arbitration. Of course, data protection regulation is not new, dating back in France, for example, to 1978,<sup>37</sup> and in Europe to the 1995 Directive.<sup>38</sup> But as this was a new and evolving area of the law, with little guidance at the start and even fewer sanctions for non-compliance, few in the arbitration world paid much attention and indeed arbitration practitioners suffered no penalties during this time.

The French<sup>39</sup> and EU<sup>40</sup> privacy regulators, in 2008 and 2009 respectively, started to pay attention to data protection in international litigation, offering guidance for national court litigants engaged in cross-border discovery on compliance with the European system of data protection, including the use in such litigation of appropriate protective orders. At least one US court (before the GDPR even came into effect) appointed a privacy monitor in the context of international discovery to oversee compliance by the parties with the EU privacy rules, showing judicial respect for the EU rules.<sup>41</sup>

The GDPR brought new protective requirements and new sanctions relating to the management of personal data within the broad territorial scope of the Regulation.<sup>42</sup> The Regulation applies to all covered personal data; it is not industry- or sector-dependent.

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36 Regulation (EU) 2016/679 of the European Parliament and the Council of 27 April 2016 on the Protection of Natural Persons with Regard to the Processing of Personal Data and on the Free Movement of Such Data, and Repealing Directive 95/46/EC (General Data Protection Regulation), 2016 O.J. L 119/1 (hereinafter GDPR).

37 Law No. 78-17 of 6 January 1978. <https://www.legifrance.gouv.fr/loda/id/JORFTEXT000000886460/2020-10-28/>.

38 The European Data Protection Directive, Directive 95/46/EC. <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31995L0046:en:HTML>.

39 <https://www.legifrance.gouv.fr/cnil/id/CNILTEXT000020996614/>.

40 [https://ec.europa.eu/justice/article-29/documentation/opinion-recommendation/files/2009/wp158\\_en.pdf](https://ec.europa.eu/justice/article-29/documentation/opinion-recommendation/files/2009/wp158_en.pdf).

41 Privacy monitors have been appointed by US courts to oversee compliance by foreign parties with GDPR requirements during the discovery process, in application of EU guidance WP158, ensuring that an independent third party has verified that all GDPR conditions have been fulfilled. See *Lataillade v LVMH*, S.D.N.Y. 2017, Case No. 1:16-cv-06637. Other US court litigation appointing a privacy monitor includes *Fortis Advisors v Sillajen, Inc.* (Sup. Ct., Del. 2020), *Tiffany v LVMH* (Chancery Court, Del. 2020), *Allianz Global Investors GmbH, et al. v Bank of America Corp., et al.*, (S.D.N.Y. 2020) 18 Civ. 10364 (LGS) (SDA) (2020), *Gameloft SE v. Glass Egg Digital Media Ltd.* (N.D. Cal.).

42 See GDPR, Article 3. The GDPR applies to 'the processing of personal data in the context of the activities of an establishment of a controller or a processor in the Union' (Article 3(1)), and also applies to controllers and processors not located in the European Union if the processing is used to offer goods and services to data subjects in the European Union (Article 3(2)).

As a result, anyone who manages or processes personal data is potentially subject to the Regulation, including in international litigation (as had been indicated in the 2008 EU guidance) and in international arbitration.<sup>43</sup>

There is not yet any detailed GDPR guidance specific to international arbitrations. However, it is clear from the detailed landmark analysis by Kathleen Paisley,<sup>44</sup> and by the guidance offered by the ICCA Working Group in 2020,<sup>45</sup> that arbitration practitioners must now consider the data privacy consequences of the fact-finding phase of each arbitral proceeding to account for the new data protection rules.

Several institutions have begun to provide guidance to practitioners on how to account for the new rules,<sup>46</sup> but there remains great uncertainty as to who should be taking the lead on this issue, who will be ultimately responsible should there be any sanctions and what consequences non-compliance might have on the final arbitration award.<sup>47</sup>

It is inarguable that the parties that were originally involved in data collection and processing for their businesses remain responsible for the proper handling of that data in all circumstances; the mere existence of an arbitral proceeding does not shield them from potential liability. Accordingly, parties should insist from the start of the proceedings (or even in their arbitration clause) with the tribunal and with any organising institution that the arbitration procedure not increase their risk under applicable privacy rules.<sup>48</sup>

And yet both arbitration institutions and tribunals have their role to play in compliance, though both seem equally unfit, at least for now, to do so. Arbitrators are selected for their many different qualities of analysis, reasoning, management and legal acumen, but rarely for their detailed knowledge of privacy law and the practical management of data protection under the GDPR. Institutions may be able to assemble more expertise and provide guidance in individual matters, but typically do not seek to lead on such matters, particularly when staking out positions of data protection oversight could turn them into co-controllers of the personal data or otherwise create liability under the data protection laws.

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43 But see the tribunal's Communication to the Parties in *Tennant Energy LLC v. Canada*, 24 June 2019, [https://jsumundi.com/en/document/decision/en-tennant-energy-llc-v-government-of-canada-tribunals-communication-to-the-parties-monday-24th-june-2019#decision\\_5475](https://jsumundi.com/en/document/decision/en-tennant-energy-llc-v-government-of-canada-tribunals-communication-to-the-parties-monday-24th-june-2019#decision_5475), in which an investment treaty panel held that the GDPR did not apply in investment treaty arbitration ('the tribunal finds that an arbitration under NAFTA Chapter 11, a treaty to which neither the European Union nor its Member States are party, does not, presumptively, come within the material scope of the GDPR').

44 Kathleen Paisley, *It's All About the Data: The Impact of the EU General Data Protection Regulation on International Arbitration*, 41 *Fordham Int'l L.J.* 841 (2018), <https://ir.lawnet.fordham.edu/ilj/vol41/iss4/4>.

45 ICCA-IBA Roadmap to Data Protection in International Arbitration, 28 February 2020 version (for public consultation) [https://www.arbitration-icca.org/media/14/18191123957287/roadmap\\_28.02.20.pdf](https://www.arbitration-icca.org/media/14/18191123957287/roadmap_28.02.20.pdf).

46 See ICC Note on the conduct of the arbitration 2019, Para. 80, p. 12; 2020 Privacy Policy of the German Arbitration Institute; Vienna International Arbitration Centre Arbitration Privacy Policy.

47 As Article 48 of the GDPR acts as a blocking statute, there is a risk that non-compliance could render the final award unenforceable as the award itself is 'tainted' by the violation of the rule. See *Pierre Chappier v. Taitbout Prévoyance*, High Court of Paris, 14 May 2008, No. 07-11004 (stating in dicta that a US court judgment obtained using illicit discovery in violation of the Convention would not be enforceable in France).

48 Paisley, *supra* note 44, recommending an arbitration clause providing 'The Parties agree to apply, and that the tribunal and the institution shall apply, mandatory data protection obligations during the arbitration in a manner that is proportionate to the risk and that adequately protects data subject rights, while preserving the parties' due process rights'. Such a clause could also be included in the terms of reference or similar organisational document in the proceedings.

It will fall, then, to the tribunal to address the issue on a case-by-case basis, upon consultation with the parties as to the nature and extent of the personal data that they expect will be exchanged and communicated with the tribunal. The responsibility for raising and resolving the data privacy issues also falls to the tribunal because it is a more active participant in setting the rules of disclosure, and in overseeing in the process, than a national court judge would be. Unlike discovery in a US civil matter, where the parties exchange documents and witness testimony among themselves without submitting any of the exchanged information to the court unless there is either a discovery dispute or the information is put into evidence, arbitration panels can be involved from the start in reviewing document requests, defining the allowable scope of discovery, reviewing and narrowing Redfern schedules and even – if deemed necessary by the tribunal for oversight – receiving copies of each side’s documents before individual documents have been selected by the parties for submission as evidence. As a more active participant in the discovery process, there is accordingly a greater risk that the tribunal could be considered a co-controller of the data under the GDPR because it is determining with the parties, ‘the purposes and means of the processing of personal data’.<sup>49</sup>

As with the other subjects addressed in this chapter, it is recommended that the tribunal raise this issue early on with the parties and the institution, and if the institutional rules do not adequately address the management of the data protection and the allocation of potential liability, then the tribunal should address this in the terms of reference or another organisational document agreed by the parties.

In particular, the tribunal should restate the obligation of each party to:

- comply with the data protection rules that apply to its data;
- raise any concerns with the tribunal about the potential processing of the discovery in the arbitral process so that the rules regarding onward transfer of personal data are complied with;
- consider whether a particular confidentiality or protective order should be adopted by the tribunal;
- consider whether to use standard contractual clauses (SCCs) to ensure protection of personal data in discovery, or if the tribunal should do this;
- consider whether any special forms of data security should be used if the documents are of an especially sensitive nature;
- consider limiting access to certain documents to counsel and experts; and
- consider steps to minimise the personal data contained in the discovery (through pseudonymisation or anonymisation).

Until July 2020, many international personal data transfers, including in arbitration, were made by companies that had registered under the Privacy Shield, a mechanism developed in 2016 by the European Union and the US Department of Commerce after the original Safe Harbor framework was annulled by the ECJ.<sup>50</sup> On 16 July 2020, the ECJ ruled that the Privacy Shield framework also violated EU law, owing to what the court

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<sup>49</sup> GDPR, Article 4(7).

<sup>50</sup> *Maximillian Schrems v. Data Protection Commissioner*, ECJ, 2015 (*Schrems I*).

considered overly intrusive US intelligence agencies, and accordingly for transfers between the European Union and the United States, or between Switzerland and the United States, other safeguards will need to be considered by a tribunal.

The means of ensuring safeguards under the GDPR are set out in Articles 46 to 47 and are principally SCCs and binding corporate rules. Importantly, the exception identified in Article 49(1)(e) of the GDPR for a transfer ‘necessary for the establishment, exercise or defence of legal claims’, is likely to be insufficient to justify personal data transfers in an arbitration, at least in the first instance, as the European Data Protection Board has provided guidance that the exceptions in Article 49 should only be invoked if the appropriate safeguards identified in Articles 46 to 47 are not available.<sup>51</sup>

The adoption of SCCs by the participants in an arbitration is relatively simple, and ensures compliance with the GDPR for transfers of data outside the European Union to a jurisdiction that does not provide adequate safeguards for the data, such as the United States (e.g., a tribunal seated in New York with European parties).<sup>52</sup> SCCs may be put in place for data transfers from the foreign data controller (e.g., a party) to another data controller (e.g., US counsel) or a data processor (e.g., a US-based e-discovery vendor). It should be noted that SCCs are regularly used in US litigation to ensure compliance with the GDPR, and that many US courts in litigation are open to accommodating foreign data privacy concerns as recommended notably by the Sedona Conference,<sup>53</sup> though certain courts have refused to accept the GDPR as an excuse for non-compliance with the ordered discovery.<sup>54</sup>

In light of the Privacy Shield being invalidated in 2020, increased use by parties and tribunals of SCCs is to be expected. However, the acceptance of this practice in any given arbitration by the tribunal and all the parties will need to be accepted at the start of the proceedings, and accordingly the tribunal must ensure at an early stage that the data protection issue is raised, that potential risks are identified and that appropriate safeguards are adopted.

## Conclusion

The arbitration of IP disputes can be discovery-intensive, though paradoxically there is a dearth of guidance for practitioners on how to proceed in these cases. The procedures adopted in arbitration for fact-finding will reflect the parties, their counsel, the tribunal composition and their combined legal cultures. However, there is no set of hard and fast rules, nor even concrete guidance that will provide an answer for every situation.

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51 See, EDPB Guidelines 2/2018 on derogations of Article 49 under Regulation 2016/679, 25 May 2018, p. 11, [https://edpb.europa.eu/our-work-tools/our-documents/directrices/guidelines-22018-derogations-article-49-under-regulation\\_en](https://edpb.europa.eu/our-work-tools/our-documents/directrices/guidelines-22018-derogations-article-49-under-regulation_en).

52 The ECJ in *Schrems II* (16 July 2020) confirmed that SCCs remain a valid method to transfer personal data outside the European Union, but cautioned that additional safeguards – such as end-to-end encryption – would need to be identified in the SCCs to prevent US intelligence agencies from surveilling the data transfer. To date, only one data protection authority has recommended specific additions to the SCCs to account for the risk of foreign intelligence surveillance (see, ‘Orientierungshilfe des LfDI BW: Was jetzt in Sachen internationaler Datentransfer?’, 7 September 2020, <https://www.baden-wuerttemberg.datenschutz.de/orientierungshilfe-des-lfdi-bw-was-jetzt-in-sachen-internationaler-datentransfer/>).

53 The Sedona Conference International Principles on Discovery, Disclosure & Data Protection in Civil Litigation, January 2017, [https://thesedonaconference.org/publication/International\\_Litigation\\_Principles](https://thesedonaconference.org/publication/International_Litigation_Principles).

54 See *Finjan, Inc. v. Zscaler, Inc.*, 2019 WL 618554 (N.D. Cal. Feb. 14, 2019).



Arbitration participants should expect, however, that the guidance and precedents that do exist will inform the fact-finding process that will be adopted by the tribunal, with a view to being both efficient and fair. The objective early in the arbitration should be to discuss fully with the parties the tribunal's plan for the fact-finding process and to tailor the rules to their particular matter to manage with transparency any risk and uncertainty that may be identified. Obtaining parties' consent to the arbitration procedure in general, and to the fact-finding process in particular, will go far in avoiding later disputes and immunising the award against annulment. But while the parties and arbitral institutions have important roles to play, this mission is one for which the tribunal must take primary responsibility.

# 7

## Addressing the IP Dispute Resolution Paradox: Combining Mediation with Arbitration and Litigation

**Jeremy Lack<sup>1</sup>**

### Introduction

Clients and lawyers often consider negotiation or litigation to be their only options for resolving intellectual property (IP) disputes. While IP arbitration is on the rise, there is still a tendency to view these processes as alternatives to one another. A much broader range of processes can and should be considered to resolve IP disputes in most situations. While seasoned IP practitioners tend to focus on adjudicative processes (e.g., litigation and arbitration), non-adjudicative processes can help reduce the time and cost to outcome, improve settlement rates, preserve business relationships and provide higher satisfaction ratings. These non-adjudicative processes may be non-evaluative (e.g., mediation) or evaluative (e.g., conciliation or expert determinations). The inclusion of non-adjudicative processes (particularly mediation) in conjunction with adjudicative processes is likely to lead to significantly faster, cheaper and better outcomes, with higher compliance and satisfaction ratings in over 90 per cent of IP disputes, both in domestic and international matters. It should be considered in all IP disputes.

Despite its benefits, IP practitioners and in-house experts are still reluctant to include mediation or other non-adjudicative steps in resolving their disputes. This creates a paradox. Adjudicative processes remain the first port of call. This is despite non-adjudicative processes having been actively promoted within IP circles for over a quarter of a century (e.g., by the World Intellectual Property Organization (WIPO) and the International Trademark Association), as well as by national IP courts and judges. It is also despite the growing amount of evidence of clearly improved settlements rates (e.g., above 70 per cent when

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<sup>1</sup> Jeremy Lack is an ADR neutral and attorney-at-law at Lawtech. This article is contributed in memory of David Plant (1921–2012), a leading IP litigator, arbitrator and mediator and the author of the ICC's publication *We Must Talk Because We Can: Mediating International Intellectual Property Disputes* (2009), who famously said: 'We have to start by defining the process as part of the problem.'

mediation is used on its own and above 80 per cent when it is combined with arbitration), reduced time to outcomes (measured in weeks instead of months or years) and significant cost savings, not to mention higher satisfaction ratings. This paradox seems to be due, in part, to a lack of personal familiarity with such processes, misunderstandings regarding the enforceability of settlement agreements reached through them, and a reticence of trying something new or too soon. This creates a perfect catch-22 situation. Unless and until IP practitioners and their clients become accustomed to using mediation and other non-adjudicative forms of dispute resolution (even if only to discuss the disputants' procedural options), IP litigators are unlikely to try or recommend such processes early on and gain greater personal familiarity with such processes, or generate the savings these processes can offer their clients. This situation is further exacerbated by misunderstandings regarding the range and types of non-adjudicative processes that exist (e.g., mediation as distinct from conciliation), and how and when to include them in adjudicative IP proceedings.

This chapter will attempt to untangle and demystify some of the issues surrounding when and how to use non-adjudicative processes (particularly mediation as a distinct process from conciliation) and to propose some practical solutions, such as mixed mode and guided choice processes, allowing for mediation and other forms of non-adjudicative dispute resolution processes to be integrated earlier into litigation and arbitration for the benefit of all disputants and stakeholders.

## **The risks of purely adjudicative proceedings in IP disputes**

Corporate expenditures on adjudicative IP proceedings have more than doubled over the past 10 years and continue to grow.<sup>2</sup> The number of disputes and the length of these proceedings have consistently increased as well, across all IP categories.<sup>3</sup> Furthermore, IP disputes are increasingly comprising a complex mix of technologies (e.g., with the rise of artificial intelligence and new interdisciplinary combinations of data or software-driven technologies, such as bio-informatics, neuro-informatics, DNA computing or theragnostics<sup>4</sup>). This makes it more difficult to deconstruct some IP disputes into distinct IP categories, such as patents, trademarks, copyright, trade secrets and design rights, requiring greater expert involvement and potentially resulting in greater complexity, delays and costs. A forensic analysis of each issue on its own is likely to be too time-consuming and complex, even if were to be affordable (which is unlikely to be the case, given the need to find different experts in each key jurisdiction).

Resolving IP disputes solely by adjudicative processes is thus fraught with risk and can lead to highly unpredictable outcomes, even in the best of cases. This is true for patent (e.g., the *Improver* cases on the Epilady invention in the 1980s),<sup>5</sup> trademark (e.g., the Budweiser

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2 See Benchmarking IP Litigation in 2019, a study commissioned by Morrison Foerster available at <https://media2.mofo.com/documents/benchmarking-ip-litigation-2019.pdf>. It is notable that this study does not mention mediation or other non-adjudicative ADR proceedings as possible solutions to the problems identified in this report, underscoring the paradox of the low use of ADR in IP proceedings by IP experts.

3 *ibid.*

4 A new term referring to the growing integration of diagnostics as part of therapy in the life sciences.

5 See Hatter J, 'The Doctrine of Equivalents in Patent Litigation: An Analysis of the Epilady Controversy', *Ind. Int'l & Comp. L. Rev.*, Vol. 5:2 (1995), pp. 461-94, at <https://journals.iupui.edu/index.php/iiclr/article/download/17577/17681>.

disputes that started in 1907 and have still not been fully resolved)<sup>6</sup> and other IP disputes. This is not only due to the amorphous, technical and nationalistic nature of IP rights, but also due to the growing importance of these same intangible assets on corporate balance sheets and in the global economy (usually greater than 80 per cent of any disputant's corporate value) and the strong feelings IP owners may have towards their inventions, creations and brands. An IP dispute is not only a technical or forensic exercise in the assessment of objective issues of infringement or validity, but often a culturally shaped and at times deeply emotional 'bet the company' or 'high-stakes' conflict, which unavoidably depends on subjective determinations as well (e.g., assessments of scope or quantum/value, which are an art rather than a science as well as what is a copy or derived from someone else's work or ideas). Adjudicative processes are not equipped to handle such subjective considerations, and even the 'objective' aspects are often subject to different interpretations in IP disputes, for a number of reasons.

Adjudicative IP dispute resolution processes such as litigation and arbitration tend to be fragmented, not only by applications of different national laws and rules of civil procedure but because of the different professionals who need to be involved to resolve them (e.g., the agents who registered them, the transactional lawyers and solicitors involved in commercialising them, and the trial lawyers and barristers who litigate them). They are also fragmented because of the different categories of overlapping IP rights that may exist in the same matter,<sup>7</sup> requiring different expertise. It is extremely rare to find one person who can advise across several countries and categories of IP rights, and bringing several experts from different countries and fields of IP together can lead to disparate or even inconsistent advice being received.

Much ink has already been spilled on the variability in outcomes of the same IP rights being simultaneously litigated in several jurisdictions.<sup>8</sup> The costs, time frames, outcomes, damages and types of relief available when litigating the same IP asset in many countries vary significantly (even if they originate from the same Madrid system trademark application, the same Patent Cooperation Treaty patent application or the same original copyrighted work), which makes any international IP dispute unpredictable.<sup>9</sup> Not only do the application of applicable norms vary from country to country (despite repeated attempts to harmonise them), but IP disputes are often driven by the disputants' subjective perceptions, needs, interests and concerns, and the tribunal's own cultural approaches to the same IP

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6 See [https://en.wikipedia.org/wiki/Budweiser\\_trademark\\_dispute](https://en.wikipedia.org/wiki/Budweiser_trademark_dispute).

7 e.g., copyrights versus designs versus trade secrets versus utility patents or models versus trademarks versus domain names versus *sui generis* database rights.

8 For a recent analysis of this recurring problem, see Tamar Khuchua, 'Different "Rules of the Game"— Impact of National Court Systems on Patent Litigation in the EU and the Need for New Perspectives', *Journal of Intellectual Property, Information Technology and E-Commerce Law*, Vol. 10 (2019), available at <https://www.jipitec.eu/issues/jipitec-10-2-2019/4918>.

9 For examples of recent publications on the variability and national subjectivity of patent disputes, see the Annual Global Patent Litigation Report 2014, Global IP Project, *Patent, Trademark & Copyright Journal* (2015), available at <http://globalpatentmetrics.com/wp-content/uploads/2014/04/GIPAnnualReport2014-Feb-2015.pdf>; and the chapter in WIPO's World Intellectual Property Indicators 2018 report entitled 'An overview of patent litigation systems across jurisdictions', available at: [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_941\\_2018-chapter1.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2018-chapter1.pdf).

rights. (The distinction between the words ‘copyright’ and ‘authors’ rights’, for example, reflect deep historical and cultural differences when considering the rights of authors.) Inventors, creators and brand owners are often personally invested in their ideas or products, and these subjective factors, coupled with different cultural influences and the devastating impact that inconsistent outcomes may have on the disputants’ careers or valuations or senses of justice can fuel conflict escalation and an adversarial system that would often benefit from a different approach earlier on.<sup>10</sup>

Arbitration of IP disputes may seem at first glance to be a more attractive solution to domestic or multi-jurisdictional IP litigation. Appointing arbitrators with incontestable legal or technological expertise may be viewed as a solution to unpredictable jury trials, overloaded dockets or unspecialised court tribunals, but IP arbitration is also fraught with uncertainties, risks, costs and technicalities. Top experts can differ on their assessment of the evidence or facts, the outcomes of IP arbitrations remain just as unpredictable and arbitral awards may be unenforceable in other jurisdictions. They typically entail high costs, extended timelines and an unclear value proposition. Where the stakes remain high, large costs need to be sunk upfront and reputations become vulnerable. Relationships can also deteriorate during the course of an arbitration, not only between the experts, but also between the lawyers and external teams of experts who represent or advise them. This is particularly unfortunate in certain industries where people tend to meet one another repeatedly. Even in the event of a successful outcome, the applicability of the New York Convention is uncertain for some international awards (e.g., if the tribunal declared a registered IP asset to be invalid or as having effect *erga omnes* as opposed to only as between the disputants).

The members of an arbitral tribunal may perceive the facts and the laws differently from one another or from the parties. They may have significantly different appreciations of the scope or value of the IP rights at stake. This may be due to invisible cultural influences or original professional source training. The subjectivity and unpredictability of the relief and damages available, even in IP arbitration, combined with the costs, stress, complexity, management time lost, formality and length of the proceedings may render IP arbitration equally unattractive as a value proposition – especially if an outcome is needed within a matter of months rather than years, or if the disputants cannot afford to spend hundreds of thousands of US dollars on a case. Furthermore, applying the varying interpretations of the same legal concepts in each relevant jurisdiction can still lead to contradictory outcomes in arbitration, just as in multistate litigation. Arbitral tribunals cannot be expected to calculate a weighted average of likely country-by-country outcomes, given the diametrically opposed outcomes that may emerge, and given the inherent subjectivity and unconscious biases that may exist in the tribunal members’ own minds regarding what may be fair or equitable.

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10 J. Lack, ‘National Intellectual Property Rights: The Importance of Mediation in an Increasingly Global and Technological Society’, *Arbitration* (2006) 72 (4). See <http://lawtech.ch/wp-content/uploads/2016/03/Lack-CIArb-Offprint-2006.pdf>.

The probability of winning any adjudicative process (whether litigation or arbitration) remains a gamble, with odds of 60 per cent in the best of cases.<sup>11</sup> There will always be evidentiary surprises and invisible subjective variables influencing the outcome, such as the composition of the tribunal, unconscious biases, and cultural, cognitive, social and emotional factors affecting interpretations of the dispositive facts or applicable laws.<sup>12</sup> Even if an arbitral award is favourable, its extraterritorial effect and enforceability will remain uncertain, especially with respect to third parties. In licensing disputes, this may seem to be less risky, but if hundreds or thousands of royalties are at stake (e.g., in a fair, reasonable and non-discriminatory (FRAND) licence dispute,<sup>13</sup> where many IP rights and multiple owners are involved), the generation and application of norms regarding what may be fair or reasonable may require mediative competencies or dialogue facilitation, where a broader

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11 This 60 per cent figure is the result of interviews of several IP litigation experts by the author, including a renowned expert IP judge who provided a 55 per cent 'best case' figure for the best odds of winning a strong IP case.

12 Examples of varying interpretations of 'objective norms' as facts or laws can be found in the fragmented rulings of national courts of successful appeals from lower instance decisions. See, for example, the *en banc* decision of the US Federal Circuit in *CLS Bank v. Alice Corp.* summarised by E. Harmon Arner & L. Freyer in 'CLS Bank v. Alice Leads to an Even Murkier Morass', available at <https://www.finnegan.com/en/insights/articles/cls-bank-v-alice-leads-to-an-even-murkier-morass.html> (28 May 2013). While the case was ultimately resolved by a unanimous decision of the US Supreme Court in 2014 the application of that unanimous decision remains unpredictable. See: J. Saltiel, 'In the courts: five years after Alice - five lessons learned from the treatment of software patents in litigation', *WIPO Magazine* (August 2019), available at [https://www.wipo.int/wipo\\_magazine/en/2019/04/article\\_0006.html](https://www.wipo.int/wipo_magazine/en/2019/04/article_0006.html). They also can be found in the politically shaped language of Article 69(1) of the European Patent Convention 1973, which sought a compromise between common law and civil law approaches to patent claim interpretation, stating that 'The extent of the protection conferred by a European patent or a European patent application shall be determined by the claims. Nevertheless, the description and drawings shall be used to interpret the claims.' (See <https://www.epo.org/law-practice/legal-texts/html/epc/2016/e/ar69.html>). This confusing language led to the equally confusing and vague Protocol on the Interpretation of Article 69 EPC in November 2000, which states; 'Article 69 should not be interpreted as meaning that the extent of the protection conferred by a European patent is to be understood as that defined by the strict, literal meaning of the wording used in the claims, the description and drawings being employed only for the purpose of resolving an ambiguity found in the claims. Nor should it be taken to mean that the claims serve only as a guideline and that the actual protection conferred may extend to what, from a consideration of the description and drawings by a person skilled in the art, the patent proprietor has contemplated. On the contrary, it is to be interpreted as defining a position between these extremes which combines a fair protection for the patent proprietor with a reasonable degree of legal certainty for third parties.' See <https://www.epo.org/law-practice/legal-texts/html/epc/2016/e/ar164.html>. The famous statement by the late English IP judge Hugh Laddie that 'Intellectual Property litigation in general and patent litigation in particular in Europe is in a state of some disarray' continues to apply to this day, especially post Brexit. See *Sepracor Inc. v. Hoehst Marion Roussel Limited et al.* (1999), <https://www.casemine.com/judgement/uk/5a8ff8cf60d03e7f57ecdb65>. This was recently confirmed as being the case in *K. Cremers et al.*, 'Patent litigation in Europe', *European Journal of Law and Economics*, Vol. 44 (2017), pp. 1-44 (see <https://link.springer.com/article/10.1007/s10657-016-9529-0>). The statement applies not only to European patents, but also to EU community trademarks and designs as well. It is equally true for EU copyrights, despite 11 Directives and two Regulations, which have sought to harmonise and reduce national inconsistencies in this field. See <https://ec.europa.eu/digital-single-market/en/eu-copyright-legislation>.

13 FRAND licences create problems when trying to work out royalties in an industry where there may be thousands of essential patents that need to be licensed for a single product to get to market.

and more inclusive range of skills may be needed to discuss criteria, brainstorm ideas and understand the subjective needs or interests of the various stakeholders involved, looking to the future and not to the past.

For all these reasons, arbitration on its own is unlikely to provide complete closure to the parties involved in an IP dispute. Resolving one dispute may simply lead to a new dispute arising between the same parties.

### **Appropriate dispute resolution: the choices available to IP disputants**

‘ADR’ is often defined as alternative dispute resolution or amicable dispute resolution. This, however, is a limitative interpretation that restricts its true potential. A more inclusive approach is to consider mediation, conciliation, arbitration and litigation as all being parts of the same thing: appropriate dispute resolution. Thus, the use of ADR to mean appropriate dispute resolution becomes a more holistic way of generating dispute resolution proceedings that can lead to complete closure of disputes, providing access to justice that is effective, affordable, efficient, flexible and enforceable. This was the view proposed by Sundaresh Menon, Chief Justice of the Supreme Court of Singapore, in 2016 at the opening ceremony of the Global Pound Conference Series (the GPC Series), an international series of 28 multi-stakeholder meetings to examine ways of improving access to justice and collecting data with a more disputant-centric approach to resolving commercial disputes, both domestic and cross-border.<sup>14</sup> It is an approach that is particularly appropriate for IP disputes and is the interpretation applied for the purposes of this chapter.

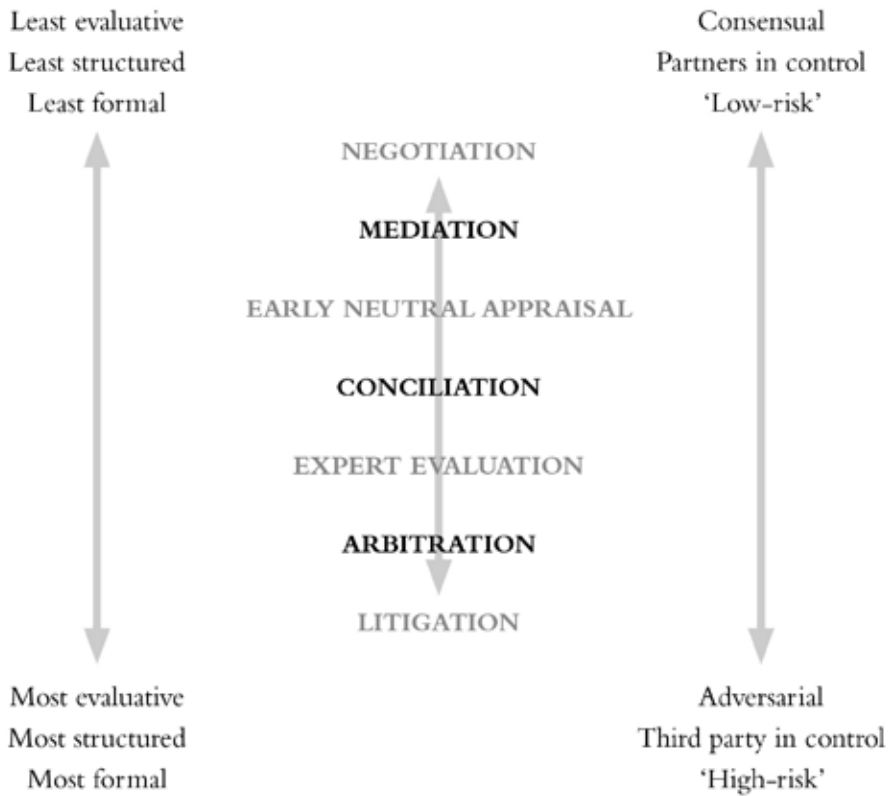
The data generated by the GPC Series is of particular relevance to the field of IP. Votes from hundreds of dispute resolution professionals and users of dispute resolution services from around the world indicated a universal lack of familiarity by disputants and

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14 To quote the Hon. Chief Justice Menon: ‘[T]he acronym “ADR” is commonly understood as a reference to “Alternative Dispute Resolution”. This is a reflection of the widely held notion that such mechanisms are merely alternatives to the mainstream and conventional method of court-based dispute resolution. However, retaining the terminology of “alternative” might mislead us, consciously or otherwise, into believing that the default – or even the best – approach is to be found in litigation. While the court-based approach to dispute resolution certainly has its strengths, it may not always be appropriate in every case. . . . An ideal system of justice is one that delivers justice that is customised to each type of case, keeping in mind the subject matter, the parties, and the desired outcomes. This is a situation where one size does not always fit all. In this regard, it would perhaps be timely to embrace a paradigm shift and understand “ADR” as a reference to “Appropriate Dispute Resolution” instead. This requires us to move away from our traditional and rigid ideas of how disputes should be resolved, towards a flexible and option-laden model where disputants are well placed to choose the ideal mode of dispute resolution from a suite of options. Let me emphasise that the call for “Appropriate Dispute Resolution” should not be seen as suggesting a reduced role for the courts. Even with the development of other dispute resolution options, the courts retain a special place in society as the guardians of the rule of law and, oftentimes, the principal and authoritative resolver of legal disputes. As such, quite the opposite of taking a reduced role, courts should embrace the reality that different disputes call for different measures, and be equipped or even redesigned to resolve disputes as appropriately as possible.’ See <https://imimmediation.org/research/gpc/>. The Hon. Chief Justice Menon’s comments are particularly appropriate, given his experience and expertise in international arbitration. He has written extensively not only to suggest that arbitration also needs to be more reflective of the needs of disputants, but also considers mediation to be part of the rule of law owing to its affordability, efficiency, accessibility, flexibility and effectiveness. See [https://www.arbitration-icca.org/AV\\_Library/AV\\_Library\\_textformat/ICCA\\_2012\\_Singapore\\_Keynote\\_Menon.html](https://www.arbitration-icca.org/AV_Library/AV_Library_textformat/ICCA_2012_Singapore_Keynote_Menon.html).

Figure 1: The range of procedural options available for IP disputes

### Appropriate dispute resolution: the options



Source: J. Kalowski JOK Consulting

their counsel with their non-adjudicative procedural choices when faced with a conflict. The data also highlighted the confusion surrounding what ADR could entail given the kaleidoscopic views of different stakeholder groups in response to various questions regarding what is currently available and accessible in the commercial dispute resolution market. The data identified significant gaps between what disputants want (the demand side of the market) and what is being offered (the supply side of the market).<sup>15</sup> The four key findings of the GPC Series were as follows:

- efficiency is the key priority of disputants when seeking dispute resolution proceedings;
- disputants expect greater collaboration from their advisers (e.g., lawyers) in dispute resolution;

<sup>15</sup> See <https://imimediation.org/research/gpc/series-data-and-reports/>. For the GPC series' raw data, see [https://imimediation.org/wp-admin/admin-ajax.php?juwfpisadmin=false&action=wpfd&task=file.download&wpfd\\_category\\_id=907&wpfd\\_file\\_id=35505](https://imimediation.org/wp-admin/admin-ajax.php?juwfpisadmin=false&action=wpfd&task=file.download&wpfd_category_id=907&wpfd_file_id=35505).



- there is a growing global interest in the use of pre-dispute protocols and mixed mode dispute resolution (i.e., combining adjudicative and non-adjudicative processes); and
- in-house counsel are the prime agents capable of orchestrating change (whereas external advisers are perceived – including by themselves – as the primary obstacles to change), although encouragement by judges, arbitrators and other providers of dispute resolution services is needed as well.<sup>16</sup>

Seeking appropriate dispute resolution processes provides a broader spectrum of possibilities, which may all be used at different stages of an IP dispute. It provides greater choice, and provides for ways of combining or including different types of processes that can be considered earlier on. While disputants often tend to think in binary terms, with litigation being the main alternative when preliminary negotiations break down, there is a wide range of possibilities that exists between these two extremes, including mediation, conciliation and arbitration as discrete and separate processes that are distinct from one another. Each has its own benefits and inconveniences, as indicated in Figure 1.<sup>17</sup>

Much has been written about the differences and similarities between arbitration and litigation. A lot has also been written about different forms of negotiation, such as ‘interest-based’ or ‘principled’ negotiation versus ‘positional’ negotiation or ‘bargaining’.<sup>18</sup> Less has been written, however, about the range of different processes that lie between these extremes, or comparing different types of non-adjudicative processes.

While arbitration and negotiation are adjudicative and non-adjudicative processes that are clearly distinguishable from mediation and conciliation, the latter two processes are often confused with one another and thought to be synonymous. This is another reason why disputants often fail to think in terms of what is most appropriate in each case.

## **Distinguishing mediation from conciliation**

Conciliation and mediation can and should be distinguished from one another, especially for IP disputes. They differ in their purposes and how they are they are conducted, and they have different social impacts on the behaviour of the participants engaged in the process, which is being increasingly recognised in new research emerging in the fields of brain and social sciences. While this distinction is anathema to many common law practitioners, who prefer to think in terms of evaluative and non-evaluative mediation and are used to slipping

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16 The GPS Series Report, ‘Global Pound Conference Series – Global Data Trends and Regional Differences’ (2018), p. 3, which may be downloaded from [https://imimediation.org/wp-admin/admin-ajax.php?juwpfisadmin=false&action=wpfd&task=file.download&wpfd\\_category\\_id=909&wpfd\\_file\\_id=35507](https://imimediation.org/wp-admin/admin-ajax.php?juwpfisadmin=false&action=wpfd&task=file.download&wpfd_category_id=909&wpfd_file_id=35507).

17 For a general discussion on differences between these procedural options and how they relate to IP disputes, see J. Lack, ‘The growing need for ADR in IP disputes’, *Intellectual Property Magazine*, December 2010 pp. 19–10, available at <http://lawtech.ch/wp-content/uploads/2016/03/J.-Lack-article-Intellectual-Property-Magazine-december-2010-019...pdf>.

18 Harvard Law School’s Program on Negotiation offers a wide range of seminal publications on this topic, starting with Fisher, Ury and Patton’s famous book *Getting to Yes: Negotiating Agreement Without Giving In*, Penguin Group (1981). For an excellent book providing an overview of negotiation, and different approaches to negotiation that focuses on the negotiation of better deals and settlements from an in-house lawyer’s perspective, see M. Leathes, *Negotiation: Things Corporate Counsel Need to Know but Were Not Taught*, Wolters Kluwer Law & Business (2017).

seamlessly between these two forms of dispute resolution, this is a neutral as opposed to user-centric approach. It does not take into account the nature of conciliation in many civil law jurisdictions, as often being a court-annexed process that is evaluative and has a different status than mediation, which is usually considered to be an extrajudicial process that is not evaluative, facilitative or transformative. From a neurobiological perspective, the processes are also very different, triggering different patterns of social behaviour (e.g., 'out-of-group' or 'in-group' mental shortcuts or heuristics) depending on whether the ADR neutral is seeking an acceptable compromise between different positions or to help the disputants to jointly consider new opportunities for settlement that they may not have envisaged before.<sup>19</sup>

## Conciliation

### *The purpose*

The role of an IP conciliator is to be neutral, impartial and evaluative. IP conciliation may be considered to be a form of non-binding arbitration or an expert opinion process, designed to help the parties reach a mutually acceptable compromise. The classic IP conciliator is usually a learned expert (e.g., a retired judge, or an experienced agent or a lawyer) with relevant industry experience and knowledge of the products, services or technologies involved in the dispute, who understands what norms may or should apply in litigation. The role of the IP conciliator is to help the parties understand and apply these norms, and discuss and generate a zone of possible agreement (ZOPA) based on the application of these norms. This may include opining on what an adjudicative court or arbitral tribunal might reasonably find. This process can entail meeting the parties separately, in caucuses, and doing reality testing: challenging the parties' assumptions about the strengths of their respective cases and helping them to understand the weaknesses of their positions. The assessment of these norms includes:

- what the applicable legislation provides for;
- the relevant jurisprudence;
- what dispositive issues of fact and law will need to be resolved;
- the range of possible outcomes if the findings of fact or law go one way or another;
- what the learned doctrine and textbooks suggest; and
- what a likely outcome ought to be, based on the law and facts provided.

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<sup>19</sup> As a precautionary note, the distinctions made between mediation and conciliation in this chapter should not be taken as universally accepted. Conciliation is often referred to as 'evaluative mediation' in common law countries, which is an oxymoron in several civil law countries. This can be a great source of confusion when appointing an IP neutral for a non-adjudicative IP process. For a more detailed discussion on the confusion between mediation, conciliation and other forms of non-adjudicative ADR, see M. Schonewille and J. Lack, 'Mediation in the European Union and Abroad: 60 States Divided by a Common Word?', *The Variegated Landscape of Mediation: A Comparative Study of Mediation Regulation and Practices in Europe and the World* (Ed. M. Schonewille and F. Schonewille), Eleven International Publishing, the Netherlands (2014), Chapter 2, pp. 19–44, available online at [http://lawtech.ch/wp-content/uploads/2016/03/Chapter-Schonewille-Lack-from-The-variegated-landscape-of-mediation\\_vier...pdf](http://lawtech.ch/wp-content/uploads/2016/03/Chapter-Schonewille-Lack-from-The-variegated-landscape-of-mediation_vier...pdf).

This includes an understanding of the sector, the relevant technology, competitor products, the prior art, and the context in which these issues of fact and law are being discussed and debated. It is basically a forensic process, looking primarily to the past, although the future might come into play when seeking to determine damages.

### *The process*

Conciliation is a form of ‘objective justice’ that is based on the legal syllogism that ‘facts + law = outcome’. The IP conciliator helps the disputants to understand the variables in this equation, and what is relevant as opposed to irrelevant with respect to what the outcome should be. It is primarily a backwards-looking exercise, seeking to understand previously occurring facts, who or what caused them, who is responsible or liable for the breach or tort that occurred, and what appropriate damages or remedies, or principles of contributory fault or responsibility, should be applied.

The IP conciliator helps the parties to understand the relevant legal logic and key issues of fact to be determined to define and shape the ZOPA, and the suggested outcome of the dispute. If the parties are unable to reach an agreement within the ZOPA towards the end of the process (usually a one-day meeting after briefs and position papers have been submitted), then the IP conciliator is expected to make a non-binding settlement proposal, recommending where the parties might reasonably settle within the ZOPA. This can include recommendations on quantum or how to calculate damages. The role of the IP conciliator is to help the parties understand not only their best alternative to a negotiated agreement (BATNA), their worst alternative to a negotiated agreement (WATNA), their reasonable alternative to a negotiated agreement (RATNA) and their probable alternative to a negotiated agreement (PATNA) of proceeding to trial or arbitration.

Unlike an arbitrator, the IP conciliator can meet with the parties separately and provide advice before issuing a final proposal, because their opinion is non-binding. While IP conciliators should be neutral and impartial, they are expected to be evaluative from the outset. Conciliation is also a compulsory or non-voluntary step and part of court proceedings in many countries. In certain civil law jurisdictions, parties are not allowed to proceed to a hearing with a judge on the merits of their case, until they have attended a compulsory conciliation session. The conciliator may be another judge, a magistrate, a justice of the peace or a court-appointed expert, who will normally have a limited amount of time available to hear the matter (e.g., a few hours) and give a recommendation.<sup>20</sup> In some jurisdictions

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20 Switzerland is a civil law jurisdiction that has such an approach. Mediation is a purely voluntary process in Switzerland, where the parties always have to opt in to mediation proceedings by mutual consent or if it is suggested by a judge (which is rare), whereas conciliation is a compulsory stepping stone on the way to litigation under the Swiss Code of Civil Procedure (SCCP) and is non-voluntary. Conciliation is dealt with at Part 2, Title 1, Articles 197–212 of the SCCP and mediation is dealt with in Part 2, Title 2, Articles 213–218. The conciliator is usually another magistrate, who will spend a few hours but not more with the parties to help them discuss the strength and weakness of their case. Swiss conciliators are also not used to having caucuses or separate meetings with the parties. Many Swiss arbitrators also hold conciliation sessions with the parties following evidentiary hearings (usually after they have written a first draft of their award) and may even present their thinking (and possibly the draft award itself) to the parties before issuing it, to facilitate possible settlement discussions before rendering their award. This practice may be frowned on in certain common law jurisdictions as a form of ‘appeal before verdict’, but it is very much in line with the GPC Series’ findings, and

if the parties did not settle, the court may even ask to see the conciliator's final settlement proposal (unless the parties have agreed that this should not be the case), and sanction a party for having unreasonably failed to accept it. There is no reason for the parties or their advisers to try mediation if they perceive it as being a similar process to conciliation.

## Mediation

### *The purpose*

The role of an IP mediator is to be neutral, impartial (or equally multi-partial) and non-evaluative. Unlike a conciliator, the IP mediator is not expected to have or to express an opinion regarding what the outcome of the dispute ought to be. His or her role is to look to the future and facilitate an interest-based negotiation rather than find a zone of compromise between different positions. IP mediators are appointed primarily for their ability to engage in a constructive dialogue and to help the disputants have a broader and deeper understanding of one another, and not to debate the merits of the parties' respective positions. The IP mediator is there to help the parties exchange meaningful information as part of a joint process, treating the disputants as partners in a dispute resolution process, where the outcome can also be based on subjective considerations, such as the disputants' understandings, preferences, perceptions, emotions, interests, concerns, feelings, beliefs, values, needs and fears.

Although private meetings with the parties may also occur, the purpose of these caucuses is different from IP conciliation insofar as the mediator is not there to challenge the parties or their positions and beliefs, but to help the disputants exchange information, look to the future, and generate and consider new opportunities for settlement. The mediator can also help the disputants think through the possible consequences or ramifications of different alternatives and brainstorm new options. Reality testing can also be a key tool in mediation to help the disputants consider the likely consequences of any outcome, for themselves, their partners in the dispute and other key stakeholders. The mediator may also help the disputants to consider the benefits of bifurcated proceedings, the different positions that may be argued regarding the quantum of damages and the incidence of such different calculations (e.g., what if an alleged infringer cannot afford to pay anything, whether he or she may end up moving elsewhere or working with another competitor, and whether there are other mutually beneficial outcomes that can be generated without having to pay cash upfront). While conciliation may seem less useful in IP disputes where the IP rights are clearly valid and there is sufficient evidence of wilful infringement or pirated goods, mediation can still be beneficial to both parties in such cases, even with manufacturers that acted in bad faith, when looking at this from a purely pragmatic approach. Known IP offenders have ended up becoming key strategic allies to IP owners as a result of certain mediations in IP cases, when any form of dialogue was originally completely dismissed out of hand.

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may explain the disproportionate popularity of Swiss arbitration and Switzerland as a venue for international commercial disputes. Unfortunately, mediation remains relatively unknown and unused in commercial and IP disputes in Switzerland, despite being significantly faster and cheaper, and taking into consideration a broader range of issues for international and cross-cultural disputes.

### *The process*

Mediation is a form of 'subjective justice'. The primary role of the IP mediator is not to set a ZOPA, apply the legal syllogism or analyse WATNAs, RATNAs or PATNAs, but to help the disputants exchange information about their subjective needs, interests concerns and motives, looking to the future rather than the past.<sup>21</sup> They may even have an aspirational 'win-win' goal of helping the disputants to reach outcomes that are equal to or better than their BATNAs. The IP mediator can start with broader procedural questions, such as any shared values regarding the process itself, what relationships or stakeholders need to be borne in mind, and treat the disputants not as parties to a dispute but as partners working together to find a mutually acceptable outcome. They may help the parties generate and apply their own norms, exchange information about their future concerns, needs and interests, and consider a broader range of options that are not shaped by what a court or tribunal might do. The IP mediator is not normally allowed to make settlement proposals (although he or she can suggest options as part of a brainstorming session to help the partners generate more ideas and explore a wide range of possible solutions that might address their subjective needs, concerns and interests). The IP mediator may also take into consideration the personal chemistry of the members of each team and reorganise them into smaller teams, taking cultural factors into account and helping to build personal working relationships in these groups.

The IP mediator helps the parties to realise that their needs and interests may not necessarily be in competition with one another, but that, on the contrary, there may be opportunities to 'expand the pie' by looking at the IP rights involved in the dispute in terms of different business sectors or their potential for generating revenues in different countries. They can encourage the disputants to understand different cultural perspectives regarding applicable norms, without having to evaluate who is right or wrong, and encourage the parties to work through certain hypotheses to find solutions that work for both of them. Needs and interests often turn out not to be in competition when viewed from this perspective. It is even common for IP disputants to have complementary technologies, know-how or access to customers whose interests may converge and be better served by working cooperatively rather than purely competitively. Most IP disputants have the same needs and interests: to increase revenues, decrease costs, retain key employees and maintain good reputations or brands. They may have a mutual interest in creating barriers to entry for competitors, but markets can also be reorganised by industry sector or geographically,

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21 The Swiss Chambers' Arbitration Institution (SCAI) in its 2019 Mediation Rules succinctly defines the distinction between mediation, expert opinions and conciliation as follows: 'Mediation is a method of dispute resolution whereby the parties attempt to reach an amicable settlement of their dispute or avoid future conflicts with the assistance of a neutral third party, the mediator. The mediator facilitates the exchange of information and perspectives between the parties and encourages them to explore solutions that meet their needs and interests. Unless specifically requested by the parties, the mediator does not give his or her own views (as would an expert) and abstains from making proposals (as would a conciliator)'. See <https://www.swissarbitration.org/Mediation/Mediation-rules>. This is again an example of how mediation is distinguished from conciliation in some civil law jurisdictions, which can be useful for international IP disputes.

where the disputants may have different operational strengths or weaknesses. This can lead to increased sales or royalties, reduce the needs for capital expenditure and enable both disputants to benefit from better distribution channels in other countries.

Nothing is irrelevant in mediation. Emotions, relationships, quality of life, stress, fears, values, personal needs and interests (e.g., impacts on careers or personal lives) are just as relevant as issues of fact or law. This does not mean that norms have no importance at all in IP mediation. It will still be useful for the IP mediator to know the relevant industry and sector, and even the applicable laws, technologies, products, services and competitive landscape as they can be useful benchmarks by which to assess possible options (not to shape these options or for the mediators to provide their own views regarding how these norms should be applied). The mediator can ask open questions to explore whether the disputants have considered and discussed different options, and what the consequences of different outcomes might be for them in the future. The legal syllogism can still serve as a benchmark, but is only to assess whether the partners have co-created a solution that is better than or equal to what they might have obtained through litigation or arbitration.

IP mediation can also happen in steps, initially focusing on confidence-building measures, to help each partner understand and gain trust in the another, before exploring underlying opportunities that may exist in the future, such as cross-licensing or working together. Such avenues of thought often lead to surprising results that would never have been considered feasible initially. The journey can be more important than the destination initially embarked on. An acrimonious IP dispute (even cases that are in advanced stages of litigation or arbitration) may turn into a joint venture, a co-branding or a cross-licensing opportunity, allowing all of the disputants to increase their revenues, decrease costs, or strengthen their brands or reputations. This happens more often in real life than traditional IP practitioners make think possible. Even if the parties are not able to agree on dispositive issues and may need evaluative or adjudicative input on certain issues, they are still able to maintain good working relationships and align their shared interests when it comes to reducing the cost, time and complexities of reaching an outcome that provides closure. This is something a mediator can assist with as well, sometimes even inviting in an expert to provide an opinion within mediation proceedings, but in a way that has been discussed and agreed to by the partners involved in the process.

### Mediation versus conciliation

Mediation and conciliation may be considered as having different objectives: mutually acceptable compromises as opposed to optimal outcomes that can be win-win. It is usually the case for IP disputes that the neutrals should have some relevant industry experience and be able to understand the substantive issues at stake in both processes, but with different emphases. While objective parameters such as findings of fact or law may be the central focus of the conciliator, the mediator seeks to understand and take into consideration a broader range of cultural, personal, social and emotional factors. While it is useful that both mediators and conciliators be informed of the relevant markets and the parties' respective market shares, this can be for different reasons. It may be to avoid inadvertent unlawful or unfair competition discussions (e.g., technology or pricing cartels), especially in certain industries, or to help the disputants explore together the impact of different options for key stakeholders, such as consumers, and whether the disputants wish to factor such

considerations into their settlement discussions. There may also be conflicts where there are too many IP owners or IP rights involved to be able to apply norms consistently (e.g., in FRAND licensing disputes). In such cases, solutions may be found by looking at a broader range of considerations, such as shared values, corporate social responsibility, industrial incentives and consumer needs. A possible solution may be viewed very differently when taking into consideration the future growth of the sector, how to promote constant innovation and improvement in an open IP market, while ensuring a fair and reasonable return on investment for each party's respective contributions to the pool of relevant IP rights.

While the nuances between conciliation and mediation discussed in this section may seem trivial or too puritanical to some IP neutrals who are comfortable working both as mediators and as conciliators, the choice of process needs also to be considered not from the neutral's perspective, but from that of the disputants themselves. Especially if they are not familiar with the concept of ADR in general. Each process may have a different effect on social and emotional heuristics affecting the quality of the dialogue between the disputants. The tendency to conflate mediation and conciliation is not only a semantic source of confusion but can lead to important distinctions in the way the process can impact the parties' behaviour and the solutions they are able to generate together.<sup>22</sup> Many non-adjudicative neutrals may contest this distinction on the grounds that they know when and how to act evaluatively and non-evaluatively, considering conciliation as simply being a form of evaluative mediation. Some mediators may even believe it is always best to swap hats between these two non-adjudicative styles, for example starting off as facilitative and non-evaluative in the beginning of the process, but becoming increasingly evaluative as time goes by, especially if a deadline was set by which the process should end, or the parties set themselves a fixed budget in terms of the mediator's time. Such mediators may also believe that it is their job to give a mediator's proposal at the end of the process, if the parties did not settle.

Recent findings from social and brain sciences, however, support treating conciliation and mediation as separate processes. Scientists are beginning to understand and explore such concepts as social and emotional plasticity, and the different innate patterns of thought or heuristics that can be pre-consciously triggered to limit or enhance cognitive reflection. Mediation and conciliation are likely to impact group dynamics and rational thought processes very differently when considered from this perspective. It is only in the past few years that functional magnetic resonance imaging studies have been available to study functional neural plasticity in the human brain, associated with different emotional states, attention orientation and social heuristics, such as empathy or compassion (or the participants' inability to feel empathy or compassion for one another). Different networks seem to

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22 The 2018 UNCITRAL Model Law on International Commercial Mediation and International Settlement Agreements Resulting from Mediation unfortunately contributes to this confusion. While the definition of 'mediation' at Article 1.3 of the Model Law clearly states that it is 'a process, whether referred to by the expression mediation, conciliation or an expression of similar import, whereby parties request a third person or persons ("the mediator") to assist them in their attempt to reach an amicable settlement of their dispute', Article 7.4 of the Model Law clearly states: 'The mediator may, at any stage of the mediation proceedings, make proposals for a settlement of the dispute', which is only something a conciliator should be doing. Fortunately this language does not appear in the United Nations Convention on International Settlement Agreements Resulting from Mediation (New York, 2018) (the Singapore Convention on Mediation).

be unconsciously activated in the human brain, when people are primed to feel ‘in-group’ as opposed to ‘out-of-group’, leading to very different outcomes.<sup>23</sup> This is a new area of science and the results are already surprising.

If parties are unconsciously primed by an IP conciliator to think of each other as separate groups, out-of-group heuristics are likely to be activated. This leads to innate patterns of thought that can reduce helping behaviour and increase aggressive behaviour, associated with greater feelings of distress, negative emotions and social disconnectedness. Different parts of the brain, such as the anterior cingulate cortex or the anterior insula appear to be involved in the metabolism of oxygen or glucose in these cases. In IP mediation, however, if the parties are primed to think of each other as partners seeking a mutually acceptable outcome (as opposed to an equally unhappy compromise), an in-group script can be triggered, which may lead to greater helping behaviour, less aggressive behaviour, greater feelings of compassion and positive emotions, and a sense of social connectedness between the disputes. The participants are likely to engage in deeper thinking and think creatively, responding better to one another’s non-verbal cues.

A neutral simply swapping hats between mediation and conciliation without the express prior understanding or approval of the disputants about these different processes, and especially the benefits of working in-group or out-of-group may prevent the disputants from having true party autonomy and self-determination when selecting or designing their own ADR processes. Not discussing such nuances upfront with the disputants and letting each ADR neutral simply decide for themselves when to be facilitative or evaluative can have unintended consequences and may adversely impact the participants’ cognitive abilities or willingness to engage in empathetic or compassionate discussions with one another, even if this may all be subconscious or pre-conscious.

Emotions often reflect unmet needs. The stronger the emotion, the greater the unmet need. Many inventorship or authorship disputes are based on personal needs, such as personal recognition of who contributed what or who should be given greater credit. This is not only about financial compensation, but personality traits and a subjective sense of justice. Co-ownership or cross-licensing solutions may turn out to be resolved better by approaching outcomes cooperatively, than assuming a competitive ‘winner takes all’ mindset from the beginning, especially if the IP assets at stake may be vulnerable.

The IP mediator’s role can thus be distinguished from that of the IP conciliator, not only as focusing on different issues and objectives, as outlined above, but also as priming in-group scripts of behaviour that trigger greater pro-social behaviour, such as cooperation, a desire to be helpful and reduced aggression. It can also trigger mirror neurons and mental attribution systems differently, generating greater compassion or empathy between the disputants. This also discourages more competitive or out-of-group heuristics from being

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23 For an interesting consideration of human social plasticity and ‘in-group’ versus ‘out-of-group’ behavioural patterns in this context, see O. Klimecki, ‘The plasticity of social emotions’, *Journal of Social Neuroscience*, Vol. 19, No. 5 (2015), pp. 466–73, and O. Klimecki, ‘The Role of Empathy and Compassion in Conflict Resolution’, *Emotion Review* (2019), pp. 1–16, which provide new insights into how mediation and conciliation may prime different heuristics and pro-social as opposed to anti-social patterns of behaviour. See [https://www.researchgate.net/publication/282037760\\_The\\_plasticity\\_of\\_social\\_emotions](https://www.researchgate.net/publication/282037760_The_plasticity_of_social_emotions) and [https://www.researchgate.net/publication/334178052\\_The\\_Role\\_of\\_Empathy\\_and\\_Compassion\\_in\\_Conflict\\_Resolution](https://www.researchgate.net/publication/334178052_The_Role_of_Empathy_and_Compassion_in_Conflict_Resolution).



activated, which can be a concern in some conciliations. Evaluative processes and discussions can easily trigger out-of-group scripts, especially if parties feel they need to develop a coalition with the conciliator and caucuses are used to do robust reality testing, regardless of the disputants' ongoing trust and willingness to work with the same IP neutral. These will impact how the parties perceive and consider one another's proposals in ways that they are not aware of.<sup>24</sup> Mediation is thus particularly useful in highly emotional disputes or where profound cultural differences may be at play, which is common in IP disputes.

Understanding and discussing these procedural differences early on can lead to very different choices when jointly selecting or designing an optimal ADR process. Looking at process design from a social, emotional and cognitive perspective allows greater choice, party autonomy and informed consent.

### Combining conciliation and mediation

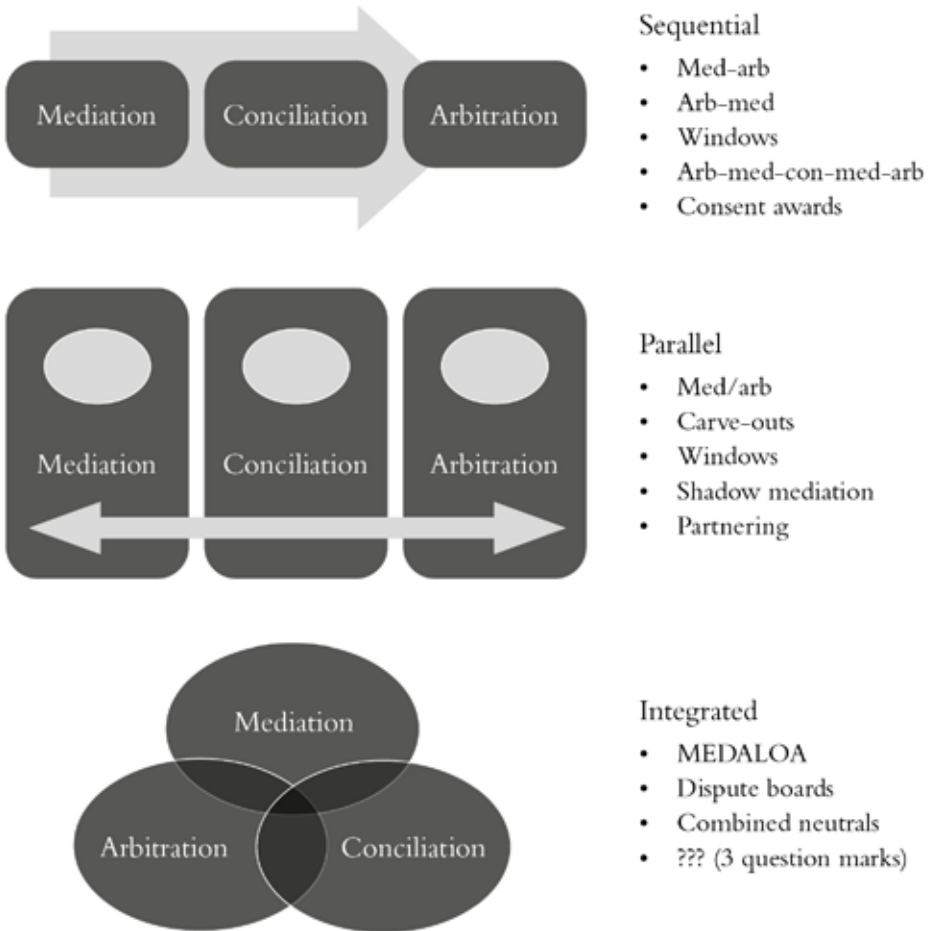
Mediation and conciliation are not mutually exclusive. Combining them as part of a 'med-con' or 'co-mediation' process with two neutrals (one acting as a mediator and the other as a conciliator), may be particularly beneficial in IP disputes. Although appointing two non-adjudicative neutrals may easily be perceived as simply adding costs as compared to a traditional IP mediation or conciliation, these additional costs are negligible given the added value and satisfaction such combined proceedings have the ability to provide. Med-con processes are likely to generate settlement rates greater than 90 per cent based on anecdotal reports of the use of such combined processes in the Netherlands in the field of labour disputes. They are also likely to provide greater satisfaction both to the disputants and to their advisers, especially traditional IP practitioners. This combination provides both the opportunity to consider and analyse traditional issues of fact and law that lawyers are used to assessing, and to take into consideration the participants' subjective needs and interests. While one person could cognitively achieve both roles, swapping hats between conciliator and mediator mode, there is a different impact on emotional and social plasticity when two neutrals work together. It is natural to seek to create coalitions with a single person who will be perceived to act at some stage as a conciliator (priming out-of-group behaviour between the participants). There is no purpose, however, in seeking to build such coalitions with a mediator, who can never be considered as a potential threat, given that they will not be evaluative if a conciliator is also present. The mediator can help the participants reflect on the quality and flow of information, promoting pro-social and in-group behaviour, without having to focus as much on the substance. Such a combined process holds great promise for resolving IP disputes in a faster, cheaper way, and it is better than solely resorting to adjudicative IP proceedings.

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24 For further discussion of some of these considerations, see J. Lack, 'A mindful approach to evaluative mediation', *Mfn Tijdschrift Conflictantering*, No. 3 (2014), pp. 18–23 (<http://lawtech.ch/wp-content/uploads/2016/03/J.-Lack-Evaluative-Mediation-Mfn.-Tijdschrift-No.-3-2014.pdf>), and J. Lack and F. Bogacz, 'The Neurophysiology of ADR and Process Design: A New Approach To Conflict Prevention And Resolution?', *Cardozo Journal of Conflict Resolution*, Vol. 14 (2012), pp. 33–80 (<http://lawtech.ch/wp-content/uploads/2016/03/J.-Lack-F.-Bogacz-The-Neurobiology-of-Conflict-2012-Cardozo-JCR.pdf>). It should be stated, however, that this field is still in its infancy, and great caution needs to be applied when considering if and how to apply some of these ideas. Suffice it to say that conciliation and mediation may not only differ procedurally, but also in terms of the outcomes they may generate.

Figure 2: Considerations when designing mixed adjudicative and non-adjudicative processes

### Process design and combination



#### Factors

- Parties
- Certainty of outcome
- Costs
- Time and deadlines
- Applicable law(s)
- Languages
- Skill sets
- Venue and distances
- Institutional rules
- Nationalities/cultures
- Counsel
- Neutrals (roles and no.)
- Availabilities
- Advisers and experts
- Confidentiality
- Discovery
- Implementation
- Enforcement

## **Mixed modes: the benefits of combining adjudicative and non-adjudicative processes**

Adjudicative and non-adjudicative processes such as mediation, conciliation and arbitration are fundamentally compatible and complementary.<sup>25</sup> Taking into consideration procedural precautions to prevent a mediation from adversely affecting the recognition and enforceability of an arbitral award under the New York Convention (e.g., by ensuring that information heard by a mediator or conciliator in a caucus is never shared with an arbitrator), they may be combined in a number of ways: sequentially, in parallel or as integrated processes as indicated in Figure 2. Independently of the time and costs savings, there are a number of additional benefits to be considered by combining such processes to design bespoke ‘mixed mode’ processes, especially for complex IP disputes.<sup>26</sup>

Distinct topics and issues (especially those involving subjective needs, interests and concerns looking to the future, or corporate motivations or strategies) can be carved out of adjudicative IP processes. Courts or tribunals may often wish to create mediation or conciliation windows in the midst of IP proceedings, not only to encourage the parties to settle but also to discuss and consider additional considerations. While IP tribunals may invite disputants to meet with a non-adjudicative neutral (e.g., to discuss evidentiary issues, the ranges of royalty rates to be applied or to jointly identify the key dispositive issues they would like to have adjudicated), they are unlikely to do so. They are often not comfortable raising or proposing such proceedings themselves, for fear that such a proposal might be perceived as compromising their impartiality or willingness to tackle their own mandate themselves, or because they fear hearing things that they should not take into consideration. It is instead for the disputants, their counsel and advisers to seize these initiatives.

The GPC Series confirmed a growing interest in the use of mixed modes for resolving commercial disputes. As a result, a tripartite task force was set up by the College of Commercial Arbitrators, the International Mediation Institute and the Straus Institute for Dispute Resolution at the Pepperdine School of Law, comprising seven working groups.<sup>27</sup> While it is too soon to discuss the task force’s recommendations, they are likely to be of interest to IP disputants, especially since the Singapore Convention on Mediated Settlement Agreements came into force in September 2020.<sup>28</sup> The Singapore Convention provides broad and far-reaching enforceability provisions for mediated settlement agreements. It has already been signed by several influential IP jurisdictions especially in the field of new technologies (including China, India, Israel, Singapore, South Korea, Turkey and the

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25 R. Dendorfer and J. Lack, ‘The Interaction Between Arbitration and Mediation: Vision v Reality’, *Dispute Resolution International*, Vol. 1 No. 1 June 2007, pp. 73–98. See [http://lawtech.ch/wp-content/uploads/2016/03/jl\\_2007\\_The\\_Interaction\\_Between\\_Arbitration\\_and\\_Mediation-1.pdf](http://lawtech.ch/wp-content/uploads/2016/03/jl_2007_The_Interaction_Between_Arbitration_and_Mediation-1.pdf).

26 J. Lack, ‘Appropriate Dispute Resolution (ADR): The Spectrum of Hybrid Techniques Available to the Parties’, Chapter 17 in *ADR in Business, Practice and Issues Across Countries And Cultures* (Kluwer Law International, edited by A. Ingen-Housz, 2011), pp. 339–79. See [http://lawtech.ch/wp-content/uploads/2016/03/Ingen-Housz-9789041134141\\_Chapter-17-J-Lack.pdf](http://lawtech.ch/wp-content/uploads/2016/03/Ingen-Housz-9789041134141_Chapter-17-J-Lack.pdf).

27 The United Nations Convention on International Settlement Agreements Resulting from Mediation. See <https://imimediation.org/about/who-are-imi/mixed-mode-task-force/>.

28 See [https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/EN/Texts/UNCITRAL/Arbitration/mediation\\_convention\\_v1900316\\_eng.pdf](https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/EN/Texts/UNCITRAL/Arbitration/mediation_convention_v1900316_eng.pdf).

United States).<sup>29</sup> It fills a gap that currently exists between the New York Convention on arbitration and the Hague Convention Judgments Convention, which will enter into effect in March 2021. As such, given some of the concerns raised by public policy exceptions to the extraterritorial enforcement of certain arbitral awards in some IP cases, and the narrow terms of reference that some IP arbitral tribunals may feel they are bound by, it may be judicious for IP disputants who are seeking internationally enforceable settlement agreements to initiate mediation and arbitration proceedings in parallel, and include in a mediated settlement agreement whatever cannot be included in an arbitral consent award.<sup>30</sup> Unlike awards or judgments that may be judicially reviewed, the logic of a mediated settlement agreement is not something courts or tribunals are competent to probe. The only question will be whether they were obtained with the help of a bona fide mediator and whether the settlement award is clear on its face. Disputants also typically share the same IP procedural interests in most IP disputes, such as spending as little time as possible on disputes, reducing the time to reach outcomes, preserving good relationships and preventing conflicts (and especially their costs) from spiralling or escalating further. Disputants usually prefer to treat the root causes of a conflict and not only its symptoms, which is one of the key benefits of mediation as compared to other dispute resolution processes.

Non-adjudicative processes should not be regarded as alternatives to arbitration or litigation but as complementary adjuncts. They are capable of catalysing faster, cheaper and better outcomes synergistically. This is true for institutional as well as ad hoc proceedings. A number of institutions already offer model clauses providing for mediation followed by arbitration or, as in the case of the Rule 9 of the American Arbitration Association's (AAA) Arbitration Rules and Mediation Procedures, or in the case of the Singapore International Arbitration Centre, incorporating mediation as part of arbitration proceedings.<sup>31</sup>

Rather than leave courts or arbitral tribunals to decide between competing positions or expert opinions in IP disputes, organising non-adjudicative sessions with the help of a neutral can help clarify and narrow the zone of potential settlement, exclude certain risks and possibly enable the parties to amicably identify and resolve key dispositive elements of the dispute faster. These sorts of discussions usually cannot be discussed in a tribunal's presence. Deciding whether to do so, however, requires an appreciation not only of why, but also when and how to combine such non-adjudicative windows into mixed-mode ADR processes, and how to effectively combine them with arbitration or litigation to reach faster,

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<sup>29</sup> See [https://uncitral.un.org/en/texts/mediation/conventions/international\\_settlement\\_agreements/status](https://uncitral.un.org/en/texts/mediation/conventions/international_settlement_agreements/status).

<sup>30</sup> For two recent publications on the Singapore Convention and its future applicability, see N. Alexander and S. Chong, *The Singapore Convention on Mediation: A Commentary*, Wolters Kluwer (2019) and H. Abramson, *Singapore Mediation Convention Reference Book*, Benjamin N. Cardozo School of Law (2019).

<sup>31</sup> For model escalation clauses including mediation and arbitration, the following serve as good examples: WIPO ([https://www.wipo.int/amc/en/clauses/med\\_arb/](https://www.wipo.int/amc/en/clauses/med_arb/)); ICC model mediation clause D (<https://iccwbo.org/publication/suggested-icc-mediation-clause-english-version/>); SCAI model mediation clause 3.1 (<https://www.swissarbitration.org/Mediation/Mediation-clauses>); AAA-ICDR (<https://www.adr.org/Clauses>); Rule 9 of the AAA's Rules provides that a mediation shall always be started in parallel with an arbitration whenever the value of a dispute exceeds US\$75,000 (which is almost inevitably the case in IP disputes), unless a party opts out of doing so (see <https://www.adr.org/sites/default/files/Commercial%20Rules.pdf>). The Singapore International Arbitration Centre and the Singapore International Mediation Centre have also combined to offer a joint arb-med-arb process. See <https://www.siac.org.sg/model-clauses/the-singapore-arb-med-arb-clause>.

cheaper and better outcomes, especially for IP disputes. This presupposes, however, understanding the full range of ADR options, some of the key differences between different types of processes (e.g., mediation versus conciliation), and process design considerations.

An arbitration could also be combined with a med-con process as described above in ‘Combining conciliation and mediation’ to generate a ‘med-con-arb’ process. Rather than appointing a three-person arbitral tribunal, as is often the case for high-value commercial disputes, disputants may wish to consider saving time and money by appointing a sole arbitrator who can also act as a conciliator (if he or she does not attend caucuses) together with a mediator, or by jointly appointing a three-person arbitral tribunal comprising three ADR neutrals: a chair (who would only act as an arbitrator and would not participate in any caucuses) and two ‘wing arbitrators’ (one who may act as a mediator and the other as a conciliator). The chair would ensure the ongoing quality and enforceability of a final arbitral award, which could include a consent award resulting from any mediation or conciliation sessions led by the two other wing arbitrators. It would be wise, however, to avoid caucusing separately with the parties if the conciliator and mediator intend to continue to function as arbitrators and participate in the final arbitral award. Caucusing may still be possible with the mediator or with the conciliator in such cases, however, if certain precautions and safeguards are taken. These include signed waivers, consenting to a conciliator or mediator continuing to work as an arbitrator following a caucus, or ensuring either that no information heard in caucus may be used or taken into consideration during the arbitral tribunal’s discussions and determinations, or ensuring that information heard in caucus may only be relied upon if it was subsequently disclosed to all of the parties, who will each have been given the opportunity to respond to it in accordance with due process, the *audi alteram partem* principle and the adversarial principle.<sup>32</sup>

## Metrics and data

There is a wide range of empirical data in existence demonstrating that combining adjudicative and non-adjudicative processes will lead to faster, cheaper and better outcomes in over 70 per cent of IP disputes.

WIPO is a financially independent agency of the United Nations, with 193 member states and offices in Algeria, Brazil, China, Japan, Nigeria, Russia, Singapore and Switzerland, where it has had its headquarters ever since it was created in 1967 in Geneva.<sup>33</sup> Its services and statistics confirm the existence of the IP paradox, and provides data upon which recommendations can be made for change and action. Foreseeing the importance of globalisation, new technologies and the rising economic importance of IP for entities of all shapes and sizes, in low-income, middle-income and high-income countries, WIPO created a Mediation and Arbitration Center in 1994.<sup>34</sup> Since then, IP rights have since become

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<sup>32</sup> These considerations are well explained and set out by the consultation document issued by the CEDR Commission on Settlement in International Arbitration in 2009, chaired by Lord Wolf of Barnes and Professor Gabrielle Kaufmann-Kohler, whose findings are available at [https://utcle.org/conferences/IA09/get-asset-file/asset\\_id/14178](https://utcle.org/conferences/IA09/get-asset-file/asset_id/14178).

<sup>33</sup> See <https://www.wipo.int/about-wipo/en/>.

<sup>34</sup> See <https://www.wipo.int/amc/en/history/>.

ubiquitous, affecting international commerce, all industries and all consumers, especially in Asia. The Center accordingly opened up offices at Maxwell Chambers in Singapore in 2010, in addition to its Geneva office, in anticipation of a large increase in cases.

Today, the WIPO Mediation and Arbitration Center offers a broad range of procedural choices including mediation, arbitration, expedited arbitration and expert determination.<sup>35</sup> It has developed a variety of online case administration tools for IP disputes, including an electronic case facility system to facilitate online dispute resolution and videoconferencing services.<sup>36</sup> While WIPO does not distinguish between mediation and conciliation, and specifically includes conciliation in its definition of mediation, it provides a full range of ADR solutions.<sup>37</sup> WIPO has also adapted its procedural options to meet the needs of specific industry sectors, such as art, energy, fashion, entertainment, franchising, information and communication technologies, financial technology, FRAND licensing, life sciences, research and development, technology transfer, sports and trade fairs.<sup>38</sup> Despite the fact that hundreds if not thousands of new IP litigation proceedings are filed in almost every medium-income to high-income country since 2009, very few of these cases have been consolidated or resolved by international arbitration or mediation before WIPO, despite it having an enviable list of IP experts and ADR neutrals.

Since January 2000, WIPO has administered over 700 mediation, arbitration and expert determination ADR cases, and more than 650 related requests of assistance, with average settlement rates of 70 per cent using mediation and 33 per cent using arbitration. When mediation and arbitration were combined as sequential steps in contract escalation clauses, the settlement rate increased to well over 80 per cent. This data is supported by other ADR centres and practitioners worldwide who repeatedly provide the same statistics around the world, despite having different cultural approaches to mediation, conciliation and arbitration. They report settlement rates of 70 per cent to 85 per cent for non-adjudicative processes (higher if such processes are combined with adjudicative processes), time frames that are significantly faster than litigation or arbitration (usually within one to two days over a three-month period), at costs that are considerably cheaper (1 per cent to 5 per cent of the value of the dispute depending on its size and complexity) and with higher satisfaction ratings.<sup>39</sup>

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35 See <https://www.wipo.int/amc/en/center/wipo-adr.html>.

36 See <https://www.wipo.int/amc/en/eadr/index.html>.

37 The distinction between mediation and conciliation is something that may be worth thinking about when interviewing prospective neutrals for a WIPO mediation process.

38 See <https://www.wipo.int/amc/en/center/specific-sectors/>.

39 For example, in 2009, the ACB Foundation in the Netherlands reported 92 per cent satisfaction ratings and a 79 per cent settlement rate for commercial disputes having an average value greater than US\$5 million, which were usually completed within four half-day sessions (i.e., two days on average). Including legal and institutional fees, this comes to 1.3 per cent of the average value of a dispute. A 2013 online report by a America's Small Business Development Network claims average settlement rates of 85 per cent, and claims that mandatory mediation is only 10 per cent less effective than voluntary mediations (i.e., 75 per cent settlements even when the parties initially did not wish to mediate). For the source of these data and for a broader discussion on when, why and how to consider using negotiation, mediation, conciliation, arbitration or other ADR proceedings, see: <http://lawtech.ch/wp-content/uploads/2016/03/LAWTECH-Presentation-Using-Appropriate-Dispute-Resolution-When-to-use-what-why-and-how-much.pdf> and <https://americassbdc.org/is-mediation-your-best-option/>.

The table below shows a theoretical average cost reduction of 40 per cent if mediation and arbitration proceedings were to be combined, based on a number of publications.<sup>40</sup> These average costs are expressed as a percentage of the value of the dispute and have been calculated by taking the mean averages of the costs of mediation and arbitration on their own, which are likely to be far too conservative. The savings are likely to be considerably higher in reality, and also lead to significantly higher time savings and satisfaction ratings.

<i>Average costs of arbitration v. mediation v. mixed-mode processes expressed as a % of value</i>						
	World Bank Data	ACB (NL) Data	McIlwrath & Savage	McIlwrath & Savage	McLaughlin & Alexander	Averages (unweighted)
			Civil Law (Ave)	Common Law (Ave).		
Value of dispute	\$200,000	\$5 million	\$10 million	\$10 million	\$20 million	N/A
Estimated global cost (arbitration)	\$34,500	\$450,000	\$556,500	\$1,428,500	\$3,027,000	N/A
Arbitration cost as % of value	17.3%	9%	5.6%	14.3%	15.1%	12.2%
Estimated global cost (mediation)	\$9,488	\$65,000	\$150,000	\$325,000	\$266,000	N/A
Mediation cost as % of value	4.7%	1.3%	1.5%	3.3%	1.3%	2.4%
Hypothetical combined costs as % of value for (med+arb)/2	11%	5.2%	3.5%	8.8%	8.2%	7.3%
Theoretical % of savings using mixed mode	36.2%	42.8%	36.5%	38.6%	45.6%	40.1%

This author’s assessment is that non-adjudicative processes combined with adjudicative processes will lead to significantly faster, cheaper and better outcomes in more than 90 per cent of IP disputes. This is particularly the case when combining mediation with arbitration, where the ADR neutrals can work with the parties, both separately and together, to explore and take into consideration a broader vision of the dispute, including the participants’ procedural interests, needs, concerns, motives and perspectives early on. IP mediators can take into consideration factors that IP arbitrators cannot and a mediated settlement may be just as enforceable, whether presented as a settlement agreement under the Singapore Convention or as a consent award under arbitration.

While these settlement rates are very high, the numbers of ADR cases filed annually with WIPO are still moderate compared to the number of cases filed with the WIPO Mediation and Arbitration Center under its Uniform Domain Name Dispute Resolution

<sup>40</sup> For the data on which these numbers are based, see <http://lawtech.ch/wp-content/uploads/2016/03/LAWTECH-Presentation-Using-Appropriate-Dispute-Resolution-When-to-use-what-why-and-how-much.pdf> at slides 13–17. The data are based on the author’s own calculations and estimates from the sources cited in that presentation.

Policy (UDRP).<sup>41</sup> During that same time period, the Mediation and Arbitration Center handled approximately 48,000 UDRP cases, including 3,693 UDRP cases in 2019 alone<sup>42</sup> as compared to 179 IP ADR requests that same year.<sup>43</sup> This disparity may reflect a different mindset when approaching IP disputes as compared to domain name disputes. UDRP disputants can obtain cost-effective dispute resolution solutions online in a matter of two months at a cost of US\$1,500.<sup>44</sup> It should be possible for IP disputes to reach the same figures even if their costs will remain higher. It is paradoxical that the same disputants who are using these UDRP processes continue to rely primarily on traditional litigation or arbitration to handle their IP disputes, spending hundreds of thousands, if not millions, of US dollars per case, and incurring significant delays (one to four years). Yet they remain reluctant to use the proven services of a neutral, independent, culturally diverse and impartial centre, such as the WIPO Mediation and Arbitration Center, which has an established track record with settlement rates greater than 80 per cent (and significantly shorter deadlines) when combining mediation with arbitration.

### **Commonly cited reasons to resist non-adjudicative processes**

Most IP practitioners are in favour of the concept of mediation or conciliation; however, they often provide reasons for not using mediation in specific cases where litigation or arbitration have already been initiated.

A typical reason for not trying mediation is that the parties already tried to settle through negotiation and failed, so there would be no point in trying mediation. This suggests that negotiation and mediation are the same thing. Recent experiments in neurosciences, however, demonstrate that they are not. Parties who have mediated tend to reach a significantly higher number of settlements than parties who only negotiated, are significantly more satisfied with the content and the process of their discussions in mediation than in negotiation, and have significantly lower levels of remaining disagreements post mediated discussions as compared to parties who only negotiated.<sup>45</sup> Mediation appears to trigger not only different pro-social and in-group dynamics as discussed with respect to conciliation above, but it has also been associated with increased activity in the nucleus accumbens, a key region in the brain's reward circuitry system, as compared to negotiation.<sup>46</sup>

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41 The UDRP process is incorporated by reference into the domain name registration agreements for generic top-level domains and many country code top-level domains. For more information, see <https://www.wipo.int/amc/en/domains/>.

42 See <https://www.wipo.int/amc/en/center/caseload.html>.

43 *ibid.*

44 This fee increases to US\$5,000 for a case involving 10 domain names, which is still remarkably low. The time period remains two months. See <https://www.wipo.int/amc/en/domains/fees/> and <https://www.wipo.int/export/sites/www/amc/en/docs/guide-en-web.pdf>.

45 Bogacz, Pun and Klimecki, 'Improved conflict resolution in romantic couples in mediation compared to negotiation', *Humanities and Social Sciences Communications*, Vol. 7, Article No. 131 (2020); <https://doi.org/10.1057/s41599-020-00622-8>.

46 H. Rafi, F. Bogacz, D. Sander and O. Klimecki, 'Impact of couple conflict and mediation on how romantic partners are seen: An fMRI study', *Cortex*, Vol. 130 (2020), pp. 302–17.



Another reason given for not trying ADR in IP disputes is that it is likely to be premature to negotiate until discovery has been completed, or some further assessment of the case has taken place and its merits are better understood. This inherent reluctance to try mediation early on in IP disputes may be based on the misconception of mediation and conciliation as being the same thing, as discussed above. If the disputants think mediation is an evaluative process like conciliation, they may be justified in feeling they need to know the strengths and weaknesses of their own cases better, as well as that of their opponents, before sitting down to the negotiation table to discuss the relative merits of their case with the help of a neutral facilitator. But mediation (unlike conciliation) does not depend on knowing the strengths or weaknesses of one's case. Only one's future needs and interests, both procedurally (e.g., reducing time and costs to reach outcomes) and substantively. It is possible even in the early stage of conciliation to assume, for the sake of argument, a 50:50 win-lose probability rate for the parties in opening discussions, in view of global 'win-rate' IP litigation statistics. Putting relevant merits aside early on enables the disputants to discuss their mutual procedural needs, interests and concerns such as budgetary and time constraints, which can already be a basis for common ground and trigger an in-group pattern of behaviour.

Postponing the use of mediation to later stages in proceedings may also be counter-productive. While IP disputants are usually open to the idea that IP disputes are inherently unpredictable, the more time and money they spend gathering evidence, focusing on their cases' strengths and weaknesses, the more likely they are to fall prey to cognitive biases such as anchoring, confirmation bias, sunk cost fallacy, in-group bias, belief bias, groupthink, optimism bias and reactance.<sup>47</sup> This makes it increasingly difficult to shift to an interest-based dialogue as opposed to a positional debate as the case proceeds, save for at the eve of trial, or if additional external pressure is placed on the disputants. So much money and time have already been spent by that stage that reputations (including those of the external advisers) are felt to be on the line, and settlements are dominated by fear and loss aversion. Late-stage compromises before litigation can also lead to irretrievably damaged relationships, leaving the parties dissatisfied with one another, and having only debated a very narrow range of topics. They may never have discussed their views of the market or one another's needs and interests, and what they could do cooperatively instead of only competitively. Focusing only on an application of the legal syllogism is a lost opportunity in such cases.

Another frequently given reason is that agreeing to mediation may be (mis)construed as a sign of weakness or a willingness to compromise. This, however, once again suggests a common misconception about the differences between mediation and conciliation. Mediation is not about compromising, but exploring faster, cheaper and better options, even if litigation or arbitration proceedings continue to exist in parallel.

Despite the clear benefits of incorporating mediation into IP disputes, the adoption of mixed-mode ADR processes is unlikely to happen unless and until there is a paradigm shift, especially in the field of IP. This shift needs to be led by IP owners and in-house IP counsel, as well as by IP judges and arbitrators. Judges and arbitrators can and should endorse the use of non-adjudicative processes themselves, or provide incentives for doing so (e.g., refusing to award costs to a party who may have unreasonably refused to try a

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47 For a list of 24 such biases, see: [www.yourbias.is](http://www.yourbias.is).

mediation or conciliation session earlier on). An example of a rule that should be used with greater frequency and by more ADR centres is Rule 9 of the AAA's Arbitration Rules and Mediation Procedures imposing mediation by default.<sup>48</sup> There could be a greater use of mediation, expert determination and arbitration services in all IP disputes, a field that the AAA believes is particularly apt for such mixed-mode processes.<sup>49</sup>

Mediation is not a panacea. It may not always resolve substantive issues. It should, however, be used earlier on in all IP disputes, if only to help the parties discuss their procedural choices so that they can choose or design an optimal dispute resolution process, and appoint the appropriate neutrals together. A mediator focusing only on process issues can be beneficial, not only to help preserve good working relationships but to explore how to save time, costs and avoid the conflict from escalating. This is the primary goal of 'guided choice' processes, as described below.

### **Guided choice proceedings for mixed-mode IP disputes**

The choice and range of ADR processes may at first appear to be overwhelming to IP owners and counsel, especially those who are not yet familiar with the broad range of processes available, and how to combine them. There are several ways of doing so quite easily, especially for IP cases, using the approach of guided choice dispute resolution processes.<sup>50</sup> This is a process by which a mediator can be appointed early on in a complex commercial dispute to facilitate an discussion on procedural issues only (as opposed to substantive issues).

A guided choice processes affirms the parties' autonomy and self-determination, and allows them to generate an in-group mindset early on in terms of their shared desire to reduce their risks, costs, management time and expenses, and to reach faster, cheaper and better outcomes. This is done by discussing and diagnosing the parties' procedural needs, interests and concerns, and how to prevent the dispute and its costs from escalating. A guided choice process is a relatively simple seven-step process, which permits IP disputants

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48 Rule 9 of the AAA's Rules reads as follows: 'In all cases where a claim or counterclaim exceeds \$75,000, upon the AAA's administration of the arbitration or at any time while the arbitration is pending, the parties shall mediate their dispute pursuant to the applicable provisions of the AAA's Commercial Mediation Procedures, or as otherwise agreed by the parties. Absent an agreement of the parties to the contrary, the mediation shall take place concurrently with the arbitration and shall not serve to delay the arbitration proceedings. However, any party to an arbitration may unilaterally opt out of this rule upon notification to the AAA and the other parties to the arbitration. The parties shall confirm the completion of any mediation or any decision to opt out of this rule to the AAA. Unless agreed to by all parties and the mediator, the mediator shall not be appointed as an arbitrator to the case.' See <https://adr.org/sites/default/files/Commercial%20Rules.pdf>.

49 See the AAA's report "'Products of the Mind" Require Special Handling: Arbitration Surpasses Litigation for Intellectual Property Disputes' (2017) at [https://www.adr.org/sites/default/files/document\\_repository/AAA192\\_Intellectual\\_Property\\_Disputes.pdf](https://www.adr.org/sites/default/files/document_repository/AAA192_Intellectual_Property_Disputes.pdf).

50 For more information on this process, see P.M. Lurie and J. Lack, 'Guided Choice Dispute Resolution Processes: Reducing the Time and Expense to Settlement', *Dispute Resolution International*, Vol. 8, No. 2, October 2014, pp. 167–177 and P.M. Lurie and J. Lack, 'The Seven Principles of Guided Choice Dispute Resolution Processes', *Who's Who Legal: Mediation 2014*. See <https://www.imimediation.org/wp-content/uploads/2017/11/P.-Lurie-J.-Lack-Dispute-Resolution-International-October-2014.pdf>, and <https://whoswholegal.com/features/the-seven-principles-of-guided-choice-dispute-resolution-processes>.

to discuss, shape and tailor their proceedings, with the ability to include adjudicative rulings with determinative opinions (e.g., arbitration or expert opinions). This can be periodically reviewed as the case evolves. The seven steps of a guided choice process are as follows:

- early use of mediation and a commitment to focus on process issues first, rather than substantive outcomes;
- confidential discussions with the mediator as a ‘process facilitator’ and with the disputants and their designated participants (as well as any other stakeholders, if so desired) to diagnose the conflict and the parties’ procedural interests;
- tailored process design using option generation techniques based on the disputants’ facilitated discussions and diagnostics;
- a code of conduct for any neutrals hired, setting principles of relevant information exchange in accordance with agreed evidence-sharing processes;
- anticipating and overcoming impasses;
- the ongoing role (if any) of the guided choice mediator (even if negotiations are suspended); and
- identifying and handling topics requiring expertise and evaluative input (binding or non-binding).<sup>51</sup>

The likelihood of success when using this process in IP disputes is already supported by WIPO’s recent statistics regarding the Good Offices services its Arbitration and Mediation Center already offers, which consist of assisting prospective IP disputants with their procedural choices before deciding on any one type of ADR process provided by WIPO.<sup>52</sup> This includes going through a series of diagnostic checklists and flowcharts designed by WIPO to help identify the most appropriate dispute resolution process for each case.<sup>53</sup> There has been a marked increase in the use of these Good Offices requests in recent years (e.g., fewer than 15 requests in 2013, and more than 85 cases in 2019).<sup>54</sup> WIPO does not currently charge any fees for this service, which is particularly appropriate for small and medium-sized entities, artists, inventors, entrepreneurs, start-ups, R&D centres, universities, museums, producers, collecting societies and other IP stakeholders.<sup>55</sup> This has led to an increase in post-dispute agreements to use WIPO ADR proceedings, as opposed to contractually-based ADR proceedings, where a previous dispute resolution clause existed.

The philosophy of guided choice process design is also supported by Article 14 of the WIPO Mediation Rules, which provides for the ability to use mixed-mode processes such as arb-med (arbitration with mediation) and MEDALOA (mediation followed by last-offer

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51 For more information on process design, especially in the context international IP disputes, see: J. Lack and A. Goh, ‘The Importance of Process-Design when Selecting a Mediator for Cross-Border Disputes’, *Who’s Who Legal: Mediation 2019*, available at <https://whoswholegal.com/features/the-importance-of-process-design-when-selecting-a-mediator-for-cross-border-disputes/>.

52 See <https://www.wipo.int/amc/en/goodoffices/>.

53 See <https://www.wipo.int/amc/en/center/wipo-adr.html>.

54 See <https://www.wipo.int/amc/en/center/caseload.html>.

55 To request Good Offices Services from WIPO, it is possible to do so online by filling out the form available on its website at <https://www.wipo.int/amc-forms/adr/good-offices-services>.

arbitration).<sup>56</sup> While it is not the purpose of this chapter to explore specific mixed-mode processes, or whether the same neutral should be able or willing to swap hats, these two mixed-mode processes may be of particular interest for IP disputes where there are complex issues of quantum at stake. The idea of arb-med for quantum issues is to first conduct a rapid and 'rough justice' arbitration of quantum issues, accepting that quantum calculations are usually more an art than a science. The arbitral tribunal then writes its finding (which could simply be a number) in an envelope, which is sealed pending the outcome of a mediation that is started subsequently. If the mediation does not settle by a specific date and time, the envelope is opened and becomes a binding award. The idea of such a process is to create pressure and an incentive to settle, taking into consideration what happened during the arbitral hearing, but without knowing the outcome of that hearing. The purpose of a MEDALOA process is likewise to create pressure for the parties to settle, in view of discussions to date in the mediation. The parties make a binding offer at the end of the mediation process, which they consider to be the most reasonable for the other party to accept if the dispute did not settle. The mediator may then swap hats and select one of these final offers as a binding arbitral award. The settlements resulting from both of these processes can also be converted into consent awards that are enforceable under the New York Convention, or written up as settlement agreements enforceable under the Singapore Convention.<sup>57</sup>

## Conclusions

It is dangerous to generalise. Each IP dispute needs to be considered on its own merits. It is clear, however, that submitting IP disputes to standard litigation and arbitration processes without considering how to include mediation early on may be problematic in many cases. Disputants involved in IP disputes have little to lose and everything to gain from using mediation early on, or combining non-adjudicative ADR processes with litigation or arbitration. The potential for significant time and cost reductions from the use of mediation is evident. The inclusion of non-adjudicative windows or mixed-mode processes are likely to lead to faster, cheaper, better and more satisfying outcomes, taking into consideration a broader range of both subjective and objective factors.

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56 Article 14 of the WIPO Mediation Rules (Role of the Mediator) reads as follows: '(a) The mediator shall promote the settlement of the issues in dispute between the parties in any manner that the mediator believes to be appropriate, but shall have no authority to impose a settlement on the parties. (b) Where the mediator believes that any issues in dispute between the parties are not susceptible to resolution through mediation, the mediator may propose, for the consideration of the parties, procedures or means for resolving those issues which the mediator considers are most likely, having regard to the circumstances of the dispute and any business relationship between the parties, to lead to the most efficient, least costly and most productive settlement of those issues. In particular, the mediator may so propose: (i) an expert determination of one or more particular issues; (ii) arbitration; (iii) the submission of last offers of settlement by each party and, in the absence of a settlement through mediation, arbitration conducted on the basis of those last offers pursuant to an arbitral procedure in which the mission of the arbitral tribunal is confined to determining which of the last offers shall prevail.' See <https://www.wipo.int/amc/en/mediation/rules/#14>.

57 For an article describing such an arb-med process, see M. Leathes et al, 'Einstein's lessons in mediation', *Managing IP*, Jul/Aug 2006, pp. 23–26, available at <https://www.imimmediation.org/wp-content/uploads/2017/11/einsteins-lessons-in-mediation-article-.pdf>.

The question for IP disputants, as well as the IP litigation and arbitration community, is not whether it is worth suggesting a mediation or conciliation window in adjudicative proceedings, but whether the parties can afford not to try one. Appointing a guided choice facilitator to guide the parties and their IP counsel in selecting the optimal process or combination of process options to resolve their dispute is practical and efficient. In the overwhelming majority of cases, the result would be a substantial increase in disputant satisfaction in IP dispute resolution. It would finally resolve the ADR paradox that IP disputants currently face.

# Part III

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## Key Issues in Arbitrating Particular IP Disputes

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## Patent, Copyright and Trademark Disputes

**Natalia Gulyaeva<sup>1</sup>**

While in preceding chapters it has been demonstrated that arbitration is, for many reasons, ideal for IP dispute resolution, each type of IP dispute has specific features and key issues to be resolved. Registered or non-registered IP rights, infringement or revocation, sole IP ownership or co-ownership, injunction claims or damages recovery claims, etc., all matter for the strategy of IP alternative dispute resolution. In this chapter, we outline the issues that we face most frequently when arbitrating patent, trademark and copyright disputes.

### Patent disputes

Patent as the subject matter of arbitration

Patents are extremely valuable objects of IP rights for the following reasons.

First, creating an invention is a very time-consuming and costly process. For example, research and development of one new pharmaceutical product may require investigation of about 5,000 to 10,000 compounds, from which only about 250 may become therapeutically promising for further studies and regulatory scrutiny.<sup>2</sup>

Second, cross-border patent prosecution through international (e.g., Patent Cooperation Treaty<sup>3</sup>), regional (e.g., European Patent Convention;<sup>4</sup> Eurasian Patent Convention<sup>5</sup>) and national patent prosecution mechanisms remains lengthy and costly. It requires payments of official fees, patent agents' fees and, going forward, maintenance fees for the entire patent family covering the product.

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2 Drug Discovery and Development, available at <https://www.britannica.com/technology/pharmaceutical-industry/Drug-discovery-and-development>.

3 Patent Cooperation Treaty, amended as at 3 October 2001, available at <https://www.wipo.int/pct/en/texts/articles/atoc.html>.

4 European Patent Convention, available at <https://www.epo.org/law-practice/legal-texts/epc.html>.

5 Eurasian Patent Convention, available at [https://www.eapo.org/en/documents/norm/convention\\_txt.html](https://www.eapo.org/en/documents/norm/convention_txt.html).

Third, successful commercialisation of patented products requires time and financial resources, including for obtaining regulatory authorisations.

Not surprisingly, patent right holders proactively enforce patent rights and rarely tolerate patent infringements. When it comes to resolution of cross-border patent disputes, litigation remains more widely used than arbitration. However, in cases where international arbitration is appropriate, it should neither be ignored nor underestimated, as it may contribute substantially to saving time and costs in patent dispute resolution.

According to the statistics of the World Intellectual Property Organization (WIPO) Arbitration and Mediation Center, 25 per cent of disputes dealt with by the Center are patent disputes.<sup>6</sup> While the Center is an arbitration institution specialised in IP arbitration, some non-specialised arbitration institutions administer patent disputes under special rules. For example, the American Arbitration Association (AAA) has the Supplementary Rules of Resolution of Patent Disputes<sup>7</sup> (for binding awards) and the National Patent Board Non-Binding Arbitration Rules<sup>8</sup> (for non-binding awards). Another example is the Rules for Non-Administered Arbitration of Patent and Trade Secret Disputes of the International Institute for Conflict Prevention and Resolution (CPR).<sup>9</sup> Such special rules cover issues typical for commercial arbitration as well as narrow, patent-specific issues. In addition, some arbitration institutions – for example, the Hong Kong International Arbitration Centre<sup>10</sup> and the Silicon Valley Arbitration and Mediation Center<sup>11</sup> – have established, for the parties' convenience, a separate panel of arbitrators for IP and technology disputes.

### When to arbitrate patent disputes

The straightforward scenario is when a patent dispute is contractual and the relevant agreement includes a proper arbitration clause. This is the case when patent disputes arise out of, for example, a patent licence agreement, a collaboration agreement aimed at a joint technology development, or a research and development agreement where the parties have agreed to a specific allocation of rights to foreground technology. One of the types of patent disputes increasingly brought to arbitration in this category are those arising out of licensing of standard essential patents on fair, reasonable and non-discriminatory terms.

More difficult is the situation when the parties would like to arbitrate a patent dispute containing patent infringement and patent validity issues. In practice, this might be possible when, for example, the arbitration is based on a submission agreement concluded by the parties after the dispute has arisen. However, various jurisdictions still recognise the exclusive jurisdiction of national courts (e.g., specialised IP courts) or administrative institutions, such as patent offices for disputes relating to registered IP rights, including patent rights. Thus, arbitrability of some patent disputes may be excluded (e.g., patent validity disputes in Austria

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6 WIPO Caseload Summary: WIPO Arbitration, Mediation, Expert Determination Cases and Good Offices Requests, available at <https://www.wipo.int/amc/en/center/caseload.html>.

7 Available at <https://www.adr.org/sites/default/files/Resolution%20of%20Patent%20Disputes%20Supplementary%20Rules.pdf>.

8 Available at <https://www.adr.org/sites/default/files/National%20Patent%20Board%20Non-Binding%20Arbitration%20Rules.pdf>.

9 Available at <https://www.cpradr.org/resource-center/rules/arbitration/patent-trade-secret-arbitration-rules>.

10 Available at <https://www.hkiac.org/arbitration/arbitrators/panel-arbitrators-intellectual-property>.

11 Available at <https://svamc.org/2020-tech-list/>.



and Sweden) or recognised with *inter partes* effect only (e.g., in the United Kingdom, France, Australia and Germany). In the latter scenario, the arbitral tribunal may consider issues such as patent validity but the outcome will not result in revocation of the patent, even if the tribunal finds that the patent falls short of the patentability criteria set out by applicable national law. Despite such restrictive approaches, there are also jurisdictions recognising arbitrability of all patent disputes (e.g., the United States, Switzerland and Canada).

## Key issues in arbitrating patent disputes

### *Composition of the arbitral tribunal*

Arbitration of patent disputes is special because of the technical nature of its subject matter. The more complex the technology in dispute, the more important it is that the arbitral tribunal has a technical background enabling it to correctly and efficiently assess the relevant patent's scope, and the evidence provided, and come to the right conclusion, without relying wholly or predominantly on experts involved in arbitration. This does not mean that all members of the tribunal must be patent specialists. However, having at least one member of the tribunal with a technical and legal background (e.g., being simultaneously a patent agent and lawyer) can be very beneficial.

### *Production of documents and disclosure*

The documentation required for the proper presentation of a patent case may be extensive and it is critical that the arbitral tribunal can identify the data that will be essential for the resolution of the patent dispute. Depending on the type of issues arising in a patent arbitration, such documentation may include, in particular, the following:

- the claim of the patent in dispute;
- information on allegedly infringing products or the process of the respondent;
- information on the use of the asserted claim of the patent in dispute in allegedly infringing a product or process of the respondent (including a chart confirming use of each feature of the asserted claim of the patent in dispute in the product or process);
- the prosecution file for the patent in dispute;
- documents confirming disclosure, assignment or attempted assignment of the claimed invention to third parties prior to the patent application filing;
- documents confirming the creation of the claimed invention prior to the filing of the patent application;
- prior art confirming non-compliance of the invention with the patentability criteria (including a chart confirming the relevance of prior art to the asserted claim of the patent in dispute); and
- information on the availability of witnesses and experts (including biographies).

Avoidance of lengthy and costly disclosure and discovery may be a goal of the parties in choosing arbitration as the means for resolving a patent dispute. Facilitation of the arbitration process may be achieved by early exchange of core documentation followed by core technical discovery and, where patent validity issues are in dispute, conducting claim construction. Practitioners generally agree that this enhances the efficiency of proceedings.<sup>12</sup>

### *Injunctive relief*

The availability of injunctive relief is critical for patent disputes. Without obtaining injunctive relief in a timely manner, the claimant may suffer huge damage caused by sales of an infringing product and may even lose the market share entirely. There are jurisdictions (e.g., Germany and the Netherlands) where obtaining injunctive relief before the state courts is a very straightforward process. In certain other countries (e.g., Russia), the state courts consistently decide against granting a preliminary injunction (PI) on the ground that, in their view, a PI substitutes for a permanent injunction and the grant of a PI may be detrimental to the respondent if the patent infringement is not ultimately established by court.

Simultaneously, since injunctive relief is of tremendous importance for IP disputes, exclusion of injunctive relief from the arbitration may be found groundless by state courts.<sup>13</sup>

Parties that are looking for certainty regarding the potential grant of a PI, knowing that a PI is unlikely to be granted by the state courts in some jurisdictions, will be more inclined to opt for arbitration where injunctive relief may be available. Various arbitration rules provide for such an opportunity. For example, an emergency award in a patent arbitration under the AAA Rules provided for an injunction restricting the respondent from licensing, selling, assigning or transferring any of the technology, patents or IP under the contract between the parties.<sup>14</sup>

The WIPO Rules also contain a provision on emergency relief proceedings, which applies to arbitrations conducted under arbitration agreements entered into on or after 1 June 2014.<sup>15</sup> Under this provision, a party seeking urgent interim relief prior to the establishment of the tribunal may submit a request for such emergency relief to the WIPO Arbitration and Mediation Center. Within two days of the request, the Center will appoint a sole emergency arbitrator. The emergency arbitrator may provide for proceedings by telephone conference or on the basis of written submissions as alternatives to an in-person hearing, and may order any interim measure subject to appropriate security by the requesting party.

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12 Donald R Dunner, John M Williamson, Arbitration Rules for Patent Infringement Disputes. Available at <https://www.finnegan.com/en/insights/articles/arbitration-rules-for-patent-infringement-disputes.html>.

13 US Supreme Court, 8 January 2019, *Henry Schein, Inc, et al v. Archer & White Sales, Inc*, available at [https://www.supremecourt.gov/opinions/18pdf/17-1272\\_7148.pdf](https://www.supremecourt.gov/opinions/18pdf/17-1272_7148.pdf).

14 *Max Sound Corporation v VSL Communications Lt*, available at <https://www.globenewswire.com/news-release/2016/01/22/1078646/0/en/Max-Sound-Corporation-Continues-to-Successfully-Enforce-Its-Rights-Against-VSL.html>.

15 Article 49 of the WIPO Arbitration Rules, effective from 1 January 2020, available at <https://www.wipo.int/amc/en/arbitration/rules/>.

### *Tribunal-appointed experts*

Experts play an important role in the arbitration of patent disputes. An independent expert skilled in the art of dispute is usually appointed by the arbitral tribunal to report on specific issues designated by the tribunal. The tribunal establishes the expert's terms of reference and communicates the expert's report to the parties once received. The parties are generally given the opportunity to opine on the expert's report and to question the expert in the hearing. The expert's report remains subject to assessment by the arbitral tribunal unless the parties determine that it shall be conclusive. The latter approach is rarely recommended as the arbitral tribunal (especially where it has a member with a technical background), being aware of all the circumstances of the case, may have a much better judgment on the case than the expert. The potential issue in the selection of experts is connected with the fact that patent laws are the least harmonised in the IP field.<sup>16</sup> It relates to the types of patents, subject matters of patents, patentability criteria, definition of patent infringement, etc. For example, one can file a utility model patent in Germany (*Gebrauchsmuster*) or Russia (*полезная модель*) but this type of patent is not available in the United States. Similarly, computer programs are patentable in the United States but they are excluded from patentability under the rules of the European Patent Office, with the exception of computer programs with a technical character.<sup>17</sup> The doctrine of equivalents in patent infringement cases has been fairly recently introduced into UK law by the Supreme Court in *Actavis v. Lilly*,<sup>18</sup> applied by the Indian courts in *Bishwanath Prasad Radhey Shyam v. Hindustan Metal Industries* and *Ravi Kamal Bali v. Kala Tech and Ors*,<sup>19</sup> but so far not seriously tested by the Russian courts. As patent arbitration is likely to extend to patents obtained by the patentee in various jurisdictions under relevant substantive laws, there may be a need to involve a group of experts from various jurisdictions. In this respect, the task of the counsel to the parties and the arbitral tribunal is to engage a reasonable number of experts to serve the purpose of objective but still time- and cost-efficient arbitration.

### *Party-appointed witnesses*

In addition to tribunal-appointed experts, witnesses of fact and expert witnesses appointed by the parties may become a key element of patent arbitration. Most commonly, inventors and patentees do not coincide. The inventor may be the patentee's current or former employee or consultant. The testimony of co-inventors may be extremely helpful to assess how the patent rights are to be allocated. A sworn affidavit of the true author of an employee's work can completely change the outcome of the proceedings.

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16 Randy L Campbell, Global Patent Law Harmonization: Benefits and Implementation, available at <https://mckinneylaw.iu.edu/iiclr/pdf/vol13p605.pdf>.

17 Guidelines for Examination in the European Patent Office, November 2019 Edition, Section 3.6, available at <https://www.epo.org/law-practice/legal-texts/guidelines.html>.

18 The Doctrine of Equivalents – A Late Summer Picnic of Updates, by Rachel Mumby and Chloe Dickson, 9 October 2019, available at <https://www.bristows.com/viewpoint/articles/the-doctrine-of-equivalents-a-late-summer-picnic-of-updates>.

19 India: Doctrine of Equivalents: Patent Infringement, by Singh & Associates, 3 March 2020, available at <https://www.mondaq.com/india/patent/898674/doctrine-of-equivalents-patent-infringement>.

As a rule, in the beginning of a proceeding the arbitral tribunal will require the parties to identify witnesses, the subject matter of testimony and relevance of such evidence. If the witness is called to provide oral testimony, such witness will be questioned by the arbitral tribunal and the parties. The written testimony is most often provided by witnesses in the form of a signed statement or a sworn affidavit. The arbitral tribunal will generally admit such written evidence conditioned upon the witnesses' availability for questioning in the hearing.

As the scope of inventors' rights differs from jurisdiction to jurisdiction, the arbitral tribunal would need to consider carefully the relationship between the patentee and inventor to make the right assessment under the applicable substantive law.

### *Remedies*

After the injunctions discussed above, monetary damages remains the most popular remedy sought in patent arbitration. WIPO reports that amounts in dispute in WIPO alternative dispute resolution cases have varied from US\$15,000 to US\$1 billion.<sup>20</sup> Patent arbitration continues to attract high-value disputes. In *Nokia Corporation v. Samsung Electronics Co* the ICC tribunal awarded Nokia compensation estimated at US\$218 million annually for use of Nokia's phone patents.<sup>21</sup> In *Tessera Inc. v. Amkor Technologies Inc*, the ICC tribunal awarded Tessera approximately US\$125 million for Amkor's breach of the patent licence agreement.<sup>22</sup> In *InterDigital v. Samsung Technologies* the ICC tribunal awarded InterDigital US\$134 million.<sup>23</sup>

Other remedies sought in patent arbitration include, in particular, declaration of infringement, declaration of non-performance of contractual obligations and specific performance (e.g., preservation of confidentiality, provision of security).

## **Trademark disputes**

### Trademark as the subject matter of arbitration

The value of brands can hardly be underestimated. According to Interbrand's Best Global Brands Rankings 2019, the top 10 brand logos by value are: Apple (US\$234,241 million); Google (US\$167,713 million); Amazon (US\$125,263 million); Microsoft (US\$108,847 million); Coca-Cola (US\$63,365 million); Samsung (US\$61,098 million); Toyota (US\$56,246 million); Mercedes (US\$50,832 million); McDonald's (US\$45,362 million); and Disney (US\$44,352 million).<sup>24</sup> The brands' value indicates the importance of these IP assets for international businesses and the necessity to deal with relevant trademark-related disputes in a manner that does not affect the brand's value.

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20 WIPO Caseload Summary: WIPO Arbitration, Mediation, Expert Determination Cases and Good Offices Requests, available at <https://www.wipo.int/amc/en/center/caseload.html>.

21 Mihir Chattopadhyay, 'Recent Event: The Case for Arbitration of Patent Disputes', Kluwer Arbitration Blog, 25 February 2016, <http://arbitrationblog.kluwerarbitration.com/2016/02/25/recent-event-the-case-for-arbitration-of-patent-disputes/>.

22 *id.*

23 *id.*

24 Available at <https://www.interbrand.com/best-brands/best-global-brands/2019/ranking/>.

Similarly to patent prosecution, cross-border trademark prosecution is available via international (e.g., Madrid Agreement<sup>25</sup> and Madrid Protocol), regional (e.g., EU Trademark Regulations<sup>26</sup>) and national mechanisms. The related cost may be lower than that of patent prosecution but still remains substantial if it comes to maintenance of a global trademark portfolio.

Among IP rights, trademarks are special because they can regularly be revoked in the event of non-use. In the United States, for example, intent to use is a prerequisite of any trademark registration,<sup>27</sup> which, if not complied with, results in the trademark's revocation. This feature of trademarks stimulates rights holders to actively commercialise trademark rights including by way of licensing and franchising.

According to the statistics of the WIPO Arbitration and Mediation Center, 20 per cent of disputes dealt with by the Center are trademark disputes,<sup>28</sup> which is a solid figure indeed.

### When to arbitrate trademark disputes

The typical contractual trademark-related disputes brought to arbitration include disputes arising from trademark assignments, licensing, franchising and distribution agreements. In addition to these, disputes arising from global coexistence agreements for trademarks can be arbitrated in a more time- and cost-efficient manner than they could be litigated in national courts because such cross-border litigation is both lengthy and costly.

The WIPO Arbitration and Mediation Center had the following case relating to a coexistence agreement.<sup>29</sup> Company A registered a trademark for software in the United States and Canada while company B registered an almost identical trademark in Asia. To facilitate trademark use and registration worldwide, the companies entered into a coexistence agreement with a WIPO arbitration clause. When company B refused to assist company A in obtaining trademark registration in Asia (such assistance could be provided, for example, in the form of a letter of consent to trademark registration by company A), company A initiated arbitration. The dispute was resolved by the sole arbitrator's interim award, which gave legal effect to the solution proposed by the parties. This example demonstrates how parties efficiently avoided a cross-border trademark litigation and resolved the conflict within the interim proceedings.

Trademark infringement and trademark validity issues may be arbitrated where the arbitration is based on a submission agreement concluded by the parties after the dispute has arisen. Similarly to patents, many jurisdictions recognise exclusive jurisdiction of national courts (e.g., specialised IP courts) or administrative institutions, such as trademark offices, for disputes relating to registered IP rights, such as trademark rights. This may result

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25 Madrid Agreement Concerning the International Registration of Marks, available at [https://www.wipo.int/treaties/en/text.jsp?file\\_id=283530](https://www.wipo.int/treaties/en/text.jsp?file_id=283530); Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, available at [https://www.wipo.int/treaties/en/text.jsp?file\\_id=283484](https://www.wipo.int/treaties/en/text.jsp?file_id=283484).

26 e.g., Regulation (EU) 2015/2424 of the European Parliament and the Council amending the Community trademark regulation, available at <https://euipo.europa.eu/ohimportal/en/eu-trade-mark-regulation>.

27 More on this available at <https://www.uspto.gov/trademarks-application-process/filing-online/intent-use-itu-forms>.

28 WIPO Caseload Summary: WIPO Arbitration, Mediation, Expert Determination Cases and Good Offices Requests, available at <https://www.wipo.int/amc/en/center/caseload.html>.

29 Available at <https://www.wipo.int/amc/en/arbitration/case-example.html>.

in non-arbitrability of some trademark disputes, including relating to trademark oppositions and revocations, among others. Thus, arbitrability of some trademark disputes may be excluded or recognised with *inter partes* effect only (e.g., in France and Japan). Despite such restrictive approaches, there are also jurisdictions recognising arbitrability of all trademark disputes (e.g., Switzerland<sup>30</sup>).

Domain name disputes are considered a separate category of IP disputes but, in practice, they are regularly based on a conflict with a trademark. WIPO has administered about 48,000 cases under the Uniform Domain Name Dispute Resolution Policy (UDRP) for international domains such as .com, .net, .org, .top, .win and .xyz, and 75 country top-level domains.<sup>31</sup> The UDRP proceedings are time- and cost-efficient and are frequently used by trademark holders. WIPO discloses statistics of dispute resolution under the UDRP on its website.<sup>32</sup>

## Key issues in arbitrating trademark disputes

### *Composition of the arbitral tribunal*

Arbitrating trademark disputes generally requires an arbitral tribunal familiar with trademark law. No particular technical expertise is required as such, though in more complex trademark disputes it may be helpful to have in the arbitral tribunal an arbitrator qualified as a trademark attorney. Still, it is generally recognised that knowledge of trademark law allows arbitrators to judge, for example, the similarity of word or even device or combined trademarks. In addition to their own expertise, the arbitrators may rely on opinions of experts brought into arbitration by the parties or the tribunal itself.

### *Production of documents and disclosure*

The documentation required for trademark case consideration may include, in particular, the following:

- the trademark in dispute;
- information on the allegedly infringing trademark or the product of the respondent, or both;
- information on the use of the trademark in dispute or a confusingly similar trademark that is allegedly infringing the product of the respondent;
- the prosecution file for the trademark in dispute;
- documents confirming the creation of the trademark in dispute prior to trademark filing;
- documents confirming independent creation of a trademark in dispute;
- surveys' results confirming, for example, consumers' confusion, similarity of trademarks, fame of trademark, etc.;
- trademark-related agreements concluded by the parties;
- expert opinions confirming, for example, similarity of trademarks;

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30 Robert Briner, *The Arbitrability of Intellectual Property Disputes with Particular Emphasis on the Situation in Switzerland*, available at <https://www.wipo.int/amc/en/events/conferences/1994/briner.html>.

31 WIPO Caseload Summary: WIPO Arbitration, Mediation, Expert Determination Cases and Good Offices Requests, available at <https://www.wipo.int/amc/en/center/caseload.html>.

32 Available at <https://www.wipo.int/amc/en/domains/statistics/>.

- evidence of intensive use of the trademark in dispute by the parties;
- evidence of the value of the trademark in dispute; and
- information on the availability of witnesses and experts (including biographies).

As the volume of evidence (e.g., confirming fame of the trademark in a number of jurisdictions) may be very substantial, facilitation of the trademark arbitration process may be achieved by the early exchange of core documentation. The key facts, such as ownership, the relationship between the parties, the chronology of infringement, etc., need to be brought to the attention of the arbitral tribunal as early as possible so that the tribunal arrives at the evidentiary hearing with a good understanding of the case.

### *Injunctive relief*

Injunctive relief is regularly sought in trademark disputes. The reason goes far beyond a claimant's need to prohibit the use of a particular trademark in relation to the goods or services of the respondent and the respondent's affiliated businesses to prevent damage to the claimant. Use of an identical or confusingly similar trademark may lead to reputational risks for the claimant arising from the consumers' confusion if the respondent's goods or services are not of a good quality. It may also lead to the dilution of the claimant's trademark, harming trademark perception by consumers and resulting in blurring and tarnishment. And it may lead to a decrease in the distinctiveness of the claimant's trademark, which may serve as a ground of trademark revocation. In other words, from the perspective of the rights holder, the sooner the infringing trademark use is stopped the better.

Although in many jurisdictions (e.g., Germany and the Netherlands) obtaining injunctive relief before the state courts is feasible, in other countries (e.g., Russia) the state courts only rarely grant PIs in trademark cases. Various arbitration rules, however, provide for such an opportunity. For example, under the WIPO Rules, urgent interim relief is available within emergency relief proceedings applicable to arbitrations conducted under arbitration agreements entered on or after 1 June 2014.<sup>33</sup> While seeking a PI in a trademark dispute, it is extremely important to present to the arbitral tribunal the whole spectrum of reasons (including those described above) substantiating an urgent need for a PI.

### *Tribunal-appointed experts*

While in patent disputes it is hard to go without experts skilled in the art in dispute, in trademark disputes there may be situations where the arbitral tribunal may feel sufficiently comfortable about the rights in question to adjudicate the case without relying on experts. Experts in national trademark laws will be needed when it comes to trademark validity issues related to the party's trademark portfolio in various jurisdictions. Experts in accounting may assist with review of documentation relating to royalty calculation and payment under trademark licence or franchising agreements.

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<sup>33</sup> Article 49 of the WIPO Arbitration Rules, effective from 1 January 2020, available at <https://www.wipo.int/amc/en/arbitration/rules/>.

When it comes to trademark infringement and the issue of presence or absence of confusing similarity of trademarks, the arbitral tribunal may decide to go without experts. This may be the case where the word trademarks are identical or almost identical. A fair conclusion may be reached more easily where one trademark is famous and the second is a parasite brand. When the conflicting word trademarks are not famous, however, and not identical (e.g., their first letters differ), it may be difficult to make a decision without taking into account additional evidence (e.g., results of consumers' surveys) or linguistic expert opinions on trademark similarity, or both. In the latter scenario, surveys may appear to be more sound evidence as they may help the arbitral tribunal to see a bigger picture (i.e., perception of trademarks by consumers). If it comes to device (logo) and combined trademarks, the designer's opinion may be helpful. Still, since the trademark law in the majority of jurisdictions approaches trademark similarity from the consumers' confusion perspective, the final decision would remain at the arbitral tribunal's discretion.

### *Party-appointed witnesses*

In addition to tribunal-appointed experts, witnesses of fact and expert witnesses appointed by the parties may be involved in trademark arbitration. While in trademark contractual disputes most commonly the persons involved in or servicing such contractual relationships would testify, in trademark infringement and invalidity disputes the circle may be bigger. It may include, among others, the designers or representatives of the brand's creative agency or, if a trademark is developed as an employee's work, the relevant employee. The witnesses may be called to provide oral testimony or the written testimony may be provided in the form of a signed statement or a sworn affidavit.

### *Remedies*

As in patent disputes, in trademark disputes such remedies as injunctions and damages play the key role. Every case is different but an experienced arbitrator will try to bring the parties of, for example, a trademark coexistence agreement-related dispute to settlement since usually the parties have already invested such significant efforts into reaching a coexistence agreement that it would be beneficial for them to find an amicable solution for coexistence. However, when there is a serious breach of a trademark coexistence agreement, an injunction will be necessary. In the case reported by WIPO,<sup>34</sup> the breach of a trademark coexistence agreement was considered in the course of expedited arbitration proceedings. The arbitrator established partial infringement of the coexistence agreement and issued an injunction ordering the respondent to refrain from infringing behaviour.

In damages claims relating to trademark infringement, in addition to damage assessments based on the number of trademark infringing products detected, the calculation based on, for example, price of a trademark licence royalty fee may be used to substantiate loss of profit.

Other remedies sought in trademark arbitration may include claims for destruction of infringing goods, packaging or equipment used for production of infringing products.

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34 Available at <https://www.wipo.int/amc/en/arbitration/case-example.html>.



## Copyright disputes

### Copyright as the subject matter of arbitration

Copyright protects a very wide range of literary and artistic works including, in particular, books, screenplays, choreography, paintings, sculpture, movies, cartoons, music, computer programs, databases, maps, drawings, photographs and architecture. Copyright protects the form (expression) rather than idea. Under the Berne Convention for the protection of Literary and Artistic Works, copyright is obtained at the moment of creation of the work and does not require any registration.<sup>35</sup> While the majority of countries follow this approach, in some countries, copyrighted work may be registered or deposited voluntarily (e.g., in the United States in the Library of Congress), which serves as a further form of copyright enforcement.

In addition, copyright law traditionally regulates ‘related (neighbouring) rights’, which protect those who contribute to making copyrighted works available to the public or who produce objects protected by a copyright-like property right (e.g., performers, phonogram producers and broadcasters).

The value of copyright is immense for the IT, media and entertainment industries, which commercialise and enforce copyright extensively. The value of copyright is reflected in the term of copyright protection, which, in the majority of jurisdictions, extends to the life of the author and not less than 70 years after the author’s death.

### When to arbitrate copyright disputes

Arbitration is an appropriate means of resolving copyright disputes for a number of reasons. First, in the majority of countries, copyright disputes are recognised as arbitrable and the challenge of the award on the basis of non-arbitrability has low chances of success. Therefore, all copyright-related contractual, infringement and validity disputes can be arbitrated if the parties agree to arbitrate.

Second, the IT, media and entertainment industries work these days on the basis of lower budgets and, therefore, more frequently opt for time- and cost-efficient dispute resolution, such as arbitration, over lengthier and costly litigation.

Third, copyright-related contractual arrangements, such as software licensing, are regularly structured as international contracts, which make international arbitration highly relevant. According to the statistics of the WIPO Arbitration and Mediation Center, 13 per cent of disputes dealt with by the Center are copyright disputes, which include art (e.g., art marketing agreements), broadcasting, copyright collective management, entertainment, film and media (e.g., film production), copyright infringements, and TV distribution and format disputes.<sup>36</sup>

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35 Available at [https://www.wipo.int/treaties/en/text.jsp?file\\_id=283698](https://www.wipo.int/treaties/en/text.jsp?file_id=283698).

36 WIPO Caseload Summary: WIPO Arbitration, Mediation, Expert Determination Cases and Good Offices Requests, available at <https://www.wipo.int/amc/en/center/caseload.html>.

## Key issues in arbitrating copyright disputes

### *Composition of the arbitral tribunal*

Copyright-related contracts are special in terms of definitions and practice, and cannot be understood and interpreted correctly without knowledge of the relevant vocabulary and established practice. This generally makes involvement of specialist arbitrators who are familiar with this vocabulary and practice essential. Specialist arbitrators are also helpful as international copyright laws contain numerous international copyright and related rights treaties administered to a wide extent by WIPO (e.g., WIPO Copyright Treaty, WIPO Performances and Phonograms Treaty, Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations).<sup>37</sup> If the arbitral tribunal includes a copyright specialist who is familiar with such treaties, the tribunal brings substantial added value to the efficiency of the dispute resolution process.

### *Production of documents and disclosure*

The documentation required for a copyright arbitration may include, in particular, the following:

- the copyright (related right) in dispute;
- information on the allegedly infringing work of the respondent;
- information on the use of the copyright (related right) in dispute in the allegedly infringing work of the respondent;
- confirmation of voluntarily registration or deposition of the copyrighted work in dispute;
- documents confirming creation of the copyrighted work before the respondent's work;
- documents confirming independent creation of the respondent's work in dispute;
- survey results confirming plagiarism;
- copyright-related agreements concluded by the parties (e.g., software licence);
- information from the development tracking tool (e.g., Jira in the case of software development) confirming progress, allocation of duties and other details of co-work;
- an expert opinion confirming, for example, that the copyrighted works are created independently; and
- information on the availability of witnesses and experts (including biographies).

The arbitration process in copyright cases may be facilitated by the early exchange of core documentation on such matters as ownership of the copyright, relationship of the parties and chronology of infringement so that the arbitral tribunal arrives at the evidentiary hearing with good understanding of the case.

### *Injunctive relief*

Provided that the parties agreed to this, preliminary injunctive or interim relief is highly relevant for copyright arbitration and is a key tool to prevent or to stop, among other things, distribution or assignment of rights to infringing copyrighted content, software,

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<sup>37</sup> Available at <https://www.wipo.int/treaties/en/>.

databases, etc. As to interim relief, most rules of leading arbitration institutions provide for the possibility to appoint an emergency arbitrator to deal with interim measures and these rules are increasingly used by the parties to request interim measures.<sup>38</sup>

### *Tribunal-appointed experts*

In copyright disputes, both technical experts and experts with a background in art, design, etc., may be relevant. If the case involves a comparison of software products to establish plagiarism, the technical experts would compare the code and provide expert opinions stating that the products are independent works or that one software product was developed on the basis of the code of the other software product. The situation will be different if the copyrighted works in dispute are novels or movies. In such cases, the subject matter experts will likely be specialists in language who would compare texts of novels or screenplays to establish or deny the fact of plagiarism. In cases where the claimant seeks damages, damages experts can be involved to check the calculations made by the parties for a software licence, for example. It is important that the involvement of experts is anticipated in the arbitration schedule and all related preparatory steps (e.g., tutorials, production of reports, decisions on whether the experts present individually or in tandem) take place before the evidentiary hearing.<sup>39</sup>

### *Party-appointed witnesses*

In copyright arbitration, witnesses of fact and expert witnesses may be relevant for a number of reasons. The copyrighted work may be created by co-authors. If we speak about a software product, we think of a group of co-developers (co-authors). If it comes to an employee's copyrighted work, the other employees (not even being co-authors) and company management may be needed as witnesses.

In copyright-related contractual disputes, the persons involved in or servicing the contractual relationship would testify. In copyright infringement disputes, the number of witnesses needed may be bigger. The witnesses may be called to provide oral testimony or the written testimony may be provided in the form of a signed statement or a sworn affidavit. As with experts, it is important that involvement of witnesses is anticipated in the arbitration schedule and that all preparatory steps have been taken before the evidentiary hearing.

### *Remedies*

In copyright disputes, the parties will typically seek injunctions and damages recovery. In copyright-related cases reported by WIPO,<sup>40</sup> the damages recovery was sought in, among others, broadcast rights distribution agreement arbitration, expedited arbitration of a software dispute and expedited arbitration relating to a banking software dispute.<sup>41</sup>

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38 Laura Kaster, Harrie Samaras, *Arbitrating Trademark, Copyright and Trade Secret Cases*, available at: <https://www.ccarbitrators.org/wp-content/uploads/Arbitrating-Trademark-Copyright-and-Trade-Secret-Cases.pdf>.

39 id.

40 Available at <https://www.wipo.int/amc/en/arbitration/case-example.html>.

41 id.

In damages claims relating to copyright infringements, a calculation based on, for example, the price of a copyright licence royalty fee may be used to substantiate lost profit, as an alternative to a damage assessment based on the number of copyright-infringing products detected.

In a dispute related to, for example, a software development agreement, an experienced arbitrator will try to bring the parties to settlement to save the collaborative relationship between the parties if at all possible. Clearly, termination of such a contract may be detrimental for both parties. They may well keep their background copyright but the foreground copyright would need to be allocated between the parties in line with the contract's provisions and the final product may never be created.

Other remedies sought in copyright arbitration may include claims for destruction of infringing goods, packaging or equipment used for production of infringing products.

## **Conclusion**

As shown above, all patent, trademark and copyright disputes can be resolved in a timely and cost-efficient manner by way of arbitration. The right composition of an arbitral tribunal may not only help to resolve the dispute but may also assist in ensuring that the parties' business relationship is not broken in the course of arbitration, which is critical for research and development, collaboration, alliances and other IP rights-related contractual arrangements. The right choice of applicable law and jurisdiction helps to achieve this result because of differences in approaches to arbitrability of IP disputes in various countries. However, the procedural rules and tools in IP arbitration are fairly unified and just need to be carefully selected by the parties and their counsels.

# 9

## When Intellectual Property Is the ‘Investment’: Arbitrating against Sovereigns

**Michael Nolan, Christopher J Gaspar and Kamel Aitelaj<sup>1</sup>**

There is no shortage of disputes in which patent holders may find themselves embroiled. ‘Trolls’ challenge the patent’s validity in an attempt to extort rent.<sup>2</sup> The oft-used practice of ‘evergreening’ comes under scrutiny for artificially extending patent exclusivity.<sup>3</sup> Resolution of disputes such as these typically revolves around purely patent law concepts, such as utility, obviousness or prior art enablement. The same concepts, as well as contractual issues, are also at the heart of patent-based commercial arbitrations in instances where the dispute involves licensees, as discussed in other chapters.

Further, the very same intellectual property rights may, under certain circumstances, also give rise to disputes untethered from usual patent validity considerations and instead centring on the investment-backed expectations a patentee has as a consequence of having been granted a patent at all. In these far less common – but possibly very high stakes – instances, a patentee will seek compensation, or other remedies, from the sovereign state

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1 Michael Nolan and Christopher J Gaspar are partners and Kamel Aitelaj is a senior associate at Milbank LLP.

2 See, e.g., S. Burr, It’s Time to Stand Up to Patent Trolls, *WIPO Magazine*, February 2016, available at [https://www.wipo.int/wipo\\_magazine/en/2015/01/article\\_0002.html](https://www.wipo.int/wipo_magazine/en/2015/01/article_0002.html) (noting that ‘[t]he greatest long-term threat to the US patent system does not come from its professional opponents – those large businesses and their political allies who stand to profit from enfeebled patent rights. A deeper harm is caused by unscrupulous patent trolls who use extortionist “demand letters” to victimise small businesses’).

3 See, e.g., R. Feldman, May Your Drug Price Be Evergreen, *Journal of Law and the Biosciences*, Volume 5, Issue 3, December 2018, at 590–647, available at <https://academic.oup.com/jlb/article/5/3/590/5232981> (defining the practice of ‘evergreening’ as ‘artificially extending the life of a patent or other exclusivity by obtaining additional protections to extend the monopoly period’).

that granted the patent for having failed to protect its monopoly on the patented technology, or perhaps for having directly attacked the monopoly rights a patent affords. This chapter provides an overview, as well as practical procedural guideposts, for arbitrations of this kind.<sup>4</sup>

## Background

With the rise of globalisation in the 1980s, threats to patents started to abound: if a patentee's rights were protected in Country X, a company in Country Z might reverse-engineer the technology and, having bypassed the lengthy and costly research and development phase, offer it at a steep discount. This in turn naturally risked stifling innovation. The only international instrument designed to protect intellectual property rights internationally, the 1883 Paris Convention,<sup>5</sup> was antiquated and inadequate for curbing that risk. Efforts undertaken under the auspices of the World Intellectual Property Organization (WIPO) to modernise it had failed.<sup>6</sup>

The international community thus focused its attention on establishing international minimum standards for patent protection during the Uruguay Round of the Multilateral Trade Negotiations.<sup>7</sup> This was achieved in the Agreement on Trade-Related Aspects of Intellectual Property Rights, appended to the 1994 Agreement Establishing the World Trade Organization (TRIPS). TRIPS offered heightened patent protections but, to obtain the developing economies' buy-in, a mechanism was built in to allow 'compulsory licences'. This mechanism allowed WTO Member States to grant licences to domestic firms, irrespective of the patentee's rights or wishes, in the event of national emergency or circumstances of urgency.<sup>8</sup>

In practice, compulsory licences were seldom an issue because of the developing countries' lack of manufacturing capacity.<sup>9</sup> This changed, however, when a Ministerial Declaration issued in 2001 during the Doha Round provided a mandate for 'establishing legal machinery to enable countries lacking the capacity to manufacture generic substitutes for costly patented medicines under domestically issued compulsory licenses to obtain

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4 This chapter will focus on patents, as the scale and stakes involved lend patent-based disputes more readily to investor-state dispute settlement (ISDS). This is in no way intended to limit the import of ISDS with respect to other intellectual property rights.

5 Paris Convention for the Protection of Industrial Property, March 20, 1883, as revised at Stockholm (1967), 21 UST 1583, 828 UNTS 305

6 See J. H. Reichman with C. Hasenzahl, Non-Voluntary Licensing of Patented Inventions: Historical Perspective, Legal Framework under TRIPS, and an Overview of the Practice in Canada and the U.S.A., U.N. Conference on Trade & Development [UNCTAD] & International Centre for Trade & Sustainable Development [ICTSD], Project on IPRs and Sustainable Development, Issue Paper No. 5, June 2003, available at [https://unctad.org/en/PublicationsLibrary/ictsd2003ipd5\\_en.pdf](https://unctad.org/en/PublicationsLibrary/ictsd2003ipd5_en.pdf).

7 See generally, J. H. Reichman, Compulsory Licensing of Patented Pharmaceutical Inventions: Evaluating the Options, *J Law Med Ethics*. 2009 Summer; 37(2): 247-263, available at <https://journals.sagepub.com/doi/10.1111/j.1748-720X.2009.00369.x>.

8 *id.* Note that the mechanism of compulsory licences existed under the Paris Convention but was not as clearly defined and circumscribed.

9 *id.*

imports from countries able and willing to assist them without interference from the relevant patent holders'.<sup>10</sup> As a result, compulsory licences were increasingly granted in the late 2000s – notably for generic drugs used in the treatment of AIDS.<sup>11</sup>

Abuse of the TRIPS compulsory licensing exception (of which certain WTO Member States have reportedly been guilty)<sup>12</sup> is subject to adjudication within the WTO system under Article 23 of the Dispute Settlement Understanding. As a practical matter, however, a patentee would have to persuade its government to seek redress against the other state, given that only Member States have standing to sue in the WTO. The lobbying efforts required to initiate such a process, combined with a lack of control over dispute resolution proceedings, may appear unappealing to patentees. Further, some states – such as France, Belgium and, more recently, India and China – have adopted legislation allowing compulsory licensing (under conditions other than those of TRIPS). Under these schemes, disputes would have to be resolved by the courts of the 'infringer' – another unattractive proposition from the patent holder's perspective.

Another path may be available to protect patent holders' interests, however, in the form of investor–state dispute settlement (ISDS). ISDS has become an important weapon in the modern legal arsenal of companies operating transnationally. This was made possible by the widespread use of bilateral investment treaties (BITs) and free-trade agreements (FTAs) that began after World War II. The initial aim was to foster foreign investment in support of reconstruction efforts. The use of ISDS has expanded well beyond war reconstruction, however, and, to date, more than 3,300 such agreements have been concluded worldwide. The concept is simple: two or more states agree to provide certain legal protections to the investments made on their territory by the other state's nationals, usually subject to dispute resolution by a neutral arbitral tribunal.

Although arbitrations pursuant to treaties have steadily increased in number over the past two decades, examples of the use of ISDS in connection with patents remain few and far between. In two publicly known instances, the patentee has been unsuccessful. In *Apotex Holdings v. United States*, the case was dismissed at an early stage on jurisdictional grounds because the arbitral tribunal determined that the Canadian generic drug manufacturer's expenses to bring a drug to market in the United States did not qualify as a protected 'investment' within the meaning of that term as used in the NAFTA treaty.<sup>13</sup>

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10 See F.M. Abbott and J. H. Reichman, The Doha Round's Public Health Legacy: Strategies for the Production and Diffusion of Patented Medicines Under the Amended TRIPS Provisions, *Journal of International Economic Law*, 10, No. 4 (2007): 921–987, at 929.

11 See Reichman, *supra* at n.3.

12 See, e.g., D. Halajian, Inadequacy of TRIPS & the Compulsory License: Why Broad Compulsory Licensing is Not a Viable Solution to the Access Medicine Problem, 38 *Brook. J. Int'l L.* (2013), available at: <https://brooklynworks.brooklaw.edu/bjil/vol38/iss3/7> (reporting on Egypt's use of compulsory licensing for Pfizer's Viagra to fight erectile dysfunction).

13 *Apotex Holdings Inc. and Apotex Inc. v. The Government of the United States of America*, ICSID Case No. ARB(AF)/12/1, Award on Jurisdiction and Admissibility (14 June 2013).

In *Eli Lilly v. Canada*, the arbitral tribunal rejected Eli Lilly's claim that Canada's invalidation of its patents for the compounds atomoxetine (Strattera) and olanzapine (Zyprexa) on the basis of a novel legal doctrine violated NAFTA.<sup>14</sup> Specifically, Eli Lilly claimed that Canada had historically applied a version of the patent utility test pursuant to which a 'mere scintilla' of utility in the patent disclosure sufficed to uphold a patent. It is only in the mid-2000s that the Canadian courts began to require that an applicant identify in the patent disclosure a specific 'promise' of utility and support its prediction with evidence therein, as opposed to submitting post-filing evidence of utility. Eli Lilly argued that this was a stark departure from the law on which it legitimately relied to invest in Canada. The tribunal rejected the argument, essentially finding that the change in law was not a fundamental and abrupt change but rather an evolution well within the bounds of what a patentee might have expected. Interestingly, the Canadian Supreme Court reversed the position on the promise utility doctrine that Eli Lilly criticised just three months after the conclusion of the arbitration.<sup>15</sup>

Importantly, the claims made in these two arbitrations were heavily fact-dependent and, for that reason, are not likely to determine the outcome of future ISDS cases in any significant way. No statement was made by the two tribunals that ISDS is an improper forum for the adjudication of a patentee's investment-backed claims. Furthermore, the mere threat of ISDS has been sufficient, in practice, to 'convince' certain governments to backtrack on measures intended to foster generic competition and suppress patentee monopoly.<sup>16</sup> Particularly in the face of global events requiring rapid intervention (such as a pandemic or other cataclysm), the potential for state-sanctioned intellectual property (IP) infringement may pave the way to an increased use of ISDS. Indeed, a multitude of events might allow the IP owner to utilise ISDS to protect its rights, whether it be the above-mentioned issuance by a state of a compulsory licence, a genuinely radical change in law resulting in the unexpected invalidation of an IP right, the establishment of domestic procedural hurdles depriving the IP owner of a forum in which to voice grievances, or even more 'classic' measures such as regulatory bans on the use of certain technology on the host state's territory.

The next sections provide an overview of the protections that an IP owner might assert in support of a claim against a state, followed by a summary description of the arbitral process for such claim.

## **Substantive protections available to IP owners**

Foreign investors may benefit from certain commitments by the state hosting their investment – for purposes of this article, IP rights – depending on whether this state has entered a BIT or an FTA with their home state. Although such commitments are not uniform from

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14 *Eli Lilly and Company v. The Government of Canada*, UNCITRAL, ICSID Case No. UNCT/14/2, Final Award (16 March 2017).

15 See *AstraZeneca Canada Inc. v. Apotex Inc.*, 2017 SCC 36.

16 See B. Baker and K. Geddes, *The Incredible Shrinking Victory: Eli Lilly v. Canada, Success, Judicial Reversal, and Continuing Threats from Pharmaceutical ISDS*, *Loyola University Chicago Law Journal* (Vol. 49, 2017), p. 487 (reporting on threats proffered by Novartis against Colombia and Gilead against Ukraine).



one treaty to the next, certain features are common across most investment treaties. These will be examined first in this section. These commitments are not, however, a blank cheque; the most frequent limitations on investment protection will be considered next.

### Standards for investment protection in investment treaties

Before investing in a foreign country, the diligent investor will consider political risk, including, for example, the risk of nationalisation or civil unrest and insurgency. Political risk insurance, when available, is costly and may be perceived as inadequate or insufficient.<sup>17</sup> It is therefore of comfort to the investor when an investment treaty containing an arbitration clause is in place, because such treaty will contain certain guarantees against political risk, the disrespect of which is remediable before neutral adjudicators. The most salient guarantees are briefly considered below.

#### *Guarantee of compensation in the event of expropriation*

The most drastic action a state may take against a foreign investor is to expropriate the investment from the investor. Although there is no uniformity in defining what constitutes expropriation, there is a general consensus that expropriation exists where the state has, directly or indirectly, deprived the investor of the economic value of its investment.<sup>18</sup> This can occur through an outright taking, generally in the form of a nationalisation, or, far more frequently nowadays, through measures said to be 'tantamount to expropriation'. Such measures, taken together, result in the investor losing the substance of its investment. Examples include the imposition of considerable new taxes and the revocation of a prior government authorisation. In the case of IP rights, indirect expropriation might exist if such rights are unexpectedly taken away, whether by the executive or judiciary, against the owner's legitimate expectations.<sup>19</sup> This is essentially the position advocated in *Eli Lilly*. The company argued that the Canadian courts' reliance on a novel legal doctrine to strike down its patents constituted indirect expropriation.<sup>20</sup>

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17 See, e.g., H. Mayer, Political Risk Insurance and Its Effectiveness in Supporting Private Sector Investment in Fragile States, LSE-Oxford Commission on State Fragility (May 2018), available at <https://www.theigc.org/wp-content/uploads/2018/05/Political-risk-insurance.pdf> (last accessed on 8 October 2020).

18 See, e.g., J. Crawford, *Brownlie's Principles of Public International Law*, Oxford University Press, 2019, at 603 ('the essence of the matter is the deprivation by state organs of a right of property either as such or by a permanent transfer of the power of management and control'); see also A. Reinisch, Expropriation, in *The Oxford Handbook of International Investment Law* (ed. P. Muchlinski, F. Ortino, C. Schreuer), Oxford University Press, 2008, at 422.

19 Discussion of the concept of legitimate expectation in ISDS exceeds the intended scope of this chapter; it should be noted, however, that the concept has been heavily discussed in scholarship and has been central to a foreign investor's right to protection, particularly with respect to breach of fair and equitable treatment. See M. Potestà, Legitimate Expectations in Investment Treaty Law: Understanding the Roots and the Limits of a Controversial Concept, 28 *ICSID Review* (2013), 88–122 (noting that '[a]lthough legitimate expectations are invoked also in the context of indirect expropriation, it is under the fair and equitable treatment standard that legitimate expectations have enjoyed more prominence and a safer chance of success').

20 See *Eli Lilly and Company v. The Government of Canada*, UNCITRAL, ICSID Case No. UNCT/14/2, Final Award (16 March 2017), Paras. 181–182.

Although it is hardly debatable that a state's police powers entitle it to expropriate a foreign investor, certain safeguards circumscribe that entitlement as a matter of international law and are typically built into investment treaties. Specifically, an expropriation (1) is justified if made for a public purpose, on a non-discriminatory basis, and in accordance with applicable law (which includes customary international legal principles) and (2) requires compensation, often for a minimum equal to the fair market value of the expropriated property. By way of example, the following is the expropriation clause contained in the US Model BIT:

*Neither Party may expropriate or nationalize a covered investment either directly or indirectly through measures equivalent to expropriation or nationalization, except: (a) for a public purpose; (b) in a non-discriminatory manner; (c) on payment of prompt, adequate, and effective compensation; and (d) in accordance with due process of law and [Minimum Standard of Treatment.]<sup>21</sup>*

Depending on the language of the expropriation clause in the treaty, there is a variety of situations in which an IP owner might argue that it was expropriated – not only through traditional expropriatory measures affecting tangible assets (facilities, cash) but also through removal of IP right protection. In that respect, it should be noted that the right to compensation for expropriation of an IP right may be limited in specific instances, such as in the case of the issuance of compulsory licences in recent treaties concluded by the United States. In the 2012 Model BIT, the expropriation clause is indeed express that it:

*does not apply to the issuance of compulsory licenses granted in relation to intellectual property rights in accordance with the TRIPS Agreement, or to the revocation, limitation, or creation of intellectual property rights, to the extent that such issuance, revocation, limitation, or creation is consistent with the TRIPS Agreement.*

Yet, even in such an instance, it is conceivable that a patentee could bring an expropriation claim if the compulsory licence was granted to a competitor under circumstances falling outside the TRIPS requirements. For example, TRIPS requires that the licensee first attempt, for a reasonable period of time, to negotiate a voluntary licence from the patentee, or that the licence be granted as a result of a 'national emergency' or that the patentee receive 'adequate remuneration. . . taking into account the economic value of the authorization'. Should any of these requirements be disregarded, the expropriation clause may be deemed operative notwithstanding the exclusion of compulsory licensing from its ambit.

### *Guarantees regarding treatment afforded to foreign investors*

In the course of conducting business in a foreign country, an investor may face a host of regulatory hurdles and other measures imposed by state authorities affecting, to some extent, the investment or even preventing the investor from reaping any benefits from its

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21 Art. 6(1), 2012 U.S. Model Bilateral Investment Treaty, available at <https://ustr.gov/sites/default/files/BIT%20text%20for%20ACIEP%20Meeting.pdf>.

investment. Some of these measures may be expected as part of the risks assumed by the investor, which ought to be reasonably assessed during due diligence on the host state's legal environment, while others will appear out of the norm. It is in this situation that the investor may claim violation of a state's international obligations under a treaty to provide appropriate treatment to its investment.

The concept that foreign or 'alien' investors should be afforded certain standards of treatment against arbitrary or discriminatory actions is relatively recent under international law. The concept was first articulated in *Neer v. Mexico*, as follows:

*the treatment of an alien, in order to constitute an international delinquency, should amount to an outrage, to bad faith, to wilful neglect of duty, or to an insufficiency of governmental action so far short of international standards that every reasonable and impartial man would readily recognize its insufficiency.*<sup>22</sup>

The *Neer* doctrine remains to this day the benchmark for determining the minimum standard of treatment to be afforded to aliens, including foreign investors, but other concepts were developed in investment treaty practice that go beyond this minimum. Indeed, one of the most common – albeit not universal<sup>23</sup> – concepts in investment treaties is that a foreign investor must be given fair and equitable treatment (FET), and, in any event, treatment equal to that given to the host state's own nationals (national treatment (NT)) and, in many cases, on par with the best treatment given to nationals of other states (most-favoured nation (MFN)). Although the application of the NT and MFN clauses is quantitative in nature, as it implies a comparative analysis for the identification of discriminatory treatment based on nationality, the application of the FET clause is more qualitative and, thus, leaves more room to arbitral interpretation. To this proposed dichotomy, others have preferred another useful distinction between 'contingent' (NT and MFN) and 'non-contingent' (FET) standards of treatment.<sup>24</sup>

A typical FET clause includes language such as '[e]ach Contracting Party shall ensure fair and equitable treatment of the investments of investors of the other Contracting Party.'<sup>25</sup> Although there is no comprehensive definition as to the scope of the FET standard, it is well accepted that a state violates FET if it takes measures substantially affecting an investment against the investor's legitimate expectations upon which it relied to make the investment (e.g., a significant deviation of the legal landscape),<sup>26</sup> or in the event of a miscarriage of justice.<sup>27</sup>

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22 *L.F.H. Neer and Pauline Neer v. United Mexican States*, United Nations, Reports of International Arbitral Awards, 1926, IV, p. 60 ff.

23 A number of investment treaties refer only to a minimum standard of treatment of aliens under customary international law (i.e., per the *Neer* doctrine), such as NAFTA or the US Model BIT.

24 See C. McLachlan, L. Shore and M. Weiniger, *International Investment Arbitration, Substantive Principles*, Oxford University Press, 2007, at 1.24 et seq., and 7.22 et seq.

25 Art. 9(1) of the 2019 Netherlands Model BIT, available at <https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/5832/download>.

26 See, e.g., Potestà, op. cit., at 30 et seq.

27 See, e.g., McLachlan et al., op. cit., at 7.80 et seq.

As a practical matter, impugned state measures in ISDS arbitration can often be labelled as both expropriation and an FET violation, depending on their magnitude,<sup>28</sup> which allows claimants to resort to the latter as a fallback position from the former. Indeed, a finding of expropriation requires that the state measures deprived the investor of substantially all of its investment, whereas FET allows for a 'looser' quantification of damages. In this respect, it is useful to refer again to *Eli Lilly*, in which the company argued that the Canadian courts' determination was unfair and inequitable, because the promise utility doctrine was a departure from the state of the law existing at the time it made the investment.

For the aggrieved IP owner, resorting to the FET, NT and MFN clauses may be possible in instances where it can be demonstrated, for example, that a domestic company is given preferential treatment in the context of a race to regulatory approvals, or if new and unexpected requirements are imposed by the executive or judiciary for maintaining IP rights.

### Full protection and security guarantee

As a corollary to a state's FET obligation, states most often commit to ensure the full protection and security (FPS) of an investment. Ordinarily, FPS protections are rolled into a single clause with FET, such as in the UK Model BIT:

*Investments of nationals or companies of each contracting party shall, at all times, be accorded FET and shall enjoy full protection and security in the territory of the other contracting party.*<sup>29</sup>

Like FET, FPS is a non-contingent standard of protection,<sup>30</sup> but unlike FET, it is absolute in nature (was the investment fully protected by the state or not?). It should thus suffer no subjective consideration when it comes to its application, because it requires no evaluation of the state's decision-making process. Instead, FPS focuses only on the effects of the measures taken by the state, or the state's failure to act, on the investment. A typical example is the destruction of an investor's facilities in the host state as a result of an armed conflict or riots. This sort of clause may find more subtle applications, however, in the context of IP rights. Indeed, to the extent that a patent is intended to provide a monopoly to its holder, state-sanctioned infringement could be argued to violate the obligation to ensure full protection and security to the investment.

### *Limitations on investment protection in investment treaties*

An IP owner's ability to resort to ISDS may be limited by (1) the scope of protections contained in the applicable treaty, (2) police powers exercised for the public interest or (3) express exclusions, or a combination of these.

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28 See, e.g., K. Yannaca-Small, Fair and Equitable Treatment Standard, in *Arbitration under International Investment Agreements* 385, 399 (K. Yannaca-Small ed.), Oxford University Press, 2010 (noting that 'obligations entailed in the expropriation clause and those of fair and equitable treatment do not necessarily differ in quality but just in intensity').

29 Art. 2(2), 2008 UK Model BIT, available at <https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/2847/download>.

30 See C. McLachlan et al., op. cit.

## Definition of protected investments

The first significant limitation on the ability to resort to ISDS by IP owners – or indeed any investor – lies with the scope of the definition of the term ‘investment’ in the applicable treaty. Historically, investment treaties have most commonly covered every kind of asset and would include an illustrative, rather than exclusive, list of protected assets. In modern treaties, efforts have been made to provide more specificity as to what constitutes an investment, including by inserting requirements such as that there be commitment of capital, expectation of profit and assumption of risk.<sup>31</sup> Be that as it may, investment treaties often expressly include IP rights within the scope of the definition of the term ‘investment’<sup>32</sup> – and if they do not, it is hardly debatable that they should be considered a category of protected intangible assets, barring express exclusion.<sup>33</sup>

The question then is whether the actions and expenses undertaken by the claimant should be deemed factually to amount to a protected investment. In that respect, it is useful to refer to *Apotex*. In that case, Apotex mainly argued that it had invested millions of dollars in developing its products and preparing and filing its submissions to the US Food and Drug Administration (FDA) for the sole purpose of commercialising its products in the United States. As such, its FDA application was manifestly a covered investment under NAFTA, as were its commitments of capital in the United States, such as the purchase in the United States of raw materials for its drugs. The *Apotex* tribunal found, however, that ‘each of the specific activities and expenses relied upon by Apotex simply supported and facilitated its Canadian-based manufacturing and export operations’<sup>34</sup> thus not a US investment, and the contemplated sales of its products in the United States were ‘those of an exporter, not an investor’.<sup>35</sup> With respect to the question of protection of intangible assets, it appears significant that Apotex is a generic producer that had not actually obtained an IP right in the host state but had only applied for one (contrary to Eli Lilly, for example).

## Non-precluded measures clause

Notwithstanding that an IP owner may hold a qualified investment under a treaty, it may be difficult to obtain reparation from the host state if the underlying investment treaty contains a non-precluded measures (NPM) clause. NPM clauses expressly contemplate that the host state may adopt measures that are otherwise inconsistent with its treaty obligations to protect foreign investment if the application of such a measure meets the requirements set out in the clause. Traditionally, NPM clauses have been aimed at carving out national

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31 See, e.g., Art. 1, 2012 US Model BIT; Art. 1(a), 2019 Netherlands Model BIT.

32 *id.*; see also, Art. 1(a) 2008 UK Model BIT (“‘investment’ means every kind of asset, owned or controlled directly or indirectly, and in particular, though not exclusively, includes [...] intellectual property rights, goodwill, technical processes and know-how”).

33 For example, although NAFTA does not include IP rights expressly, it covers ‘property, tangible or intangible, acquired in the expectation or used for the purpose of economic benefit or other business purposes’. See Art. 1139, NAFTA, at (g).

34 *Apotex*, *op. cit.*, at Para. 235.

35 *Apotex*, *op. cit.*, at Para. 244.

security and public order from the ambit of investment treaties. More recently, they have included other public interests, such as the conservation and protection of the environment, natural resources or life and health.

Particularly in the context of IP rights, NPM clauses might be raised as a defence by the respondent state, on the basis that IP rights were disregarded for the common good of the nation – for example, the issuance of a compulsory licence for the development of a generic drug. The strength of such a defence would arguably vary depending on whether the NPM clause is of a 'self-judging' type or not. Indeed, some NPM clauses refer to public interests gauged objectively, whereas others will do so subjectively – on the state's own judgment. For example, compare:

*The provisions of this Agreement [. . .] shall not be construed so as to preclude the adoption or enforcement by a Contracting Party of measures which are necessary to protect national security, public security or public order.<sup>36</sup>*

with:

*Nothing in this Treaty shall be construed [. . .] to preclude a Party from applying measures that it considers necessary for the fulfillment of its obligations with respect to the maintenance or restoration of international peace or security, or the protection of its own essential security interests.<sup>37</sup>*

Finally, the state may raise this sort of defence even in the absence of an NPM clause in the investment treaty, based on the doctrines of *force majeure* and necessity, which are well embedded in customary international law (by default applicable in ISDS arbitrations).<sup>38</sup>

### Express exclusions

Certain investment treaties contain specific exclusions pertaining to IP rights, typically in reference to the applicability of TRIPS. For example, Article 14.5 of the BIT between the United States and Uruguay provides that 'Articles 3 [NT] and 4 [MFN] do not apply to any measure covered by an exception to, or derogation from, the obligations under Article 3 or 4 of the TRIPS Agreement, as specifically provided in those Articles and in Article 5 of the TRIPS Agreement.' For another example, compulsory licences may specifically be excluded from the scope of a BIT, generally in connection with the protections against expropriation without compensation. As mentioned above, it may be possible, under certain circumstances, to assert colourable expropriation claims notwithstanding such exclusion (i.e., when the impugned measures fail to meet TRIPS requirements).

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<sup>36</sup> Art. 7, 2008 UK Model BIT.

<sup>37</sup> Art. 18, 2012 US Model BIT.

<sup>38</sup> See generally, A. Bjorklund, Emergency Exceptions: State of Necessity and Force Majeure, in *The Oxford Handbook of International Investment Law* (ed. P. Muchlinski, F. Ortino, C. Schreuer), Oxford University Press, 2008, at 459-523.

## Procedure for investment-based disputes against states

As a preliminary matter, it is notable that, contrary to traditional commercial arbitration, the ISDS system provides for arbitration without privity.<sup>39</sup> This is because the signatory states to the investment treaty give advance consent to arbitrate disputes brought by any qualified investor bearing the nationality of the other signatory state. Also contrary to commercial arbitration, ISDS lies outside of any given court system, at least in most cases, as explained below. Accordingly, IP owners may, through thoughtful corporate structuring, gain access to a supranational order, along with a dedicated judicial forum, by virtue of having obtained IP rights in one such signatory state.<sup>40</sup>

Because the state has given advance consent to arbitrate, proceedings may commence at the investor's election, subject of course to any additional requirements contained in the treaty (e.g., the submission of a notice of dispute followed by a cooling-off period to allow for negotiations ahead of commencing formal proceedings). An aggrieved IP owner wishing to commence arbitration proceedings against a state under an investment treaty ordinarily has several options among which to choose. By far the most common forum is the International Centre for Settlement of Investment Disputes (ICSID), established in Washington under the eponymous multilateral convention concluded in 1965. As explained below, there are advantages and potential disadvantages with ICSID arbitration. Another common forum is the Permanent Court of Arbitration in The Hague (PCA), which frequently administers proceedings involving states under the arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL). Other commonly used fora include the Stockholm Chamber of Commerce (especially in connection with disputes arising under the Energy Charter Treaty) or the International Chamber of Commerce, based in Paris.

The specifics guiding the arbitral proceedings will depend on the arbitration rules applied to the case. Regardless, there is quasi-uniformity in the conduct of the arbitral process, which is not dissimilar from that of a commercial arbitration: the same type of preliminary issues are considered (whether issues should be bifurcated, whether a party is entitled to interim measures), the same type of written submissions are filed by the parties (often two rounds each, separated by a document disclosure phase) and the same type of evidentiary hearing is held (an opening statement followed by cross-examination of parties' witnesses and experts and concluded by closing arguments). As the arbitral process is discussed in other chapters, there is no need to dwell on it further. Two procedural issues deserve attention nonetheless, because they illustrate the importance of the choice of forum by the investor or IP owner.

The first issue is that of the scope of investment protection. As discussed above, an investor must demonstrate that its investment is protected under the relevant treaty. In an ICSID arbitration, however, the investor must additionally demonstrate that the dispute falls within

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39 See generally, J. Paulsson, *Arbitration Without Privity*, 10 *ICSID Review* 232 (1995).

40 We note that the practice of 'treaty shopping' is generally well accepted in arbitral jurisprudence to the extent done ahead of events giving rise to a dispute. See, e.g., *CME Czech Republic B.V. (The Netherlands) v. The Czech Republic (UNCITRAL)*, Partial Award, 13 September 2001, at Para. 419; *Mobil Corporation, Venezuela Holdings, B.V. et al. v. Bolivarian Republic of Venezuela*, ICSID Case No. ARB/07/27, Decision on Jurisdiction, 10 June 2010, at Para. 204.

the jurisdiction of ICSID under the Washington Convention.<sup>41</sup> Indeed, its Article 25(1) specifies that '[t]he jurisdiction of the Centre shall extend to any legal dispute arising directly out of an investment, between a Contracting State (or any constituent subdivision or agency of a Contracting State designated to the Centre by that State) and a national of another Contracting State, which the parties to the dispute consent in writing to submit to the Centre.' The Convention does not, however, define the term 'investment'. Thus, an investor may be faced with the issue of having to establish consent of the state under a BIT to arbitrate the dispute over a specific investment and also prove that the investment qualifies as such as a matter of ICSID practice.

There has been considerable debate as to what constitutes an investment under international law – which led scholars and treaty drafters alike to identify a series of features an investment typically has, such as contribution to the host state's economy, expectation of gains and assumption of risks.<sup>42</sup> Suffice to say that an IP owner should cautiously assess, before selecting a forum in which to bring its claim, whether the IP rights it intends to assert would pass muster under this 'double-barrelled test'.<sup>43</sup>

The second issue is that of award recognition and enforcement. ICSID is known as a self-contained system because the dispute is adjudicated by a panel of arbitrators and any recourse against the award is also adjudicated within the ICSID apparatus, by another, entirely separate, panel of ad hoc annulment committee members. This mechanism is to be distinguished from other international awards, which are subject to the oversight of the courts located at the judicial seat of the proceedings. As to the enforceability of the award, Article 54 of the Washington Convention provides that '[e]ach Contracting State shall recognize an award rendered pursuant to this Convention as binding and enforce the pecuniary obligations imposed by that award within its territories as if it were a final judgment of a court in that State.' This is also to be contrasted with international commercial awards, which are subject to set aside proceedings at the seat, and enforcement proceedings in any other competent jurisdiction, under the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards and local law. An IP owner concerned with finality of the award may thus be drawn to ICSID arbitration rather than arbitration in another forum, as all non-ICSID awards (including awards rendered in a PCA-administered arbitration under the UNCITRAL rules) will be subject to court oversight.

This is not to say, however, that an ICSID award will automatically be enforceable anywhere and *in toto*. Importantly, Article 54 specifically refers to the fact that only pecuniary obligations are enforceable and even then, only to the extent that they might have been ordered in 'a final judgment of a court in that State'. This naturally raises the question of sovereign immunity, for example, which is not treated uniformly throughout the world. To simplify, there is a divide between jurisdictions that adopt the doctrine of relative immunity,

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41 The 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States, available at <https://icsid.worldbank.org/resources/rules-and-regulations/convention/overview>.

42 See, e.g., J. M. Exelbert, Consistently Inconsistent: What Is a Qualifying Investment Under Article 25 of the ICSID Convention and Why the Debate Must End, 85 *Fordham L. Rev.* 1243 (2016); M. Hwang, J. Fong and L. Cheng, Definition of "Investment"—A Voice from the Eye of the Storm, *Asian Journal of International Law*, Volume 1, Issue 1, 25 January 2011, pp. 99–129.

43 See, Exelbert, *op. cit.*



whereby a state is not immune from execution in instances where the assets against which enforcement is sought are used for commercial – as opposed to governmental – purposes, and those that adopt the doctrine of absolute immunity, pursuant to which state assets are never attachable unless the sovereign's immunity from execution has been specifically and expressly waived. Therefore, the selection of an arbitral forum by an IP owner might include consideration of the nature of relief requested, and, in the event monetary remedy is sought, identification of jurisdictions where attachable sovereign assets are located.

## **Conclusion**

This chapter is intended to provide a high-level analysis of possible benefits of the ISDS system as an alternative forum for an IP owner seeking relief – or structuring its legal protections.<sup>44</sup> Although this chapter has mainly focused on arbitration related to patent rights, the possibility to resort to ISDS for the resolution of IP-related disputes may extend well beyond patents. The exercise of IP rights in foreign countries is expanding, whether it be through production of hardware or creation and licensing of software. The explosion of social media applications, for example, appears ripe for mischief. Recent reports of contemplated regulatory bans on such applications seem to confirm as much.<sup>45</sup> In these instances, ISDS may appear viable as a tool for the IP owner to protect its interests. Conversely, sophisticated states may be well advised to avoid, and prepare for, investor disputes concerning IP rights.

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44 It has become common practice for companies operating transnationally to structure their corporate organisation in such a way as to gain eligibility for protection under investment (and often also tax-related) treaties.

45 See, e.g., W. Ross, Commerce Department Prohibits WeChat and TikTok Transactions to Protect the National Security of the United States, 18 September 2020, available at <https://www.commerce.gov/news/press-releases/2020/09/commerce-department-prohibits-wechat-and-tiktok-transactions-protect>.

# 10

## Arbitration of FRAND Disputes in SEP Licensing

**Richard A H Vary<sup>1</sup>**

### Introduction

High-technology products today usually contain standardised technology. Cellular wireless connectivity is one example: standards include the fourth-generation ‘LTE’ standard or the third-generation ‘UMTS’ standard. Developed originally for mobile phones, cellular wireless is found today in cars, smart meters, factories, trains and drones. Wi-Fi is another example of standardised connectivity technology, specified by the Institute of Electrical and Electronic Engineers’ 802 series of standards. Video encoding is a third example, with standards including H.264 and H.265.

These standardised technologies are developed not by a single company, but by groups of companies that collaborate through standards developing organisations (SDOs). Engineers from the companies will meet and agree on technological solutions to be adopted in the standard. Often these meetings identify technical problems to be overcome. The solutions identified by the participating engineers to these problems may be novel, and inventive, and therefore eligible for patent protection. The companies involved may file patent applications and end up with a portfolio of patents that cover some of the technology in the standard. An implementer of the standard, wishing to build and sell a device that uses the technology, must take a licence to those patents.

SDOs typically have intellectual property right (IPR) policies. These policies set the terms on which participants in the standards development activities may undertake to offer licences to patents that they hold, which may be or may become essential to the standard (standard-essential patents (SEPs)) to future implementers of the standards. Often the policy specifies that the SEP owner will offer licences on fair, reasonable and non-discriminatory (FRAND) terms.

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Disputes arise when the parties are unable to agree on a price. Unless an agreement can be reached, the implementer will be making and selling products that may infringe the patents without a licence. The patent owner may bring patent infringement proceedings against the implementer. Because the patent owner may hold many patents, in many countries, this could lead to multi-jurisdiction litigation where the patent owner sues in several countries on several patents.

Litigating large numbers of patents in many countries is costly and inefficient. For companies that wish to give or receive a patent licence, the real commercial questions are now, 'which patents are being infringed in which countries?' and 'how much is a FRAND licence?'

The first attempts at asking the court to determine a FRAND rate occurred in 2007–2008 when Nokia and Bosch asked the Mannheim Regional Court to determine whether their respective offers for a licence to the Bosch patent portfolio was FRAND. The Court declined to do so and was supported in its decision by the Karlsruhe appeals court. Nokia and Qualcomm also agreed to a determination of a FRAND rate to Qualcomm's portfolio in the US District Court for the District of Delaware but settled before trial.

Most implementers, however, have shied away from standard-essential portfolio rate determination. With injunctions being granted only occasionally on SEPs, it was a better negotiating tactic for the implementer to wait to be sued, and then force the SEP owner to incur the cost of litigating many patents across many countries. If the worst outcome of litigation is paying a court-determined FRAND rate, then there is no real downside for the implementer in drawing the proceedings out and seeking a more favourable settlement.

A change occurred with the *Huawei v. ZTE*<sup>2</sup> case in Europe, and the Google consent order<sup>3</sup> from the FTC. These established that if a patent owner offered to go through an independent third-party FRAND determination, but the infringer refused, the infringer would be at risk of an injunction. This created an incentive to both sides to agree to have a third party set the FRAND rate. Patent owners started to offer arbitration of rates. Some implementers, concerned that a refusal might lead to an injunction interrupting their business, agreed.

Nokia arbitrated a FRAND royalty rate with Samsung and, separately, LG. Huawei arbitrated FRAND rates with Ericsson and with Interdigital. These arbitrations showed that it was possible to set a rate for a portfolio even where the parties could not agree on the value of the portfolio or the extent to which the patents in the portfolio were valid or infringed.

Courts have also now shown that they are prepared to set rates. In *Microsoft v. Motorola*<sup>4</sup> Judge James Robart set a rate for Motorola's portfolio of 802.11 (Wi-Fi) and video coding (H.264) patents. In *Innovatio IP Ventures*<sup>5</sup> Judge Holderman set a rate for Innovatio's

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2 C170/13 <http://curia.europa.eu/juris/document/document.jsf?docid=165911&doclang=en>.

3 *In the Matter of Motorola Mobility LLC, and Google Inc.*, FTC Matter/File Number: 1210120, available at: <https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf>.

4 696 F.3d 872 (9th Cir. 2012).

5 MDL Docket No. 2303, [https://essentialpatentblog.lexblogplatform.com/wp-content/uploads/sites/64/2013/10/2013.10.03-975\\_Public-Version-of-Memorandum-Opinion-and-Order.pdf](https://essentialpatentblog.lexblogplatform.com/wp-content/uploads/sites/64/2013/10/2013.10.03-975_Public-Version-of-Memorandum-Opinion-and-Order.pdf); Case No. 11 C 9308.

portfolio of 23 Wi-Fi (802.11) patents. The English court in the *Unwired Planet v. Huawei* decision (*Unwired Planet*)<sup>6</sup> set the rate that Huawei could pay should it choose to take a licence to Unwired Planet's patent portfolio,<sup>7</sup> and the US District Court for the Central District of California set the rate that TCL should pay for a licence to Ericsson's portfolio in the *TCL v. Ericsson* case (*TCL*).<sup>8</sup>

The advantage to both SEP holders and implementers of FRAND arbitration when compared to the patent-by-patent, country-by-country patent infringement litigation is that (1) arbitration is cheaper, (2) arbitration is quicker and (3) there are no industry-disrupting injunctions.

This chapter explains how FRAND arbitration works and how portfolios can be valued in FRAND arbitration, and sets out some experiences from recent FRAND arbitrations.

## Why arbitrate FRAND disputes instead of asking the court to set a rate?

The main difference between arbitration and litigation is that litigation can be forced by one side on the other, while arbitration requires both sides to agree to enter the process. Typically, in SEP cases one party desires a resolution but the other does not. However, if parties can agree to arbitrate a FRAND dispute, then the main advantages of arbitration over litigation are as follows.

### Confidentiality of comparable licence agreements

Neither party wants its licence agreement terms to become public. A party in a negotiation is at a great disadvantage if its opponent knows the terms of its licence agreements, but it does not know the terms of its opponent's.

Some courts have mechanisms to protect confidentiality. However, courts have a conflicting duty to make public as much of the hearing and decision as possible. As a result, even with confidentiality measures in place, there have been leaks of confidential information from court proceedings. Bloggers have tweeted royalty rates from hearings (*Apple v. Samsung*, Netherlands). Courts have inadvertently released information in judgments. This can be because, although courts may redact parts of their judgments, it is possible by cross-referencing with other information sources to reverse-engineer the redactions (e.g., *Unwired Planet*). Or it may simply result from a mistake by court clerks: the *TCL* decision was initially published in an unprotected form, and only later replaced on the court's website with a properly redacted version. On the other hand, arbitration institutions are under no obligation to allow the public into proceedings or publish awards, so leaks are rare.

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6 Neutral Citation Number: [2017] EWHC 711 (Pat).

7 <https://www.twobirds.com/en/news/articles/2017/uk/unwired-planet-v-huawei-english-high-court-sets-frand-royalty-rate>.

8 *TCL Communications v. Ericsson* (SACV 14-341 JVS(DFMx) and CV 15-2370 JVS (DFMx)); <https://www.twobirds.com/~media/pdfs/supersize-this-unwired-planet-american-style.pdf?la=en>; <http://images.law.com/contrib/content/uploads/documents/1/TCL-v.-Ericsson.Decision-part-1.pdf>; <http://images.law.com/contrib/content/uploads/documents/1/TCL-v.-Ericsson.Decision-part-2.pdf>; <http://images.law.com/contrib/content/uploads/documents/1/TCL-v.-Ericsson.Decision-part-3.pdf>.

### Perceived neutrality, compared to courts

There is a perception that some US courts (Western District of Washington and the Northern and Central Districts of California) and the Chinese courts will award lower royalty rates and be sympathetic to implementers. Other courts (in Texas, Germany and the United Kingdom) are seen as more pro-patentee. Consequently, parties may rush to the court that they think will favour them. There are not enough data points yet to form any objective view on whether any court is more favourable to one side or the other, but there are enough to create perceptions: for example, in *TCL* Judge Selna awarded rates for the Ericsson portfolio that were less than half the rates calculated by Mr Justice Birss, despite having similar evidence.

Of course, arbitrators can also be affected by bias, but the usual selection process, in which each party appoints one arbitrator and the arbitration institution appoints a chair if the parties cannot agree, gives less opportunity for one side to pick a panel that is perceived as being more favourable to them. This makes it less likely that the parties will expend resources in satellite disputes, seeking to transfer the case to a tribunal perceived to be more favourable.

### Speed

In theory, a UK court could perform a FRAND valuation in 18 months or so. A US court may take longer. But both *Unwired Planet* and *TCL* took several years to reach a conclusion. Arbitration, on the other hand, can be significantly quicker. Typical timescales might be 18 months to a hearing and two years to a final decision. In an industry where licences typically last five years, that is a more realistic and attractive timescale overall.

## Precedents

### Prior arbitrations

There have been four publicly disclosed arbitrations of cellular SEP portfolio royalty amounts: *Nokia v. Samsung*, *Nokia v. LGE*, *InterDigital v. Huawei* and *Ericsson v. Huawei*. Prior to these, InterDigital and Intel took part in an UNCITRAL arbitration relating to the cross-licences granted in connection with a joint venture, which probably also involved FRAND issues.

These cases have demonstrated that arbitration can be an efficient solution to adjudicate FRAND terms between parties, even where the amounts at stake are substantial.

### Competition law regulators

There have been three occasions on which competition law regulators have approved of arbitration as a mechanism to resolve FRAND disputes.

In 2013, the Federal Trade Commission (FTC) negotiated a consent order with Google Inc and its subsidiary Motorola Mobility (MMI) resolving charges that the companies engaged in unfair competition by violating the FRAND commitments for some of

MMI's SEPs. A key feature in the FTC's order was a requirement that Google offer potential licensees binding arbitration before seeking an injunction when negotiations over the licensing of the SEPs broke down.<sup>9</sup>

In 2014, the European Commission investigated Samsung for alleged infringement of competition law on the basis that it was seeking injunctions on 3G SEPs against Apple, which had indicated that it was a willing licensee. As a result of the investigation, Samsung committed to not seeking injunctions in Europe for SEPs for a period of five years against any potential licensee that signed up to a specified licensing framework. Under this framework, any dispute over FRAND terms for the SEPs in question would be determined by a court, or if both parties agreed, by an arbitrator. These commitments were intended to provide a safe harbour for all potential licensees of the relevant Samsung SEPs.<sup>10</sup>

In 2014, the Chinese Ministry of Commerce approved Microsoft Corporation's acquisition of the devices and services business of Nokia Corporation subject to Microsoft and Nokia providing certain commitments relating to the licensing of SEPs. Nokia was required to define the good faith or willingness of SEP licensors and licensees as a matter of each party's willingness to resolve disputes relating to FRAND terms through arbitration and to be bound by the arbitration award.<sup>11</sup>

## Courts

In 2015, the Court of Justice of the European Union (CJEU) issued a decision in *Huawei v. ZTE*<sup>12</sup> recognising that third-party determination of FRAND rates was a viable alternative to court actions and included it in its outline of steps that a court might consider when deciding whether to grant an injunction. The CJEU observed that where the negotiating parties have not reached an agreement on the details of the FRAND terms once offers have been exchanged, the parties may, by common agreement, request that the FRAND terms (including the amount of the royalty) be determined by an independent third party, by decision without delay.

## Best practices for arbitration offers

In seeking to agree a binding arbitration of a FRAND dispute, the parties are likely to expect that the arbitration should:

- result in a binding, portfolio-level licence;
- provide a fair and independent process;
- promote resolution during a reasonable time frame;
- promote resolution at a reasonable cost; and
- reduce the risk of disruption, but leave a significant enough risk on each side to push the parties towards overcoming their differences by agreement.

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9 <https://www.ftc.gov/enforcement/cases-proceedings/1210120/motorola-mobility-llc-google-inc-matter>.

10 [https://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=1\\_39939](https://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=1_39939).

11 <http://english.mofcom.gov.cn/article/counselorsreport/asiareport/201404/20140400543771.shtml>.

12 *Huawei Technologies Co. Ltd v. ZTE Corp., ZTE Deutschland GmbH* (Case C-170/13).

In addition, the SEP owner will want to provide an offer that, if rejected by the party to whom it is offered, will improve the SEP owner's chances of demonstrating, in any subsequent litigation, that the counterparty is an unwilling licensor. This will be relevant to the question of what remedy is granted following the litigation. The SEP owner will want to increase the chances of obtaining an injunction.

### Results in a binding portfolio-level licence

As an alternative to arbitration, the SEP owner may seek injunctive relief in national patent cases, and the implementer may seek damages or regulatory intervention through national or EU competition law or antitrust complaints.

If each party is to ask the other party to refrain from seeking such relief, each party will want the assurance that the arbitration will result in a final resolution of the dispute and in a binding and enforceable licence agreement. If the result of the arbitration is not binding on the parties, it may become merely another mechanism for unwilling licensees to delay paying royalties and for unwilling or unrealistic licensors to delay the determination of a FRAND rate while they seek to use other levers to persuade the counterparty to pay a higher rate.

If the process does not produce a final and binding result, then whichever party is dissatisfied with the outcome may reject it and resort to litigation. Arbitration will have merely added a step to the process, increasing the cost to the parties.

Therefore, it is likely to be important to both parties, before choosing arbitration, that the arbitration will result in a binding portfolio-level licence, rather than being merely advisory in effect.

### Fair and independent process

#### *Validity, essentiality and infringement*

For implementers faced with a patent assertion, it is important to be able to contest validity, essentiality and infringement of the portfolio. For many implementers, particularly less sophisticated implementers, a very strong point of objection to the FRAND nature of any offered licence is that the SEP owner holds some patents that are not in fact essential. They want the opportunity to argue this, and believe that any attempt to curtail this is an attempt to hide weaknesses in the licensed portfolio.

Many regulators, who have not yet understood the nature of the SEP declaration process have strong sympathy with this view and consistently talk about the 'problems' of over-declaration. Even though they acknowledge that over-declaration can arise out of an abundance of caution and a good faith attempt to comply with SDO rules just as much as it may arise through a cynical attempt to game the system, regulators tend instinctively to see over-declaration as a bad thing, and any attempt to limit the implementer's ability to argue the point is seen as an unfair fetter on the process.

Unfortunately, an arbitration process that allows a patent-by-patent assessment of the portfolio will not achieve the desired benefits of costs and efficiency over patent litigation. Therefore, while an arbitration offer may allow for the consideration of the validity, essentiality and infringement of the patents at issue, this should, as far as possible, be on a per-portfolio basis and not a patent-by-patent basis.

In practice, this means that the implementer must be allowed to put forward evidence of the strength of the portfolio. If the implementer is well advised, it will realise that it is not enough to put forward evidence of the validity and essentiality rate of the SEP owner's portfolio alone; it must also put forward evidence about the validity and essentiality of other relevant SEP portfolios. This is because, to a greater or lesser extent, all the primary methods used by courts or tribunals to date for determining royalties compare the SEP portfolio being licensed to other portfolios. It is not enough to argue that the SEP owner's portfolio contains some invalid or non-essential patents: to achieve a reduction in royalty rate the implementer must demonstrate that the SEP owner's portfolio is worse than other portfolios in that regard.

The need for comparison is obvious when a top-down approach is used (see 'Approaches to determining a FRAND royalty rate' for an explanation). To reduce the SEP owner's share in a top-down analysis, the implementer must demonstrate that the SEP owner's portfolio has a greater rate of invalidity or non-essentiality than the other portfolios in the analysis.

Where a comparable licence methodology is used, the implementer will seek to argue that other comparable licences are too high because those other licensees were unaware of the extent of the non-essentiality or invalidity of this portfolio. In seeking to put forward such an argument, it is not enough for the implementer to show that the SEP owner's portfolio contains some invalid or non-essential patents. The implementer must show that the SEP owner's portfolio is worse in that regard than the other licensees believed when they entered their licence agreements with the SEP owner.

An implementer seeking to delay a determination, or to make the determination process prohibitively expensive, may seek to put in evidence about very large numbers of patents from the SEP owner and others in the industry. A more efficient approach may be to adopt a sampling methodology (such as the Ding report in *TCL*). Most efficiently, parties may adduce evidence of existing third-party essentiality surveys, such as the PA Consulting reports.<sup>13</sup>

We believe that the best practice for the SEP owner is to allow the implementer freedom to choose how it puts forward these technical arguments, but agree on a limit to the duration of the hearing and the amount of time until the hearing. This will force the implementer to adopt a reasonable and proportionate approach to the issue. Some parties may take the view that whatever survey or evidence they put forward is unlikely to produce a significantly better result for their case than existing third-party studies of essentiality, and instead opt to use their limited time for other arguments.

### *Burden of proof*

Where the burden of proof lies will have a significant impact on the predictability and quality of the arbitration. The proposed structure needs to strike a balance between the interests of the licensee and the patentee. Neither party should bear the entire burden of proof. One process that could be adopted is outlined below.

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<sup>13</sup> <https://www.paconsulting.com/our-experience/lte-essential-ipr-report-and-database/>.



The first decision to be issued by the arbitration panel should concern whether the SEP holder<sup>14</sup> has complied with its FRAND commitment (in other words, whether the offer of the SEP holder is within the range of the FRAND promise). The licensee would set out to prove that the claim for royalties is not consistent with the patentee's FRAND promise. The licensee would be assisted by the discovery of comparable licences and other evidence from both patentee and licensee.

If the panel concludes that the SEP holder has not complied with its FRAND commitment (i.e., its claim exceeds FRAND), the panel must then undertake the more difficult task of setting a value for the patentee's portfolio of SEPs. It must do this by considering evidence submitted by both parties.

Implementers may object to the two-stage nature of this approach. It is the approach adopted by the respective judges in *Unwired Planet*<sup>15</sup> and *TCL*.<sup>16</sup>

The decision of whether to include such a term in the arbitration agreement is a judgment call for a SEP owner. It may be harder to persuade the implementer to agree up front to an arbitration adopting this approach than it would be to persuade a tribunal of the benefits of this approach once arbitration is agreed. Further, an implementer that rejects the arbitration offer may be able to use this term to persuade a court (or regulator) that the rejection was justified. Consequently, it may be better not to seek this term in the arbitration agreement, and only to consider raising it in the first arbitration hearing (the case management conference).

### *Discovery obligation*

For the FRAND adjudication to be meaningful, there must be rules that ensure proper discovery of any evidence necessary, including potentially comparable licence agreements on each side. This should be undertaken as early as possible in the proceedings. Indeed, parties sometimes agree an exchange of comparable licences at an early stage before other discovery categories are debated or ruled upon.

Licence agreements usually have confidentiality provisions preventing the disclosure of the licence agreement to third parties without consent. Consequently, for a party to show its licences to the tribunal, the following must take place.

- The party will need to put the relevant licensees on notice and deal with objections. If the SEP owner's standard licence provisions do not provide that disclosure is permitted following an arbitral order (in the same way as a court order) this should be considered for future agreements. Where consent from the licensee is not forthcoming and the licence does not permit disclosure without a court order, the SEP owner may need to commence court proceedings to avoid being in breach of the licence.
- The discovery should be limited to the parties' outside representatives, as is the norm with US litigation, because this helps with obtaining consent from licensees.

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14 Or, where both parties are SEP holders, the net recipient of royalties.

15 *ibid.*

16 *ibid.*

It is also important to carefully consider the scope of any non-disclosure agreement signed with a counterparty that covers the FRAND negotiations. Although less important than in patent litigation (where compliance with FRAND obligations during negotiations will likely need to be established to secure or avoid an injunction), it will often be useful to be able to rely on the details of the negotiations to establish a holdout or to demonstrate inconsistencies in the positions taken by a party in negotiations versus in the arbitration.

It may make sense for parties to establish two tracks of negotiation: one that is confidential, but can be relied upon in court or arbitration proceedings; and one that is confidential and cannot be put before the tribunal (i.e., is without prejudice).

### *Choice of arbitration institution*

Parties should have the freedom to agree on an appropriate adjudication process for their dispute. Where they cannot agree, a default must be provided. For this default to be perceived as fair and independent, it would need to be an internationally recognised arbitration body using arbitrators competent to handle commercial disputes and applying internationally recognised procedures.

Some parties in FRAND arbitration discussions have objected to US arbitral institutions (e.g., the American Arbitration Association) on cost grounds, because (rightly or wrongly) they perceive tribunals established under the rules of those institutions as being more likely to order extensive discovery or depositions, and because they are perceived to give a home court advantage to US-based parties. Others have objected to the China International Economic and Trade Arbitration Commission or other national arbitral institutions because they (rightly or wrongly) perceive bias. The World Intellectual Property Organization has been criticised as an institution of IP holders, with a closed panel of IP practitioners. The criticism is presumably that it is likely to favour IP owners.

None of these objections have merit, but they are views that have sometimes been deployed by counterparties as grounds for objection. As one purpose of an arbitration offer to the SEP owner is to establish the licensee's unwillingness if it is refused, it is preferable for the SEP owner to offer an institution that cannot be (justifiably or unjustifiably) criticised. The key is to offer a well-known international institution – such as the ICC, the ICDR or the LCIA – that objectively meets the expectations of all participants in the process.

### *Criteria for selecting arbitrators*

The parties should have the freedom to designate party-appointed arbitrators based on the criteria that they deem appropriate. Normal practice is for each of the parties to the dispute to appoint one member of the arbitral tribunal. These party-appointed arbitrators would then attempt to jointly appoint the third member (the chair). In the absence of agreement on the chair, the arbitration institution will appoint the chair.

Some parties argue that arbitrators for FRAND disputes must have IP or antitrust and competition law experience, but this is not necessarily so. Commercial arbitrators are experienced in the valuation of a wide range of assets, from complex financial instruments to specialised commercial products. Patents are not as unique as an asset class in having very specialised characteristics or a deep body of knowledge behind them. Where technical or patent law questions may arise, the necessary technical expertise may be brought in through expert witnesses, as the parties deem appropriate.

The potential difficulty with arbitrators with IP experience is that they may have pre-conceived views in relation to industry issues or have expressed views about them. The danger is that such persons may not be seen to constitute an independent tribunal.

Commercial arbitrators come to the matter with no preconceptions and can take an unbiased view of the arguments put before them. The result is then dictated by the merits of the arguments, rather than the arbitrators' preconceptions.

Consequently, it is advisable for parties to choose party-appointed arbitrators freely. Nothing prevents a party, if it so desires, from appointing a person with an IP, anti-trust or technical background as its party-appointed arbitrator. However, if the parties cannot agree a chair, it would be reasonable to have an institution pick a chair from an experienced stock of commercial arbitrators without any constraints mandating IP or antitrust experience.

Specifying that no arbitrator may be the same nationality as a party helps to eliminate biased arbitrators and avoids the perception of bias, and is relatively standard.

### *Choice of arbitral seat and venue*

In addition to choosing the institution and arbitrators, it is necessary to choose an arbitral seat and venue. Seat is not the same as venue. The seat controls the mandatory arbitration law, and often the procedural law, applicable to the arbitration, and the procedure for affirming or challenging the result. The venue is where the arbitration hearings happen. Often, they are the same, but not always.

In FRAND arbitrations, seat and venue are usually controversial. Ideally, both would be neutral: for example, the agreement may specify that if the SEP owner is in an Asian country and the implementer is in the United States then the seat and venue for the arbitration hearings will be a European state.

Things to consider when choosing a seat for a FRAND arbitration include:

- the extent to which the national law of that seat provides the local courts with powers to supervise and support the arbitral process – for example, some jurisdictions provide the local courts with powers to remove conflicted arbitrators, rule on jurisdiction of the tribunal, enforce interim orders, secure the attendance of witnesses and make certain orders relating to the taking and preservation of evidence;
- the level of procedural autonomy permitted by local laws;
- local rules on privilege;
- whether the jurisdiction is a party to the New York Convention (and whether arbitral awards are afforded the same effect as court judgments in that jurisdiction); and
- the disclosure process in that jurisdiction (from full-blown US discovery to virtually non-existent discovery in civil law jurisdictions). The disclosure rules are not determined by the seat: they are a matter for the arbitral tribunal, and arbitrators from a civil law country may be less inclined to order discovery than arbitrators from a common law country. Although parties appoint two of the three arbitrators directly, in FRAND arbitrations some parties have been unable to agree on a chair. In these cases, the arbitration institute may need to appoint a chair and the seat of the arbitration may influence that choice.

The key consideration for a venue is how it will impact the practical administration and cost of the arbitration. To date, parties have successfully used London, Stockholm, New York, San Francisco and Paris as the seats and venues for SEP arbitrations.

Some Chinese companies have expressed the view that neither a European state nor the United States will be neutral for them. In that case, Singapore or Hong Kong may be a compromise that is acceptable to all sides.

To minimise the chances that an implementer that rejects the offer could later argue that the offered venue was unsuitable, one option is to include in the arbitration offer a series of tick boxes that the implementer can select when accepting the offer, for example:

*The seat of the arbitration will be (tick to accept one of the following):*

- London*
- New York*
- Hong Kong*

### *Valuation methods*

The decision of what will be regarded as the most appropriate method for a SEP portfolio arbitration should be left to the arbitrators on a case-by-case basis, as it will very much depend on circumstances. Parties will have strong views on this and should be allowed the freedom to argue their positions.

### Reasonable time frame

One advantage of arbitration is that parties can set the time frame and invite the arbitrators to follow it. Parties cannot do that with a judge.

Eighteen months has proved to be just about long enough for even the most complex disputes: for smaller cases parties could reduce this to a year. This is important for SEP owners because it gives a timescale according to which they will get paid, which reduces the ability of large implementers to starve them out. Eighteen months is the proposed time period in the draft arbitration agreement in ‘Approaches to determining a FRAND royalty rate’.

### Reasonable cost

A secondary advantage of a short time frame is that it helps to contain legal costs. A tight timetable necessarily limits attorney charges and disbursements and forces them to take a pragmatic and efficient approach to evidence and procedure.

Parties should also encourage the arbitral tribunal to adopt a procedure that allows costs to be constrained. It is generally possible even at the outset of a dispute for parties to identify the range of the amount in dispute. Obviously, there may be cases where what is at stake exceeds the actual amount in dispute: for example, where a small licensee challenges the licensing rates of a large SEP owner and an adverse result could have broader implications for the SEP owner’s licensing programme. But outside such exceptional cases, parties should aim to keep costs proportionate with the amounts in dispute, and, where the parties have not agreed to bear their own costs, arbitrators should be encouraged not to award costs that exceed a proportionate amount.

Reduces disruption but with enough risk to incentivise settlement

Binding portfolio valuation is, of itself, a significant risk for both parties, because there is always the risk that the tribunal may award a licence fee that is worse than the current offer on the table. That risk applies equally to both parties. It therefore provides an incentive to each side to reach an amicable solution.

In many portfolio disputes, there are opportunities for parallel litigation. SEP owners may assert other, non-SEPs against the implementer. Implementers may bring antitrust damages claims or complaints to regulators directly themselves or through proxies to put pressure on the SEP owner to make concessions in negotiations. It is desirable for both parties to enter a separate litigation standstill on all non-essential patent infringement actions, competition law complaints and regulatory complaints, whether direct or indirect. The offer of a standstill on other litigation can also be the *quid pro quo* of seeking a short timetable for the arbitration.

Parties should also consider entering into a tolling agreement so that damages or royalties continue to be accrued and past royalties or damages are not extinguished by limitation periods. This means that neither has an incentive to delay the arbitration.

SEP owner's chances of demonstrating that the party is an unwilling licensor are improved if arbitration rejected

Both SEP owners and implementers will consider the effect that a rejected arbitration offer will have in subsequent litigation. The SEP owner will want to use a rejected offer as evidence that the implementer is unwilling to take a licence on FRAND terms, and that if a court later finds a patent to be valid and infringed it should issue an injunction excluding the implementer's products from the market.

To achieve this aim, the offered arbitration agreement must be seen by the court as fair and unbiased. The recommendations in this section have been made with this in mind. Some practices that are best avoided include:

- restricting the ability of a party to run certain arguments that it may wish to advance;
- restricting the powers of the tribunal to decide issues that could be viewed as necessary to resolve the licensing dispute (e.g., issues of validity and infringement of the patents, exhaustion (if relevant) or licensing terms other than the royalty rate that may be disputed);
- making the arbitration offer conditional on the payment of substantial non-refundable interim payments;
- inflexibility in relation to procedural aspects of the arbitration (seat, venue, etc.); and
- introducing an appeal process that would significantly prolong final resolution of the dispute.

### **Timing of arbitration offers**

If engaged in negotiations with a new licensee, it is typical for the discussions to open with an exchange of technical information (including claim charts) to give the licensee the opportunity to consider the extent of its exposure. Arbitration should generally be offered once the licensee has been provided with sufficient details and time to understand the licensed portfolio, around the same time that it becomes appropriate to move the discussions on to

commercial issues (including the question of the appropriate FRAND rate) and can be the response to an argument that the offered rate is too high or to a low counter-offer. This protects the licensor from being accused of expediting the process to prevent the potential licensee from properly getting to grips with the technical considerations.

To avoid the arbitration offer from being seen as an afterthought, it should not be offered near the commencement of any patent infringement action.

Similarly, if the negotiations are for the renewal of an existing licence, then the offer of arbitration can be made as soon as it is clear that the parties have different views as to the appropriate renewal rate or terms.

### Approaches to determining a FRAND royalty rate

Each party is likely to use expert economists or accountants to give evidence about the valuation of the portfolio. The tribunal will determine between these experts. Because valuation is a multi-step process, it may be that a tribunal disagrees with one step taken by one or more of the experts, but not the other steps. That may leave the tribunal in uncharted territory: trying to carry out the expert's subsequent calculations with different data. It is easy to make mistakes at this point and it often helps if the tribunal can 'hot tub' the experts. This involves both experts being before the tribunal, who can then ask questions to both at the same time: for example, 'Assume I rule against you on step x, how would that affect your respective calculations?'

#### Comparable licences

Most commonly, the tribunal will look to other comparable licences. These may be licences granted by the SEP owner itself or licences granted by other SEP owners. Typically, in discovery, each party will obtain access to the others' comparable agreements: the SEP owner and the prospective licensee's out-licences and in-licences.

The most easily comparable licences can be one-way licences. But more commonly, the parties have entered cross-licences. Licences may specify rates in *ad valorem* or per unit rate terms and they may be paid via running royalties or lump sums. The patent portfolio in the comparable licence will be different in size and value to the licensor's portfolio in the arbitration because portfolios change over time. Each of these factors needs to be controlled for in the analysis.

To control for the relative patent portfolio strength of the portfolios being licensed it is necessary to calculate each portfolio's strength at the relevant date. If the comparable agreements are other out-licences, then the party will need to chart the strength of the SEP owner's portfolio over time. Or, if the parties have examples where the implementer has agreed or been ordered to pay for a licence to another cellular SEP holder's patents, then the tribunal will need to measure the strength of that cellular SEP holder's portfolio on the date at which the implementer took a licence or was ordered to pay damages.

#### Top-down approaches

As an alternative to using comparable licences, a party may seek to show that a rate is FRAND by demonstrating that the SEP owner holds a certain share of all the SEPs in the industry, and that it is entitled to a share of the total aggregate royalty rate in the industry.

As an alternative, a party may seek to show that it developed a certain share of the technology in the standard, and that it is entitled to a share of the value created by the standard. The value could be determined, for example, by comparing what customers pay for otherwise similar products with and without the standardised technology.

### Determining portfolio strength at relevant dates

In each of the different methodologies described above, a necessary input to the calculation is the strength of each relevant patent portfolio. As there is no direct measure of portfolio value, economists model value by looking at proxies. The simplest of the commonly used proxies is a count of unique SEP families in the portfolio in question.

However, even this requires a number of technically challenging steps, such as: determining the body of declared SEPs; removing dead patents; assigning patents to the correct owner; and assigning patents to each standard generation. It is not possible to tell from the ETSI database alone what size portfolio each person holds (or held at the relevant point of time). This is because the ETSI database does not include all the patents in each declared family, and does not contain the necessary bibliographic patent information to perform calculations on expiry dates or ownership.

Recognising that not all SEP families are of equal value, economists often use more sophisticated proxies for value. One of these is forward citations, which requires a measure of the number of citations received by each patent family in the portfolio. To be accurate, this kind of measure requires sophisticated ‘normalisation’ techniques, adjusting for the age of a patent or the country that it was filed in.

Age normalisation is necessary because a patent will attract forward citations over its life. Without normalising for age, an older patent might appear to be more valuable because it has had a longer time period to attract citations. Jurisdiction normalisation is necessary because a patent filed in some countries (most notably the United States) will attract more citations than the same patent filed in another country.

It is also necessary to eliminate ‘self-citations’, which occur when a company cites one of its own patents. Some companies have a policy of doing this, and, unless corrected, the self-citation may inflate the apparent value of their portfolio. Not all citations to another patent belonging to the same company are self-citations, however. A party needs to be able to differentiate citations in a patent that arise from the examiner (which would be a genuine third-party citation) from those that arise at the instigation of the patentee.

Another proxy is counting a party’s technical contributions in the SDO, which may be a measure of their level of participation in the development of the standard. A further option is to use jurisdiction weighting; recognising that SEP owners may patent their more valuable inventions in a larger number of countries and their less valuable inventions in fewer countries may allow weighting to be applied to individual patent families, and distinguish the more valuable from the less valuable.

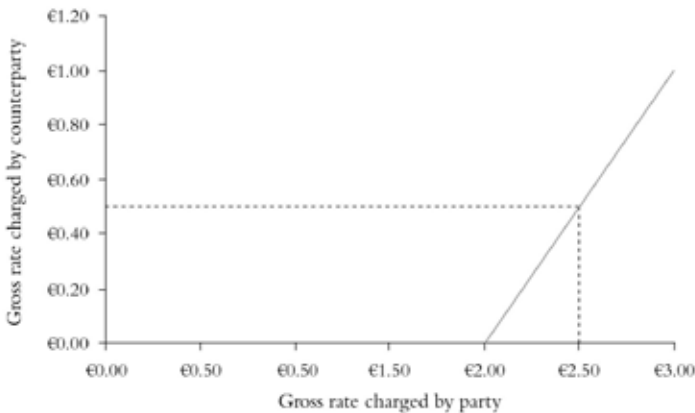
### Unpacking a cross-licence

Once the patent portfolio strength has been established for the SEP owner’s portfolio at the date of the dispute and for the portfolio that features in the comparable licence, it is possible to scale up or down the rate in the comparable licence to find out what a FRAND royalty rate would be. This is relatively simple when the comparable licence is a one-way

licence but more complicated when it is a cross-licence. To unpack a cross-licence into two one-way licences, and derive the one-way rate, it is necessary to know the expected sales for both parties at the date that the cross-licence was entered.

Historic sales figures are available from suppliers such as Strategy Analytics and the Industrial Design Consultancy. However, it is necessary to estimate the parties' expectations as to sales at the date the comparable licence was entered, rather than actual sales with the benefit of hindsight. These expectations can be inferred from contemporaneous industry forecasts and internal communications.

Once the sales figures are known, it is possible to generate a rate chart that shows an infinite number of possible gross rate pairs that make up the net rate. These are illustrated below:



The diagonal line shows possible one-way rate pairs that make up the net rate. It could be, for example, that one party is paying €2.50 per device and the other is paying €0.50. Or one could be paying €3 and the other €1.

To solve this, it is necessary to know each party's patent portfolio strength at the relevant date. This allows one to calculate the value that was attributed to the portfolio being licensed at the time. On the assumption that the bargaining power of the parties was equal at the time the licence was entered into,<sup>17</sup> the following equations can be used:

$$\text{Balancing payment} = R^{\text{Party 1}} \times S^{\text{Party 2}} - R^{\text{Party 2}} \times S^{\text{Party 1}}$$

$$R^{\text{Party 2}} = R^{\text{Party 1}} \times P^{\text{Party 2}} / P^{\text{Party 1}}$$

R is the gross rate, S is sales and P is portfolio strength. As the sales expectations and the balancing payment will be known, this leaves a single unknown, the royalty rate of the first party, which can be solved for.

17 Often it is not equal, even in a FRAND context. One often hears parties talk about 'hold up' and 'hold out'. These are manifestations of bargaining power. There is little doubt that large licensees can negotiate more favourable rates for patent licensing, just as they can negotiate reduced prices for any other component supply. Whether that is fair is another question.



### Taking account of ‘true essentiality’

Not all patent families declared as essential to an SDO such as ETSI are truly essential.

One of the fears of implementers in entering a portfolio rate arbitration is that they will not have an opportunity to challenge the patent owner’s portfolio. This is not correct. In all portfolio determination cases, and the arbitrations listed in this chapter, the implementer has made technical arguments about the portfolio. The difficulty is that, if the tribunal is seeking to determine the share of truly essential and valid patents held by the patent owner, then the same level of scrutiny must be applied to the patents of the patent owner as to the industry as a whole.

Recent court decisions, such as *Unwired Planet* and *TCL*, have attempted to take account of ‘true essentiality’ rates. In each of those cases, an expert commissioned a study through a sampling approach of patents in the industry. The study was criticised as over-estimating the overall number of essential patents in the industry. That had the effect of artificially reducing Ericsson’s share.

The source of data used in the two arbitrations was a database created by PA Consulting, which provides a neutral assessment of the essentiality of every patent family declared to the CDMA2000, UMTS and LTE standards. In using this data, there are two approaches that can be applied.

- The high-level approach: the percentage of truly essential patents declared by a corporate entity is applied as a multiple to the patent value score, before inputting the patent value score into the equations outlined in ‘Unpacking a cross-licence’, or using patent value scores in a top-down analysis.
- The patent-by-patent approach: the underlying data in the essentiality study is matched to the bibliographic data from the European Patent Office. This allows patents that have been determined to be non-essential to be filtered out of the source data before comparing the portfolios.

The PA Consulting survey is undoubtedly less rigorous than the scrutiny that a patent would face in court. But the important point here is that the same level of scrutiny is applied to all patents in the exercise. More rigorous study might be better, but to scrutinise all patents in the industry would be disproportionate in all but the largest-value cases.

### Modified Georgia-Pacific factors

A *Georgia-Pacific* analysis involves simulating a hypothetical bilateral negotiation between the licensor and licensee, which takes place at the time of the first infringement. The factors were set out in the US case of *Georgia-Pacific Corp v. US Plywood Corp*.<sup>18</sup>

In *Microsoft v. Motorola*,<sup>19</sup> Judge James Robart modified these to be more appropriate for SEPs. Judge Robart’s approach was also used by Judge Holderman in *Innovatio v. IP Ventures (Innovatio)*.<sup>20</sup> The modified *Georgia-Pacific* factors are as follows:

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18 318F Supp. 1116 (S.D.N.Y. 1970).

19 696 F.3d 872 (9th Cir. 2012).

20 Case: 1:11-cv-09308. See [https://essentialpatentblog.lexblogplatform.com/wp-content/uploads/sites/64/2013/10/2013.10.03-975\\_Public-Version-of-Memorandum-Opinion-and-Order.pdf](https://essentialpatentblog.lexblogplatform.com/wp-content/uploads/sites/64/2013/10/2013.10.03-975_Public-Version-of-Memorandum-Opinion-and-Order.pdf).

1. *The royalties received for licensing the patent, proving or tending to prove an established royalty, in other circumstances comparable to RAND-licensing circumstances.*
2. *The rates paid by the licensee for the use of other similar patents.*
3. *The nature and scope of the license, such as whether it is exclusive or nonexclusive, restricted or non-restricted in terms of territory or customers.*
4. *~~The licensor's policy of maintaining its patent monopoly by licensing the use of the invention only under special conditions designed to preserve the monopoly.~~*
5. *~~The commercial relationship between the licensor and licensees, such as whether they are competitors in the same territory in the same line of business or whether they are inventor and promotor.~~*
6. *The effect of selling the patented specialty in promoting sales of the licensor's other products, taking into account only the value of the patented technology and not the value associated with incorporating the patented technology into the standard.*
7. *~~The duration of the patent and the term of the license.~~*
8. *The established profitability of the patented product, its commercial success and its current popularity, taking into account only the value of the patented technology and not the value associated with incorporating the patented technology into the standard.*
9. *The utility and advantages of the patent property over alternatives that could have been written into the standard instead of the patented technology in the period before the standard was adopted.*
10. *The nature of the patented invention, its character in the commercial embodiment owned and produced by the licensor, and the benefits to those who used it, taking into account only the value of the patented technology and not the value associated with incorporating the patented technology into the standard.*
11. *The extent to which the infringer used the invention and any evidence probative of the value of that use, taking into account only the value of the patented technology and not the value associated with incorporating the patented technology into the standard.*
12. *The portion of the profit or the selling price that is customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions that are also covered by RAND committed patents.*
13. *The portion of the realizable profit that should be credited to the invention as distinguished from any non-patented elements, manufacturing process, business risks or significant features or improvements added by the infringer or the value of the patent's incorporation into the standard.*
14. *The opinion testimony of qualified experts.*
15. *The amount that a licensor and a licensee would have agreed upon at the time the infringement began if both were considering the RAND commitment and its purposes, and had reasonably and voluntarily tried to reach an agreement.*

These have not been used in later cases; Judge Selna did not find them helpful in *TCL*. They have not featured in arbitrations to date.

### Bottom-up analysis

A 'bottom-up' analysis involves calculating damages by determining the cost of implementing an alternative technology that could have been adopted into the standard. This cost is an indication of the amount an implementer would have paid to license the patents in suit.

This is clearly difficult and expensive to do in a large patent portfolio. The consideration of alternatives for each patent would require extensive expert evidence, and it may start to make the exercise more expensive than the amounts in dispute.

In the case of many technologies in the standard, there is no alternative, or to come up with one would take as much time and ingenuity as developing the original technology. (This may be disproportionately expensive for arbitration, even if it does have the side benefit of advancing the state of the art.)

For a small portfolio of patents this approach may be viable, and it is commonly used as a valuation method in single patent disputes in other technology areas. It has not been used in the large portfolio arbitrations in which this author has been involved. It was rejected as an approach by Judge Holderman in *Innovatio*.

## **Conclusion**

Arbitration has proven to be more efficient in resolving SEP disputes than patent litigation because it combines the significant advantages of global reach, perceived neutrality and speed with maintaining confidentiality of business secrets of the parties and third parties.

Despite the complexities of law, technology and economics behind these disputes, tribunals do not need to be made up of patent experts or economics experts, and commercial arbitrators have proven to be entirely up to the task.

# Part IV

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## Remedies in International IP Arbitration

# 11

## Obtaining Interim and Permanent Relief in International IP Arbitration

**Shaneen Parikh<sup>1</sup>**

### Introduction

*Ubi jus ibi remedium* (where there's a right, there must be a remedy) is an ancient but still relevant principle of Anglo-American tort law.<sup>2</sup> Intellectual property (IP) rights have been traced back by scholars to 500 BCE (about 1,700 years before the Magna Carta) when chefs in the Greek colony of Sybaris were granted limited year-long monopolies over certain recipes.<sup>3</sup> Modern institutions and systems of IP evolved over time to anchor rights to remedies in a more defined manner, notable examples of which in the modern context include the English Statute of Monopolies (1624) and the Statute of Anne (1710).<sup>4</sup>

IP disputes today are contested before a dizzying range of forums (often in parallel proceedings, spread over multiple jurisdictions): civil courts; criminal courts; statutory tribunals; administrative bodies; arbitral tribunals constituted under commercial contracts; panels established under the frameworks of the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO); investment tribunals constituted under

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1 Shaneen Parikh is a partner at Cyril Amarchand Mangaldas. The author would like to acknowledge the contributions of Ifrah Shaikh, Purav Shah and Anand Mohan to this chapter.

2 Tracy A. Thomas, 'Ubi Jus, Ibi Remedium: The Fundamental Right to a Remedy Under Due Process' 41 *San Diego Law Review* 1633 (2004); also see *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 163-66 (1803); and 3 William Blackstone, *Commentaries On The Laws Of England* 23 (Dawsons of Pall Mall 1966) (1768).

3 Moore, Adam and Ken Himma, 'Intellectual Property', *The Stanford Encyclopedia of Philosophy* (Winter 2018 Edition), Edward N. Zalta (ed.).

4 *ibid.*

investor-state dispute settlement provisions contained in bilateral or multilateral treaties between sovereign states, etc.<sup>5</sup> Arbitration has rapidly gained ground as the preferred mode of resolution of IP disputes.<sup>6</sup>

This chapter aims to shed light on interim and final remedies in IP arbitrations, dealing not only with the legal but also the strategic aspects thereof that have become critical pressure points for international commerce today.

Article 17 of the UNCITRAL Model Law on International Commercial Arbitration 1985, as amended in 2006,<sup>7</sup> empowers the arbitral tribunal to grant ‘interim measures’, defined as being any temporary measure, whether in the form of an award or in another form, by which, at any time prior to the final award, and that may direct a party to:

- maintain or restore the status quo;
- take or desist from action that may or is causing harm or prejudice to the arbitral process;
- preserve assets that may be used to satisfy the future final award; or
- preserve evidence that may be material to the arbitration.

Legislation based on the UNCITRAL Model Law has been adopted in 84 states in a total of 117 jurisdictions,<sup>8</sup> and the power and scope of interim measures that may be granted by an arbitral tribunal are similar, as this chapter demonstrates.

## **The importance of interim measures**

Interim measures of protection during the course of a dispute help to ensure cohesion between the process of law and daily practicalities. Access to interim relief is proving increasingly critical to the integrity of the dispute resolution process in IP arbitrations, *inter alia*, by ensuring preservation of the subject matter of the arbitration, allowing equities to be balanced pending a potentially lengthy dispute, and permitting courts and tribunals to

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5 Heike Wollgast, ‘WIPO alternative dispute resolution – saving time and money in IP disputes’, where it is stated that ‘With the globalization of trade and the increasingly international creation and exploitation of IP, these disputes often span multiple jurisdictions and involve highly technical matters, complex laws and sensitive information. In these circumstances, parties often look for flexible dispute resolution processes that can be customized to their needs and that enable them to control the time and cost of proceedings’, *WIPO Magazine* (November 2016).

6 WIPO Guide on Alternative Dispute Resolution Options for Intellectual Property Offices and Courts (July 2015), which notes that ‘ADR is becoming an increasingly popular option for the resolution of intellectual property disputes. For example, the WIPO Center, which provides support services for ADR proceedings such as mediation, expert determination, arbitration and expedited arbitration, has seen an increase in the number of intellectual property disputes it has administered in recent years. Such disputes spanned a diverse range of legal areas and industries’, at page 20.

7 See [https://www.uncitral.org/pdf/english/texts/arbitration/ml-arb/07-86998\\_Ebook.pdf](https://www.uncitral.org/pdf/english/texts/arbitration/ml-arb/07-86998_Ebook.pdf).

8 Status: UNCITRAL Model Law on International Commercial Arbitration (1985), with amendments as adopted in 2006, as available at [https://uncitral.un.org/en/texts/arbitration/modellaw/commercial\\_arbitration/status](https://uncitral.un.org/en/texts/arbitration/modellaw/commercial_arbitration/status).

stand firmly against mischief by a recalcitrant party to defeat the arbitral process.<sup>9</sup> The grant of interim relief can prevent irreparable harm or prejudice from being caused to parties, or the claim itself being frustrated, pending the outcome of the dispute.<sup>10</sup>

Interim measures are broadly classified into two categories based on the purpose they serve:<sup>11</sup> the first includes measures aimed at avoiding or minimising loss, damage or prejudice; and the second includes measures whose object is to facilitate the enforcement of an eventual award.<sup>12</sup>

The grant of an injunction or preservation of status quo would fall within the first category,<sup>13</sup> and may include orders for preservation of evidence related to the subject matter of the dispute, orders for the sale of perishable goods to minimise damages and orders ensuring confidentiality of information.<sup>14</sup>

Interim measures in the second category seek to ensure that a party does not precipitate action that might render any final award ineffectual, and may include orders for security for costs, attaching or freezing assets to prevent removal from the jurisdiction or depositing the assets that could be used to satisfy the award should it not be honoured.<sup>15</sup>

## Inter partes and erga omnes relief

A prominent feature in any case strategy for IP arbitration is often the issue of arbitrability – namely, whether a given dispute is capable of settlement through arbitration, including whether an arbitral tribunal is capable of granting the relief sought under the law of the seat as well as the jurisdiction where enforcement may be sought.<sup>16</sup>

In several jurisdictions, the validity or existence of IP rights may be regarded as not capable of being adjudicated through arbitration.<sup>17</sup> Questions regarding validity or existence of IP rights are treated in many jurisdictions as rights *in rem* enforceable against third parties and the world at large, over whom an arbitral tribunal has no jurisdiction, and may

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9 Bernardo M. Cremades, 'The Need for Conservatory and Preliminary Measures', 27 *Int'l Bus. Law.* 226–27 (1999).

10 UNCITRAL Working Group on Arbitration, 'Possible Future Work: Court-Ordered Interim Measures of Protection in Support of Arbitration, Scope of Interim Measures that May be Issued by Arbitral Tribunals, Validity of the Agreement to Arbitrate, Report of the Secretary General', U.N. Doc. A/CN.9/WG.II/WE111 (Oct. 12, 2000), at Para. 7.

11 UNCITRAL, Working Group II, 'Settlement of Commercial Disputes, Preparation of Uniform Provisions on Interim Measures of Protection, Note by the Secretariat', U.N. Doc. A/CN.9/WG.II/WP.119 (Jan. 30, 2002), at Para. 16.

12 *ibid.*, at Para. 18.

13 *ibid.*, at Para. 17.

14 Dana Renee Bucy, 'How to Best Protect Party Rights: The Future of Interim Relief in International Commercial Arbitration Under the Amended UNCITRAL Model Law', *American University International Law Review* 25, No. 3 (2010): 579–609.

15 *ibid.*

16 In this chapter, the term 'arbitrability' refers to objective arbitrability (i.e., whether the subject matter of the dispute is capable of being adjudicated by an arbitral tribunal) as opposed to subjective arbitrability, which generally refers to the capacity of the parties to refer the dispute to arbitration.

17 Trevor Cook and Alejandro Garcia, 'Arbitrability of IP Disputes' in *International Intellectual Property Arbitration* (Kluwer Law International, 2010) at page 50; Anna Mantakou, 'Arbitrability and Intellectual Property Disputes' (Chapter 13) in Loukas Mistelis and Stavros Brekoulakis (ed), *Arbitrability: International and Comparative Perspectives* (Kluwer Law International, 2009).

trigger public interest or public policy considerations (which may render the award null or incapable of enforcement).<sup>18</sup> This position is premised on the territorial nature of IP rights and on the fact that only the designated public authorities that granted the IP rights can decide upon their validity.<sup>19</sup>

The WIPO Arbitration and Mediation Center, however, considers arbitrability as ‘generally a non-issue in most jurisdictions’, perhaps because most jurisdictions also recognise the *inter partes* effect of arbitral awards in IP disputes, rendering concerns of any *erga omnes* effect academic in many cases.<sup>20</sup> An arbitral award would be said to have an *inter partes* effect when the decision binds only the parties to the arbitration, with no universal effect on the validity of the underlying IP.<sup>21</sup>

The United States Congress has enacted a law stating that disputes in relation to US patents can be arbitrated and that the award by the arbitrator shall be final and binding between the parties to the arbitration, although it shall have no force or effect on any other person.<sup>22</sup> Singapore law provides that the subject matter of an IP dispute is capable of settlement by arbitration as between the parties to the IP dispute.<sup>23</sup> Australia, Canada, France, Germany, Japan and the United Kingdom also allow arbitration of IP disputes and the arbitral award will have effect *inter partes*.<sup>24</sup> Belgian law provides that an arbitral award revoking a patent will have *erga omnes* effect,<sup>25</sup> while Swiss law is even more liberal and recognises the *erga omnes* effect of arbitral awards in IP disputes generally.<sup>26</sup> Concerns of arbitrability, therefore, while relevant, may generally render commercially uniform results across key jurisdictions.<sup>27</sup>

## Types of provisional remedies

### Preliminary injunction

Preliminary injunctions are among the most commonly sought provisional remedies in IP arbitrations. The questions for determination before the court or tribunal when deciding to grant (or deny) a preliminary injunction are: (1) whether the plaintiff has shown a serious

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18 Marc Blessing, ‘Arbitrability of Intellectual Property Disputes’, 12:2 *Arbitration International* 191 (1996) at pages 198–199.

19 Ignacio De Castro and Panagiotis Chalkias, ‘Mediation and Arbitration of Intellectual Property and Technology Disputes: The Operation of the World Intellectual Property Organization Arbitration and Mediation Center’, 24 *SaLJ* 1059 (2012) at page 1067.

20 WIPO Arbitration and Mediation Center – Update on the WIPO Arbitration and Mediation Centre’s Experience in the Resolution of Intellectual Property Disputes, (LES Nouvelles 2009) at pages 49–54.

21 Trevor Cook, *Alternative Dispute Resolution (ADR) as a tool for Intellectual Property (IP) Enforcement*, WIPO/ACE/9/3 at page 4.

22 35 U.S.C. 294 (Voluntary arbitration).

23 Section 26B, International Arbitration Act.

24 Blessing, *supra* note 18 at pages 200–202; IAPIP Yearbook 1991/VI; Robert Briner, ‘The Arbitrability of Intellectual Property Disputes with particular emphasis on the situation in Switzerland’, at Para. 1.10.3.

25 Article 51(1), Belgian Patent Law.

26 Article 177, Swiss Federal Statute on Private International Law; Decision of the Swiss Federal Office of Intellectual Property dated 15 December 1975.

27 Cook, *supra* note 21 at page 4.



question to be tried; (2) whether the plaintiff is likely to suffer an injury for which damages are not an adequate remedy; and (3) whether the balance of convenience favours the grant of an injunction.<sup>28</sup>

Cross-border preliminary injunctions are not uncommon in IP disputes.<sup>29</sup> In *Google Inc v. Equustek Solutions Inc*, the Supreme Court of Canada upheld a worldwide interlocutory injunction ordering Google to delist the defendant (Datalink's) website worldwide.<sup>30</sup> Interestingly, Google itself was not a party to the proceedings but was considered a 'determinative player' that could prevent Datalink from causing irreparable harm to Equustek Solutions by continuing its infringing activity. While national courts may have the powers and inclination to pass wide orders of extraterritorial application, and against a non-party to the proceedings, an arbitral tribunal's jurisdiction is circumscribed strictly by contract and interim relief of such wide scope as may best be achieved with the assistance of courts.

### Anton Piller order

The *Anton Piller* order (so named after the eponymous English Court of Appeal case),<sup>31</sup> developed in English common law in the 1970s, is an *ad personam* order issued *ex parte* against the defendant, permitting a plaintiff to enter the defendant's premises (whether business or residence) to search, inspect and seize relevant material that may form evidence in the plaintiff's action. This type of interim measure was first introduced in 1974 in two unreported judgments involving multinational record companies alleging copyright infringement of certain audio and video recordings.<sup>32</sup> The Court of Appeal warned that such a far-reaching order lay at the extremities of a court's power and such powers were to be used sparingly and only in cases where it was necessary to prevent injustice to the plaintiff.<sup>33</sup>

### Mareva injunction

The *Mareva* injunction has, along with the *Anton Piller* order, been dubbed the 'nuclear weapon' of law.<sup>34</sup> A *Mareva* injunction is an interlocutory remedy that is granted against a defendant when 'there is a danger of his absconding, or a danger of the assets being removed out of the jurisdiction or disposed of within the jurisdiction, or otherwise dealt

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28 *American Cyanamid Co. v. Ethicon Ltd* [1975] A.C. 396 (H.L.). The standards, however, vary in different jurisdictions. In the United States, for example, the Supreme Court in the case of *Winter v. Natural Resources Defense Council, Inc*, 555 U.S. 7 (2008), announced a four-part test for grant of preliminary injunctions: 'A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favour, and that an injunction is in the public interest.'

29 In the case of *Litecubes, L.L.C. v. N. Light Prods., Inc.*, No. 4:04CV00485, 2006 U.S. Dist. LEXIS 60575, the US District Court issued an injunction against the defendant on account of what it considered to be an infringement of the plaintiff's patent in the United States.

30 2017 SCC 34.

31 *Anton Piller K.G. v. Manufacturing Processes Ltd.* [1976] All ER 779.

32 *A. & M. Records Inc. v. Anum Darakdijan*, May 21, 1974 (unreported); *E.M.I.V. Hazan*, July 3, 1974. (unreported).

33 *Anton Piller*, *supra* note 31, per Ormrod L.J.: 'The proposed order is at the extremity of this court's powers. Such orders, therefore, will rarely be made, and only where there is no alternative way of ensuring that justice is done to the applicant.'

34 As stated by Lord Donaldson in *Bank Mellat v. Nikpour* [1985] FSR 87 at Para. 92.

with so that there is a danger that the plaintiff, if he gets judgment, will not be able to get it satisfied.<sup>35</sup> Several jurisdictions permit their domestic courts to grant worldwide freezing orders in support of arbitral proceedings, even when the arbitral seat is located outside the jurisdiction.<sup>36</sup>

### Security for costs and security for claims

Arbitral tribunals are generally empowered to order security for costs where they find there is a reasonable likelihood of the counterparty not being able to satisfy an adverse costs order.<sup>37</sup> Security for costs may be ordered when: the parties have themselves conferred upon the tribunal the power to do so; the arbitral law expressly allows the tribunal to do so; or the arbitral rules provide for the same.<sup>38</sup> Even where there is no express provision in the applicable law or rules for awarding interim measures or there exists a general provision for the grant of interim measures, arbitral tribunals have awarded security for costs on the basis that this measure is covered under the general power of the tribunal to grant interim relief and is necessary for preserving the integrity of the arbitral process.<sup>39</sup> While most national laws empower arbitral tribunals to grant security for costs, there is an increasing desire to delineate criteria that arbitrators should consider before allowing such an application.<sup>40</sup>

### Arbitral tribunals granting interim relief

The power of an arbitral tribunal to grant interim relief is recognised by most domestic laws and institutional rules. While the precise framework may vary across jurisdictions, the fundamental conditions in this regard tend to be relatively uniform in their substance, as illustrated by the examples considered herein.

As a general rule, an arbitral tribunal does not have the power to grant relief against or bind third parties that are not signatories (actual or deemed) to the arbitration agreement. For instance, if goods are under the control of a third party, thus necessitating orders against

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35 *Prince Abdul Rahman Bin Turki Al Sudiary v. Abu Taha* [1980] 3 All E.R. 409 (C.A.).

36 See Section 44 of the Arbitration Act 1996 of England and Wales and Section 12A of the Singapore International Arbitration Act.

37 ICCA-QMUL TPF Task Force Report on Security for Costs and Costs dated 1 November 2015.

38 See Article 28 of the ICC Arbitration Rules; Article 25.2 of the LCIA Arbitration Rules; Article 24 of the HKIAC Administered Arbitration Rules; Article 24 of the ICDR Arbitration Rules; Article 26 of the Swiss Rules of International Arbitration; Article 32(2) of the SCC Arbitration Rules; and Article 26 of the UNCITRAL Arbitration Rules.

39 ICCA-QMUL TPF Task Force Report, *supra* note 37.

40 The International Arbitration Practice Guideline on Applications for Security for Costs by the Chartered Institute of Arbitrators. The Guidelines lay down the following considerations for arbitrators to take into account when deciding whether to make an order of security for costs: (1) the prospects of success of the claim and defence (Article 2); (2) the claimant's ability to satisfy an adverse costs award and the availability of the claimant's assets for enforcement of an adverse costs award (Article 3); and (3) whether it is fair in all of the circumstances to require one party to provide security for the other party's costs (Article 4). Also see Article 38(2) of the SCC Arbitration Rules, which sets out similar conditions to be satisfied while granting an order for security for costs: (1) the prospects of success of the claims, counterclaims and defences; (2) the claimant's or counter-claimant's ability to comply with an adverse costs award and the availability of assets for enforcement of an adverse costs award; (3) whether it is appropriate in all the circumstances of the case to order one party to provide security; and (4) any other relevant circumstances.

a party that is not a signatory to the arbitration agreement, only a court would be empowered to grant such relief (a tribunal seated in London, therefore, would not have the power to grant a *Mareva* injunction or an *Anton Piller* order).<sup>41</sup>

### England and Wales

In England and Wales, an arbitrator may issue an interim order for the preservation, storage, interim custody and sale of goods that are the subject of the arbitration, provided that the goods are under the control of one of the parties to the arbitration.<sup>42</sup> Relief may also be sought from the court in cases where the arbitral tribunal has no power or is unable, for the time being, to act effectively,<sup>43</sup> for instance, when the tribunal has not as yet been appointed or where an order is required against a third party.<sup>44</sup>

### France

France has not adopted the UNCITRAL Model Law. In France, the French Code of Civil Procedure empowers the arbitral tribunal to make an order for such provisional measures as it deems appropriate, save for conservatory attachments and judicial security as this power is available exclusively with the courts.<sup>45</sup> A French tribunal may also issue orders on an *ex parte* basis, although this carries the risk of being invalidated by the court for failure of the arbitral tribunal to ensure equality between the parties and uphold the adversarial principle.<sup>46</sup>

### Germany

In Germany, tribunals are entitled to grant interim relief, which may be enforced through a court.<sup>47</sup> Orders may include an obligation to post security.<sup>48</sup> A petition to permit enforcement of the interim relief so granted has to be filed with a court. German courts are entitled to modify the interim measures issued by the tribunal.<sup>49</sup>

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41 Jan K. Schaefer, 'New Solutions for Interim Measures of Protection in International Commercial Arbitration: English, German and Hong Kong Law Compared', *Electronic Journal of Comparative Law*, Vol. 2.2 (August 1998).

42 Sections 38(4) and 38(6), English Arbitration Act 1996.

43 Sections 44(5), English Arbitration Act 1996; *Ikon International (HK) Holdings Public Co Ltd v. Ikon Finance Ltd* [2015] EWHC 3088 (Comm).

44 *Recydia Atik Yönetimi & Ors. v. Mr Richard Mark Collins-Thomas, Environmental Power International Limited & Ors.* [2018] EWHC 2506, where the English court upheld a without notice worldwide freezing order under Section 37 of the Senior Courts Act 1981, which had been granted by the court before the arbitral tribunal had been constituted.

45 Article 1468 of the French Code of Civil Procedure.

46 *ibid.*, Article 1510.

47 Section 1041 (2), German Code of Civil Procedure.

48 *ibid.*, Section 1041 (1).

49 *ibid.*, Sections 1041 (2) and 1041(3).

### *Hong Kong*

The Hong Kong Arbitration Ordinance is modelled on the UNCITRAL Model Law and gives effect to Sections 17 and 17A, thus empowering arbitral tribunals to grant interim relief in aid of arbitration,<sup>50</sup> similar to the powers of the Hong Kong courts.<sup>51</sup>

### *India*

The arbitral tribunal has the same power to grant interim measures of protection that it deems just and convenient and the same power for making orders as the court has for the purpose of, and in relation to, any proceedings before it, until the time the award is passed (after which the tribunal becomes *functus officio*).<sup>52</sup> Parties may approach a court for interim relief before or during arbitral proceedings or at any time after making the arbitral award but before it is enforced. The court shall not, however, entertain any application for interim relief after the tribunal has been constituted, unless it finds that circumstances exist that may not render the remedy granted by the tribunal effective.<sup>53</sup>

### *Singapore*

Under Singapore's Arbitration Act (for domestic arbitration)<sup>54</sup> and International Arbitration Act (for international arbitration),<sup>55</sup> the arbitral tribunal has extensive powers to grant interim measures of protection. These may include:

- security for costs;
- discovery of documents and interrogatories;
- giving of evidence by affidavit;
- the preservation, interim custody or sale of any property that is, or forms, part of the subject matter of the dispute;
- the preservation and interim custody of any evidence for the purposes of the proceedings;
- securing the amount in dispute;
- ensuring that any award that may be made in the arbitral proceedings is not rendered ineffectual by the dissipation of assets by a party; and
- an interim injunction or any other interim measure.

Courts are empowered to grant the same interim relief as that available to the arbitral tribunal under both Acts;<sup>56</sup> note, however, that the International Arbitration Act specifically excludes the powers to grant security for costs and discovery of documents.<sup>57</sup> The court

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50 Articles 35–42 and Article 56 of the Hong Kong Arbitration Ordinance [1 June 2011] L.N. 38 of 2011.

51 *ibid.*, Article 45.

52 Section 17, Arbitration and Conciliation Act, 1996.

53 *ibid.*, Section 9.

54 Section 28, International Arbitration Act

55 *ibid.*, Section 12.

56 Section 12A(2), International Arbitration Act and Section 31(1), Arbitration Act.

57 Section 12A(2) read with Section 12(1)(a) and (b), International Arbitration Act.

can grant interim relief only if, and to the extent that, an arbitral tribunal has no power or is unable to do so for the time being.<sup>58</sup> The court shall have regard to any application and any order made before the arbitral tribunal.<sup>59</sup>

The Court of Appeal has held that parties should, when seeking interim relief, turn to the arbitral tribunal as the first port of call.<sup>60</sup>

Under the International Arbitration Act, the Singapore courts may grant interim relief in aid of arbitration, regardless of the seat of the arbitration.<sup>61</sup> The court will, however, grant interim relief only where the arbitral tribunal is unable to or in exceptional cases of urgency, and insofar as necessary for the preservation of evidence or assets.<sup>62</sup> If the matter is not one of urgency, an application to court for interim relief can be brought only with the permission of the arbitral tribunal or the agreement, in writing, of the other parties.<sup>63</sup>

### *South Korea*

The arbitration law in South Korea was aligned with the UNCITRAL Model Law through amendments that came into effect in 2016.<sup>64</sup> The amended Korean Arbitration Act empowers an arbitral tribunal to grant interim measures with the scope to:<sup>65</sup>

- maintain or restore the status quo;
- prevent action likely to harm or prejudice the arbitral process;
- preserve assets; or
- preserve evidence.

### *United States*

In the United States, arbitrators may grant any interim relief, including interim injunctions, as may be necessary. US courts are reluctant to intervene in cases where parties have referred the matter to arbitration, and where the power is perceived to have been effectively passed on to the arbitrators,<sup>66</sup> this being the general rule of reduced court intervention that is applied in most pro-arbitration jurisdictions.

## **Scope of inquiry and evidentiary standards at the interim stage**

Arbitral tribunals have, over time, exercised the discretion afforded to them and developed a jurisprudence *constante* defining the contours of the inquiry to be undertaken when deciding whether to grant interim relief, drawing from standards applied by the

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58 Section 12 (A) (6), International Arbitration Act.

59 Section 31(3), Arbitration Act.

60 *NCC International AB v. Alliance Concrete Singapore Pte Ltd* [2008] 2 SLR(R) 565 at Paras. 40 and 41.

61 Section 12A(1) (a) and (b), International Arbitration Act.

62 Section 12A(4), International Arbitration Act; also see *NCC International AB v. Alliance Concrete Singapore Pte Ltd* [2008] 2 SLR(R) 565 at Paras. 28, 29, 34 and 41; *Front Carriers Ltd v. Atlantic & Orient Shipping Corp* [2006] 3 SLR(R) 854 at Para. 15.

63 Section 12A(5), International Arbitration Act.

64 See the Korean Arbitration Act, Act No. 14176, 29 May 2016.

65 *ibid.*, Chapter III-2 Interim Measures.

66 Julian Lew, 'The Arbitration of Intellectual Property Disputes', at Part IV, Worldwide Forum on the Arbitration of Intellectual Property Disputes, held in Geneva on 3–4 March 1994, available at <https://www.wipo.int/amc/en/events/conferences/1994/lew.html>.

domestic courts of the seat of arbitration (*lex arbitri*)<sup>67</sup> or those prevalent under the law of the underlying contract between the parties (*lex causae*) (although this is used much more infrequently),<sup>68</sup> or international standards.<sup>69</sup> In cases where it was deemed appropriate, tribunals have also drawn from decisions of the International Court of Justice to inform the process of deciding an application of interim measures.<sup>70</sup>

There is a great degree of consensus among scholars and judicial authorities the world over that the following considerations should generally be examined when deciding on an application for interim relief:

- *prima facie* case on the merits;<sup>71</sup>
- likelihood of irreparable or at least serious harm if an injunction is refused, which cannot be adequately compensated for by damages;<sup>72</sup>
- no pre-judgment on the merits of a case;<sup>73</sup>
- urgency;<sup>74</sup> and
- proportionality.<sup>75</sup>

Some arbitral tribunals also consider whether they have *prima facie* jurisdiction over the dispute before granting any manner of interim relief.<sup>76</sup> In many cases, arbitrators have also invoked other equitable considerations such as the issue of ‘clean hands’ or delay and laches in approaching the tribunal for relief.<sup>77</sup>

### UNCITRAL Model Law – an attempt at standardisation

The lack of codified, uniform standards for arbitrators to follow while dealing with applications for interim relief and the consequent inefficiencies introduced into the arbitral process did not escape UNCITRAL’s notice. UNCITRAL’s Secretariat Note of January 2000 noted that the lack of specific, established international standards for interim measures ‘may hinder the effective and efficient functioning of international commercial arbitration because

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67 Mika Savola, ‘Interim Measures And Emergency Arbitrator Proceedings’, *Croatian Arbitration Yearbook*, Vol. 23 (2016): 73–97.

68 *ibid.*, at page 81.

69 *ibid.*

70 Chester Brown, *A Common Law of International Adjudication*, Oxford University Press (2007).

71 Stephen Benz, ‘Strengthening Interim Measures in International Arbitration’, *Georgetown Journal of International Law* 50, No. 1 (2018): 143–176, at page 154.

72 Savola, *supra* note 67 at page 82.

73 *ibid.*

74 *ibid.*

75 *ibid.*

76 In this regard, see Article 2 of the UK-based Chartered Institute of Arbitrators, which states that ‘before considering whether to grant an interim measure, arbitrators should determine whether they have *prima facie* jurisdiction over the dispute.’ However, the Article also posits that where arbitrators consider it absolutely essential to grant interim measures, they shall not be precluded from doing so only on account of a pending jurisdiction challenge. The threshold for showing of a *prima facie* jurisdiction is very low. In this regard, see Benz, *supra* note 71 at pages 152–153.

77 Savola, *supra* note 67 at page 82.

arbitrators might refrain from issuing those measures, which could result in unnecessary loss or damage to a party, a party avoiding enforcement of an award by hiding assets or other undesirable consequences.<sup>78</sup>

Consequently, in 2006, in the revisions to the UNCITRAL Model Law, Article 17A was introduced, which laid down the conditions that must be satisfied before an arbitral tribunal can grant interim measures. These include:

- (a) *Harm not adequately reparable by an award of damages is likely to result if the measure is not ordered, and such harm substantially outweighs the harm that is likely to result to the party against whom the measure is directed if the measure is granted; and*
- (b) *There is a reasonable possibility that the requesting party will succeed on the merits of the claim. The determination on this possibility shall not affect the discretion of the arbitral tribunal in making any subsequent determination.*

Article 17A has been applied by arbitral tribunals in international arbitrations.<sup>79</sup> It is often applied even in those jurisdictions that have not incorporated it into their domestic legislation on account of the tribunal's preference to adopt international standards as opposed to domestic standards,<sup>80</sup> and when dealing with requests for preliminary orders (i.e., *ex parte* orders 'directing a party not to frustrate the purpose of the interim measure requested').<sup>81</sup> It is often referred to in emergency arbitrations, although the requirement of 'urgency' (not contemplated as a standard under the Article) is extrapolated by emergency arbitrators as being one of the integral standards required to be satisfied in applications for emergency arbitral relief.<sup>82</sup>

Article 17A is also applied when it has been adopted by a country in its domestic legislation<sup>83</sup> and when the language of the Article has been reproduced in arbitral institutional rules.<sup>84</sup>

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78 UNCITRAL Secretariat Note - Possible Uniform Rules A/CN.9/WG.II/WP.108 (January 2000).

79 Sanchez, Jose F., 'Applying the Model Law's Standard for Interim Measures in International Arbitration' *Journal of International Arbitration* 37, No. 1 (2020): 49–86 at page 55.

80 Sanchez, *supra* note 79 at page 55; also see Gary B. Born, *International Commercial Arbitration* (2d ed. 2014), at pages 2464–2467.

81 Article 17B(1), UNCITRAL Model Law 2006; also see Sanchez, *supra* note 79.

82 Nathalie Voser and Christopher Boog, ICC Emergency Arbitrator Proceedings: An Overview, in *Special Supplement 2011: Interim, Conservatory and Emergency Measures in ICC Arbitration* (2011).

83 Australia, Bhutan, British Virgin Islands, Costa Rica, Florida (United States), Georgia, Hong Kong, Ireland, Kingdom of Bahrain, Mauritius, New Zealand, Rwanda and Singapore have all incorporated Article 17A in their domestic legislation.

84 UNCITRAL Arbitration Rules (as revised in 2010), Japan Commercial Arbitration Association, Commercial Arbitration Rules 2019, Rule 71.2 and Hong Kong International Arbitration Centre, 2018 Administered Arbitration Rules, Rule 23.4.

### Prima facie case on merits

When judging whether an applicant has a *prima facie* case, arbitrators may consider the claimant's pleadings on a demurrer.<sup>85</sup> The tribunal may assess whether, considering the stage of the proceeding at which the applicant filed its request, the applicant has presented enough evidence to support that claim.<sup>86</sup> The UNCITRAL Secretariat has stated that the 'reasonable possibility of success on the merits of the claim will be assessed differently in view of the different information available to the arbitral tribunal at different stages of the arbitral proceedings.'<sup>87</sup> Most applicants show a 'reasonable possibility of success on the merits' by showing 'a reasonable chance' that the respondent breached the applicable underlying agreements.<sup>88</sup>

### Risk of irreparable or at least serious harm that cannot be adequately compensated by damages

In the international arbitration context, the standard of serious or irreparable harm appears to be lower than that followed by most national courts.<sup>89</sup> An applicant is not required to show that the harm would be literally irreparable in the absence of interim measures.<sup>90</sup> Nor will the mere availability of damages defeat an application for interim relief.<sup>91</sup> Arbitral tribunals have taken the view that a pedantic interpretation of irreparable harm severely limits the situations in which interim relief can then be granted.<sup>92</sup> It will suffice for the applicant to show that harm is likely to occur rather than proving that the harm will most definitely occur.

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85 In describing this criterion, the UNCITRAL tribunal in *Paushok v. Mongolia* (UNCITRAL), Order on Interim Measures, 2 September 2008, stated: 'The Tribunal need not go beyond whether a reasonable case has been made which, if the facts alleged are proven, might possibly lead the Tribunal to the conclusion that an award could be made in favor of Claimants. Essentially, the Tribunal needs to decide only that the claims are not, on their face, frivolous or obviously outside the competence of the Tribunal. To do otherwise would require the Tribunal to proceed to a determination of the facts and, in practice, to a hearing on the merits of the case, a lengthy and complicated process which would defeat the very purpose of interim measures.'

86 Sanchez, supra note 79 at page 75.

87 UNCITRAL Secretariat Note A/CN.9/WG. II/WP. 141 (5 December 2005).

88 See SCC Practice Note 2015–2016 at 13–14 (Case No. EA 2016/095) (arbitrator analysed Article 17A and held that 'there was a reasonable chance' that the respondent state breached the applicable BIT); SCC Practice Note 2015–2016 at 10 (Case No. EA 2016/067) (arbitrator analysed Article 17A and held that at least one of applicant's arguments that the respondent breached the applicable contract 'had a reasonable possibility of success'); SCC Practice Note 2010–2013 at 7 (Case No. EA 139/2010) (applicant '*prima facie* substantiated its objections to the Respondent's termination of the contract').

89 Benz, supra note 71 at page 156.

90 *ibid.*

91 *Paushok v. Mongolia* (UNCITRAL), Order on Interim Measures, 2 September 2008, at Para. 68 ('The possibility of monetary compensation does not necessarily eliminate the possible need for interim measures. The Tribunal relies on the opinion of the Iran-U.S. Claims Tribunal in the *Behring* case to the effect that, in international law, the concept of "irreparable prejudice" does not necessarily require that the injury complained of be not remediable by an award of damages.').

92 Born, supra note 80, writes: 'Obviously, it is difficult (and not infrequently impossible) to demonstrate truly "irreparable" harm that cannot be compensated by money damages in a final award; a literal "irreparable harm" requirement would limit provisional measures principally to cases where one party was effectively insolvent or where enforcement of a final award would be impossible. In reality, however, most decisions



In showing that harm is likely, it is not sufficient for the applicant to simply allege that fact – he or she must prove it. In one emergency arbitration, an applicant requested interim measures for ‘prohibiting the respondent from transferring’ its shares in certain companies or from causing those companies to transfer their assets.<sup>93</sup> The emergency arbitrator applied Article 17A and found the harm to the applicant not ‘likely’, as ‘the evidence did not show that it was likely that the respondent was removing, or planning to remove, assets.’<sup>94</sup>

### No pre-judgment of the merits of a case

A core tenet of the law on interim relief in arbitration is that the object of such relief is to facilitate the arbitral process and preserve the subject matter of the dispute, and not to scuttle it. Expounding on this principle, Professor Gary Born explains that:

*Properly analyzed, the ‘no prejudgment’ requirement stands for the fairly basic, but nonetheless important, propositions that (a) a grant of provisional measures may not preclude the tribunal from ultimately deciding the arbitration in any particular manner after the parties have presented their cases (e.g., provisional measures should not make it more difficult to render a decision in favor of one party or the other); (b) provisional measures have no res judicata or similar preclusive effect with regard to a decision on the merits; (c) a tribunal must take care to ensure that it does not, in considering and deciding an application for provisional measures, even partially close its mind to one party’s submissions or deny one party an opportunity to be heard in subsequent proceedings; and (d) the same relief that is sought as final relief may ordinarily be issued on a provisional basis, subject to later revision (although it may also be issued as partial final relief prior to a final award).<sup>95</sup>*

### Urgency

The requirement of urgency assumes significance mainly in cases where failure to issue provisional measures would raise a risk of impairing a material right (i.e., where an action prejudicial to the rights of either party is likely to be taken before a final decision is taken).<sup>96</sup> The question of urgency is more of a factual than a legal consideration, allowing tribunals to weigh and assess the particular circumstances of a case.<sup>97</sup> Good faith in the conduct of the parties and assurances in respect of not adopting measures that might aggravate the dispute have been important considerations tribunals take into account in assessing whether there is an urgent need to adopt provisional measures.<sup>98</sup>

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which state that damage must be “irreparable” do not appear to apply this formula, but instead, require that there be a material risk of serious damage to the [Investor].’

93 SCC Practice Note 2014 (Case No. 2014/171).

94 *ibid.*

95 Born, *supra* note 80 at pages 2477–2478.

96 *Tokios Tokelés v. Ukraine*, ICSID Case No. ARB/02/18, Procedural Order No. 3, 18 January 2005; also see Born, *supra* note 80 at page 2476.

97 Francisco Orrego Vicuña, ‘The Evolving Nature of Provisional Measures’, in M.Á. Fernández- Ballesteros and David Arias (eds.), *Liber Americanum: Bernardo Cremades* 939 (2010), at pages 949–950.

98 *ibid.*

## Proportionality

Under the test of proportionality, arbitrators need to consider any harm likely to be caused to the party against whom the interim measure is to be granted. Any harm caused by granting the measure should be weighed against the likely harm to the applicant if the measure is not granted.<sup>99</sup> Even under Article 17A of the amended UNCITRAL Model Law, harm substantially outweighing the ‘harm that is likely to result to the party against whom the measure is directed if the measure is granted’ has been interpreted as a test of proportionality,<sup>100</sup> such that arbitrators must consider the financial position of the parties and the practical effects of granting the measure.<sup>101</sup>

## Strategies to obtain interim relief (in arbitration or in court)

IP disputes are rarely litigated through to a final decision and are often settled following a legal battle at the stage of interim relief. The party applying for interim relief must consider several factors before making any application in that regard:<sup>102</sup>

- Is the interim relief sought something that can be granted by an arbitrator?
- Should interim relief be sought through an application in arbitration proceedings or from a national court?
- What will a party have to establish to obtain interim relief?
- Is the party against which interim relief is sought a party to the arbitration agreement? What approach should be taken when interim relief is sought against an anonymous party?
- Particularly in the international context, will an interim order from a court or arbitral tribunal be enforceable and what obstacles will a party have to overcome to compel compliance with any interim relief that it did obtain?

An arbitral tribunal’s power to grant interim relief also depends on the applicable institutional rules and procedural law of the jurisdiction in which relief is sought. Similarly, the power of courts to grant interim relief depends on the national legislation in various jurisdictions. These aspects are discussed more extensively below.

## Interim relief from arbitral tribunals

Where arbitrators are asked to grant interim measures of protection during the arbitral proceedings, two principal issues must be determined:<sup>103</sup>

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<sup>99</sup> Article 2 of the Chartered Institute of Arbitrator’s International Arbitration Practice Guidelines on the Application of Interim Measures.

<sup>100</sup> Sébastien Besson, ‘Anti-Suit Injunctions by ICC Emergency Arbitrators,’ *International Arbitration Under Review: Essays in Honour of John Beechey* 19 (2015), at page 13.

<sup>101</sup> *Safe Kids in Daily Supervision Ltd v McNeill et al.*, High Court Auckland, CIV 2010-404-1696, April 2010.

<sup>102</sup> John Fellas and Benjamin Thompson, ‘Provisional and Final Remedies’ in Thomas Halket (ed), *Arbitration of Intellectual Property Disputes* (Juris Publishing, 2012), at page 480.

<sup>103</sup> Final Report on Intellectual Property Disputes and Arbitration, ICC Commission on International Arbitration, (1997) at Para. 3.4.

- Do the applicable rules of procedure, whether they are rules of a national system or those of an arbitral institution, contemplate and allow the arbitrators the powers that they are being asked to exercise?
- Even where such powers exist, do they conflict with the mandatory rules of the place of arbitration (the *lex arbitri*) or the place where the requested measure is to be enforced?

The laws of most jurisdictions and the rules of most arbitral institutions confer wide powers on the tribunal and empower arbitrators to order any interim or conservatory measure they deem necessary or appropriate.<sup>104</sup> This includes the power to issue injunctions, orders for preservation, storage, sale or disposal of any property or thing under the control of any party and relating to the subject matter of the arbitration as well as orders for the payment of money or provision of security to secure the amount in dispute.

Given the wide nature of the powers granted to arbitrators, parties may decide to approach the tribunal for interim or conservatory measures as opposed to national courts where:

- applications before courts are likely to be more time-consuming or expensive, or both;
- parties want to maintain confidentiality of proceedings;
- parties are apprehensive about the technical expertise and neutrality of national courts;
- the national courts may not entertain an application for interim relief if the parties are able to approach the arbitral tribunal for such relief, and may only entertain such an application if the relief granted by an arbitral tribunal is not effective;
- seeking interim measures from a tribunal may be more efficient (for instance, where IP rights subsist in various jurisdictions, it is likely to be more efficient for a party to directly apply to the tribunal for interim relief and thereafter enforce the order of the tribunal when required, rather than be required to make multiple applications across jurisdictions and satisfy the standards for granting interim relief in each of these countries); and
- interim measures granted by the tribunal will not conflict with the rules of the jurisdiction in which their enforcement is to be sought.

### Emergency arbitration (pre-constitution of tribunal)

It may not always be possible for parties to wait until a tribunal is constituted before seeking urgent interim relief. Traditionally, applications in such cases have been brought before the national courts. This is also the reason why most institutional rules provide that seeking interim relief from national courts or judicial authorities shall not be considered incompatible with the arbitration agreement between the parties.

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<sup>104</sup> Article 28, ICC Arbitration Rules; Rule 30, SIAC Arbitration Rules; Rule 37, AAA Arbitration Rules; Article 25, LCIA Arbitration Rules; Article 37, SCC Arbitration Rules; Article 23, HKIAC Administered Arbitration Rules; Article 23, CIETAC Arbitration Rules; Article 48, WIPO Arbitration Rules.

Emergency arbitration is becoming increasingly popular and there is a steady rise in the number of cases where parties are opting for emergency arbitration to seek interim relief prior to constitution of the tribunal.<sup>105</sup> This is likely because emergency arbitration proceedings are perceived as flexible and confidential, and as enabling parties to avoid specific legal systems.

Several arbitral institutions have incorporated emergency arbitration provisions in their rules.<sup>106</sup> Typically, a party seeking emergency interim relief is required to file an application in this regard prior to the constitution of the tribunal. The arbitral institutions appoint an emergency arbitrator within one to two days of receipt of the application. Most institutional rules allow parties to challenge the appointment of the emergency arbitrator, provided the challenge is made within one to three days of the appointment or of becoming aware of any circumstances giving rise to the challenge. Once appointed, the emergency arbitrator usually establishes a procedural schedule for the consideration of the application for emergency interim relief within two days of the appointment, giving each party a reasonable opportunity to present its case.

Under the rules of all the major arbitral institutions – including the International Chamber of Commerce, the Singapore International Arbitration Centre, the London Court of International Arbitration, the Hong Kong International Arbitration Centre and the China International Economic and Trade Arbitration Commission – the emergency arbitrator is required to decide the application within 14 to 15 days of the appointment. The Arbitration Institute of the Stockholm Chamber of Commerce goes even further and provides that the emergency decision on interim measures shall be made no later than five days from the date on which the application was referred to the emergency arbitrator. Other institutions, such as the American Arbitration Association and WIPO, do not specify any time limit for the emergency arbitrator's decision, but it is expected that the decision will be rendered as expeditiously as possible.

Emergency arbitrators are empowered, in a similar vein, to grant such relief as may be necessary. Given the wide powers and robust procedures that are in place, it may be advantageous for parties to approach emergency arbitrators as opposed to national courts, especially where parties are sceptical about the neutrality of national courts or their expertise, or are keen to maintain the confidentiality of the proceedings.

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<sup>105</sup> SIAC Annual Report 2019, available at [https://www.siac.org.sg/images/stories/articles/annual\\_report/SIAC%20AR\\_FA-Final-Online%20\(30%20June%202020\).pdf](https://www.siac.org.sg/images/stories/articles/annual_report/SIAC%20AR_FA-Final-Online%20(30%20June%202020).pdf); ICC celebrates case milestone, announces record figures for 2019, available at <https://iccwbo.org/media-wall/news-speeches/icc-celebrates-25000th-case-milestone-and-announces-record-figures-for-2019/>; HKIAC Statistics, available at <https://www.hkiac.org/about-us/statistics>; LCIA Annual Casework Report 2019, available at <https://www.lcia.org/News/annual-casework-report-2019-the-lcia-records-its-highest-numbe.aspx>.

<sup>106</sup> Article 29 and Appendix V, ICC Arbitration Rules; Rule 30 and Schedule 1, SIAC Arbitration Rules; Rule 38, AAA Arbitration Rules; Article 9B, LCIA Arbitration Rules; Appendix II, SCC Arbitration Rules; Article 23 and Schedule 4, HKIAC Administered Arbitration Rules; Article 23 and Appendix III, CIETAC Arbitration Rules; Article 49, WIPO Arbitration Rules.

## Enforceability of interim awards and orders rendered by arbitrators and emergency arbitrators

Despite the rising popularity and perceived advantages of emergency arbitration, there is considerable uncertainty surrounding the enforceability of orders issued by emergency arbitrators. Singapore, Hong Kong and New Zealand are among the few countries with legislation expressly referring to emergency arbitrators and enforcing their decisions.<sup>107</sup> No such reference can be found in the national laws of Australia, Belgium, Brazil, Canada, China, India, Ireland, Italy, Russia, Spain, the United Arab Emirates, the United Kingdom and the United States.<sup>108</sup>

The doubts that have been expressed regarding the purported unenforceability of emergency arbitrator decisions stem from the fact that such decisions may be rendered in the form of an order rather than an award, and that the decision of an emergency arbitrator may be viewed as lacking the finality requirement under the New York Convention.<sup>109</sup> The consultation document prepared by the International Bureau on the proposed WIPO Supplementary Emergency Interim Relief Rules has also observed that ‘there is great doubt about the enforceability of interim awards under the New York Convention’.<sup>110</sup> On occasion, and even in the absence of formal legislation for enforcement of emergency awards, courts have granted interim relief to parties on the basis of an emergency award granting such relief, observing that emergency awards ought to be considered to be of persuasive value while balancing equities.<sup>111</sup>

In the absence of a clearly defined and uniform mechanism for recognition and enforcement of emergency orders and awards, most parties still look to domestic courts for urgent relief before the constitution of a tribunal, even though the majority may be in favour of including emergency arbitration provisions in institutions rules.<sup>112</sup>

## Interim relief from courts

Parties often approach national courts for interim relief in support of the arbitration. They usually do so prior to constitution of the tribunal, or after constitution, where relief granted by the arbitral tribunal may not be effective.

Unless otherwise precluded by the arbitration agreement, an application for interim relief to a national court is permissible and is not deemed to be a waiver of the arbitration agreement. Indeed, this is expressly noted in the rules of various arbitral institutions.<sup>113</sup>

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107 ICC Commission Report, *Emergency Arbitrator Proceedings* (2019), at page 30.

108 *ibid.*

109 ICC Commission Report, *supra* note 107.

110 *ibid.*, at page 22.

111 *HSBC PI Holdings (Mauritius) Ltd. v. Avitel Post Studioz Ltd & Ors*, Bombay High Court, 22 January 2014, Arbitration Petition 1062/2012; *Raffles Design International India Private Limited & Ors. v. Educomp Professional Education Limited & Ors.* (2016) 234 DLT 349.

112 Queen Mary University of London, ‘2015 International Arbitration Survey: Improvements and Innovations in International Arbitration’, at pages 27–29.

113 Rule 30.3, SIAC Arbitration Rules; Article 28(2), ICC Arbitration Rules; Rule 37, AAA Arbitration Rules; Article 25.3, LCIA Arbitration Rules; Article 37(5), SCC Arbitration Rules; Article 23.9, HKIAC Administered Arbitration Rules; Article 48(d), WIPO Arbitration Rules.

National laws usually confer wide powers on courts to grant interim relief,<sup>114</sup> although such powers may not always be exercised by the court in cases where the tribunal has already been constituted. Parties should consider applying for interim relief to courts where:

- interim relief is required before constitution of the tribunal (although most institutions provide for emergency arbitration, there is uncertainty surrounding the enforceability of emergency orders and awards);
- court proceedings are cheaper and quicker;
- the party requires *ex parte* relief (arbitral tribunals are typically required to provide the opposite party with a chance to present its case and, therefore, may not be able to issue *ex parte* orders); and
- the arbitral tribunal does not have the power to grant the relief sought. For instance, as noted previously where parties are seeking a *Mareva* injunction, an *Anton Piller* order or another order that might affect third parties, they would need to approach the national courts as granting such relief has been found to be outside the power of the tribunal.

### Final and permanent remedies in IP arbitration

Part III of the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), titled 'Enforcement of Intellectual Property Rights', sets out the nature of remedies that Member States may provide for under domestic law in relation to IP disputes. Despite the fact that standards for assessment and grant of final relief in IP disputes tend to vary across jurisdictions, the recognised forms of permanent and final remedies in IP matters tend to be more or less analogous the world over, and in line with Part III of TRIPS.<sup>115</sup>

#### Remedies under IP law, remedies under contract and the issue of privity

Depending on the nature of the IP at issue, as well as the injury complained of, remedies available to a claimant may include monetary relief (i.e., the grant of monetary damages or compensation based on an account of profits generated from wrongful acts), equitable and injunctive relief, declaratory relief, delivery up and grant of costs of legal proceedings.<sup>116</sup> The power of arbitral tribunals to award such remedies is circumscribed by the position in relation to arbitrability in a given jurisdiction in relation to *inter partes* and *erga omnes* relief (discussed in 'Inter partes and erga omnes relief' above).

Given that arbitration is a creature of contract, it arises overwhelmingly in IP-related cases out of written contracts (such as licensing arrangements, franchise agreements, technology transfer agreements, M&A agreements, and research and collaboration agreements) where arbitration, rather than litigation, tends to be the chosen mode of dispute

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114 Section 44, Arbitration Act 1996 (United Kingdom); Section 12A, International Arbitration Act (Singapore); Section 9, Arbitration and Conciliation Act 1996 (India); Article 183, Swiss Federal Statute on Private International Law; Section 1051, German Code of Civil Procedure; Article 1449, French Code of Civil Procedure.

115 Christopher Heath and Thomas F. Cotter, 'Comparative Overview and the TRIPS Enforcement Provisions'; also see Kenneth R. Adamo, 'Overview of International Arbitration in the Intellectual Property Context', 2 *Global Bus. L. Rev.* 7 (2011).

116 *WIPO Intellectual Property Handbook: Policy, Law and Use*, 2nd Edition (2008 Reprint).

resolution.<sup>117</sup> Such cases are often moulded as actions in contract law (as claims for damages, specific performance, injunctive relief, etc.) rather than any specific IP statute or tort, even though the underlying subject matter of the dispute may involve IP.

Consequently, claims for breach of representations, warranties, confidentiality terms and other terms of contract frequently form the basis for IP arbitrations. Actions for infringement under IP statutes, for passing off under common law, or proceedings challenging the grant or validity of IP, continue to primarily be litigated before domestic courts and forums, first because privity of contract between disputing parties is usually wanting, and second because adjudicating issues of validity or ownership of underlying IP (which is the most commonly invoked defence in such cases) cannot be adjudicated by a private arbitral tribunal in many jurisdictions. Rights holders frequently also seek broad relief against third parties that are or may be exploiting the IP in question and that may have a commercial relationship with the principal infringer but are not parties to a binding arbitration agreement.

### Injunction, delivery up and destruction of infringing goods

Injunctive relief to restrain infringers from engaging in wrongful acts is the most commonly sought final remedy in IP disputes.<sup>118</sup> Injunctive relief is typically discretionary rather than automatic in common law countries, but while an injunction may be refused where an infringer successfully demonstrates that it would suffer significantly disproportionate harm or prejudice as a result of the injunction being granted or that the grant of the injunction would be contrary to the public interest, the burden is a lofty one and an injunction is ordinarily granted in the vast majority of cases upon a finding of infringement.<sup>119</sup>

In a landmark ruling in *eBay Inc v. MercExchange, LLC*, the United States Supreme Court upheld the traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief to a prevailing plaintiff in patent cases, and that no automatic presumption of irreparable harm would follow upon a finding of infringement.<sup>120</sup> This principle has since been extended to disputes involving other forms of IP including copyright, trademarks and trade secrets.<sup>121</sup>

The test laid down in *eBay* requires a plaintiff to demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. The Court, while laying down the law that the grant of an injunction was discretionary, nevertheless cautioned against entirely discarding the general practice of granting permanent injunctive relief upon a finding of infringement.<sup>122</sup> Post-*eBay*, US courts reportedly award injunctions to prevailing patent owners approximately 75 per

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<sup>117</sup> ICC Commission Report, *supra* note 103 at Para. 3.4.

<sup>118</sup> Heath and Cotter, *supra* note 115.

<sup>119</sup> *HTC Corporation v. Nokia Corporation* [2013] EWHC 3778 (Pat).

<sup>120</sup> *eBay Inc. v. MercExchange, L.L.C.* 547 U.S. 388, 391 (2006) (hereinafter *eBay*).

<sup>121</sup> Heath and Cotter, *supra* note 115 at page 80.

<sup>122</sup> 'The Supreme Court – Leading Cases', *Harvard Law Review*, Vol. 120:125 (2006) at pages 333–341.

cent of the time, with non-practising patent holders (commonly dubbed ‘trolls’ or ‘asserting entities’) being among the plaintiffs who are most likely to be refused a permanent injunction.<sup>123</sup>

Article 46 of TRIPS stipulates that the judicial authorities of Member States shall have the authority to order delivery, disposal or destruction of infringing goods and related material so as to provide an ‘effective deterrent to infringement’ subject to considerations of proportionality.<sup>124</sup> This is in line with the practice in common law jurisdictions where, to prevent future infringement, the grant of a permanent injunction is often coupled with an order for the delivery up or destruction of the infringing goods, especially in copyright matters.<sup>125</sup> Arbitral tribunals in Japan may award damages and injunctions, as well as the destruction of infringing products.<sup>126</sup>

### Monetary compensation

A claimant may be entitled to monetary compensation upon proving to, the satisfaction of the arbitral tribunal, that it has suffered a legal injury that has resulted in loss and damage that can be reflected in monetary terms.<sup>127</sup> A plaintiff who proves infringement of its IP must choose between a claim for damages or account of profits and will generally not be entitled to claim both under most domestic legislation.<sup>128</sup>

In calculating its claim based on the accounts for profits, the plaintiff may use either losses wrongfully incurred by it, or the profits wrongfully made by the defendant, as the basis for quantifying its claim, but not both, in line with traditional principles of preventing double recovery.<sup>129</sup> Where the plaintiff opts for an account for profits, it will ordinarily be entitled to an inspection of the books of accounts of the infringer.<sup>130</sup> Mere difficulty in assessment or measure of damages is not ordinarily considered a sufficient ground for denying the grant of damages.<sup>131</sup> In patent disputes, where the patentee manufactured, sold or licensed out its invention in the market, courts have ascertained damages on the basis of the reduction in sales and anticipated profits from sale or the loss of royalty.<sup>132</sup>

In Europe, Article 13 of Directive 2004/48/EC on the enforcement of intellectual property rights and interpretations thereof by national courts in Europe and the Court of Justice of the European Union lays the foundation for a harmonious approach for

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123 Yixin H. Tang, ‘The Future of Patent Enforcement after eBay V. MercExchange’, *Harvard Journal of Law & Technology*, Vol. 20, No. 1 Fall 2006; *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006); Heath and Cotter, *supra* note 115.

124 Article 46, TRIPS.

125 *WIPO Intellectual Property Handbook*, *supra* note 116 at Para. 2.256.

126 Patent Law (Japan), Law No. 121 of 1959, Chapter 4, Part 2, Section 100, translated in the WIPO Database of Intellectual Property Legislative Texts.

127 Articles 41 (General Obligations), 44 (Injunction), 45 (Damages), 46 (Other Remedies, which includes destruction of infringing goods) and 47 (Right of Information) of TRIPS.

128 *Jodie Aysha Henderson v. All Around the World Recordings Ltd* ([2014] EWHC 3087); *Fero Spa v. M/s Ruchi International* (CS(COMM) 76/2018), 2 April 2018.

129 *Srinagal v. Books (India)* AIR 1973 Mad 49; *Pillalamari Lakshikantam v. Ramakrishna Pictures* AIR 1981 AP 224.

130 Articles 45 and 47 of TRIPS; *Mishra Bandhu v. Shivaratanlal* AIR 1970 MP 26; *Samsung Electronics Company Limited and Another v. G. Choudhury and Anr.* 2007 (136) DLT 605.

131 *Chaplin v. Hicks* (1911) 2 KB 786.

132 *ibid.*; P. Narayanan, *Patent Law* (4th Edition (rep), Eastern Law House 2010), at page 624.



assessment of damages to an injured party in IP cases. It provides for remedial damages to be quantified, taking into account 'all appropriate aspects' for cases of wilful as well as non-wilful infringement, including factors such as the negative economic consequences (including lost profits) that the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement.<sup>133</sup> This is in line with considerations that common law courts take into account when quantifying damages.<sup>134</sup> As held in the landmark case *Hadley v. Baxendale*, the principle underlying an award of damages is restitution – namely, to place the prevailing party in a position as if the contract been performed, and to that extent, in general, damages are intended to be remedial.<sup>135</sup> Plaintiffs may also be entitled to additional damages at the court or tribunal's discretion, apart from general damages to which a plaintiff may be entitled.<sup>136</sup> Multiple damages, including double and treble damages, are particularly common in the United States where about 50 per cent of the reported patent infringement cases between 1985 and 1995 resulted in multiple damages awards.<sup>137</sup>

Insofar as punitive damages are concerned, common law courts have most commonly been inclined to award such relief when the plaintiff can demonstrate that the defendant has 'willfully calculated to exploit the advantage of an established mark' (adopted by US courts), the defendant satisfies the test of the 'dishonest trader' (adopted by UK courts) or the defendant's conduct has been flagrant (adopted by the Australian courts).<sup>138</sup> The New York Court of Appeals, deciding a copyright royalty dispute under New York law, declared that '[a]n arbitrator has no power to award punitive damages, even if agreed upon by the parties' because:

*Punitive damages is a sanction reserved to the State, a public policy of such magnitude as to call for judicial intrusion to prevent its contravention. Since enforcement of an award of punitive damages as a purely private remedy would violate strong public policy, an arbitrator's award which imposes punitive damages should be vacated.*<sup>139</sup>

The New York Appellate Division confirmed this position by finding that arbitration agreements in New York remain subject to 'the overriding public policy against an award of punitive damages by an arbitrator'.<sup>140</sup> Punitive damages, therefore, while evidently not without precedent, must be pursued after careful consideration of the law of the seat of arbitration as well as the law of the jurisdiction where enforcement may eventually be pursued.

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133 Trevor Cook, 'Damages in Intellectual Property Arbitrations', *The Guide to Damages in International Arbitration*, 3rd Edition, GAR.

134 *Syed Zakirali v. Syed Zahidali and Ors.* 2018 SCC Online Bom 1465.

135 [1854] (1) Exch. 340.

136 Cook, *supra* note 133; UK Intellectual Property (Enforcement,) Regulations 2006.

137 Carl G. Love, 'The Risk/Reward Factors of U.S. Patents', *findlaw.com* (January 1996), available at <http://library.findlaw.com/1996/Jan/1/128053.html>.

138 *Cartier International Ag & Others v. Gaurav Bhatia & Ors.* (2016) 65 PTC 168 (Del) 18; (2006) 32 PTC 117 (Del) 182; 3.MIPR 2007 (1) 72.

139 *In Garrity v. Lyle Stuart, Inc.*, 40 N.Y.2d 354, 356, 386 N.Y.S.2d 831, 832, 353 N.E.2d 793 (1976).

140 *Dreyfus Service Corp. (Kent)*, 183 App.Div.2d 446, 584 N.Y.S.2d 483, 484 (1st Dept. 1992).

## Timelines and practical considerations

From a practical standpoint, the significance of permanent relief in an IP dispute is often defined by the timelines and efficiency of the dispute resolution regime in the jurisdictions concerned. In jurisdictions where judicial delays and other factors lead to protracted litigation, IP disputes are primarily fought and often won (at least in effect) at the interim stages.<sup>141</sup> Patent litigations can last over 10 years in US courts, with cases known to have taken as long as 25 years to be finally decided.<sup>142</sup> The Supreme Court of India has observed time and again that IP cases remain pending for several years before national courts and the dispute is therefore mainly fought between the parties over temporary injunction – something the apex court has deemed ‘a very unsatisfactory state of affairs’.<sup>143</sup>

This position also aligns with sectoral trends in IP disputes around the world, where even disputes under relatively specialised and streamlined processes offered by WIPO are frequently settled (usually on the basis of the outcome of the proceedings for interim or temporary relief), rather than proceeding to final judgment.<sup>144</sup> Proceedings for challenging arbitral awards are usually more abridged in terms of timelines than original suits to be tried by courts at first instance. However, even these abridged timelines are not nearly expeditious enough to disrupt the disproportionate emphasis on interim relief and early case strategy in deciding the final outcome of an IP dispute.<sup>145</sup>

## Conclusion

With growing awareness of the benefits of institutional arbitration, increased emphasis on the need for technical expertise in IP disputes and stricter timelines for completion of arbitration proceedings (imposed by law or adopted as a matter of global best practice in case management), it is likely in the near future that more IP disputes will be arbitrated to a final award, and that a determination on merits (aided by timely access to effective interim relief) will play a greater role in the final outcome of such disputes.

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141 *Shree Vardhman Rice & Gen Mills v. Amar Singh Chauwalwala* (2009) 10 SCC 257; also see Kevin R. Casey, ‘Alternative Dispute Resolution and Patent Law’, 3 Fed. Cir. B.J. 1 (1993).

142 Wei-hua Wu, ‘International Arbitration of Patent Disputes’, 10 *J. Marshall Rev. Intell. Prop. L.* 384 (2011) (citing Murray Lee Eiland, ‘The Institutional Role in Arbitrating Patent Disputes’, 9 *Pepp. Disp. Resol. L.j.* 283, 283 (2009) at page 284; and *Hughes Aircraft Co. v. United States*, 140 F.3d. 1470 (Fed. Cir. 1998) (noting that the case was filed in 1973)).

143 *Bajaj Auto Ltd. v. TVS Motor Company Ltd* (2009) 9 SCC 797.

144 Heike Wollgast, ‘WIPO alternative dispute resolution – saving time and money in IP disputes’, *WIPO Magazine* (November 2016), which states that ‘70 percent of the mediation procedures administered by the WIPO Center have been settled. And even for arbitration, which can be more complex, around 37 percent of WIPO cases settle before any tribunal award is issued.’

145 *WIPO Intellectual Property Handbook*, supra note 116 at page 29, Para. 2.93.

# 12

## Damages in International IP Arbitration

**Gregory K Bell, Peter J Rankin and Andrew Tepperman<sup>1</sup>**

### Introduction

Intellectual property (IP) encompasses some of the most valuable assets in the global economy, from trade secrets to copyrights to patents. When IP is usurped, damages may be significant. Nonetheless, the goal of the damages inquiry in IP arbitration is the standard one: to restore a claimant to the financial position it would have achieved had the improper conduct not occurred. This principle applies across a range of types of disputes and jurisdictions, though it is recognised that its implementation may depend on the applicable law.

Consider a contractual relationship between a claimant and a respondent, and a dispute involving the unauthorised or insufficiently compensated use of the claimant's IP by the respondent. The approach in this regard is to determine the claimant's lost 'profits' (broadly interpreted) as a result of the respondent's actions. In this context, it is useful to consider two different types of lost profits: lost profits due to lost sales and lost profits due to lost payments related to the unauthorised use of IP. Lost profits due to lost sales may arise in circumstances in which the claimant otherwise would have exploited the IP via increased sales of its products in the marketplace. This situation frequently arises in disputes involving unauthorised use of patented technology or trade secrets.<sup>2</sup> Lost profits due to lost payments encompass various types of royalty disputes, including, for example, the use of patented technology or copyrights by a respondent outside the use permitted under an existing licence agreement. This chapter considers both types of lost profits with respect to damages related to IP.

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1 Gregory K Bell is group vice president and Peter J Rankin and Andrew Tepperman are vice presidents at Charles River Associates.

2 In some jurisdictions, a remedy for patent infringement or the theft of trade secrets may be unjust enrichment (or an account of the profits), a topic that we do not explore in this chapter.

The chapter is organised as follows. The next section characterises the distinction between the two types of lost profit assessments regarding IP. The third section delves into some of the issues associated with lost profits due to lost sales that result from the unauthorised use of IP and the fourth section considers the issues associated with determining an appropriate payment for other unauthorised uses of IP.

## **Lost profits and IP**

Fundamentally, IP represents a factor in the production process of a good or service that generates value for that good or service. This IP could be a trade secret, such as the layout of a factory floor to optimise a production process or the formulation of a product, such as Coca-Cola; it could be a trademark that is associated with certain attributes of a brand, such as Disney; it could be copyrighted material that reflects creative effort; or it could be a patent that protects the exclusivity of access to a disclosed product or technology. IP does not tend to be consumed in the production process and its use for one purpose does not preclude or limit its use for others. Accordingly, when IP is usurped, damages tend not to be the total value of the IP per se, but rather the value of the inappropriate use of the IP that represents economic harm sustained by the claimant.

It is useful to consider two ways that the respondent's inappropriate use of IP could cause harm and lead to damages sustained by the claimant.

The respondent could disadvantage the claimant competitively by making sales that, but for its inappropriate use of the claimant's IP, otherwise would be made by the claimant. This is the lost sales aspect of IP damages.

If the respondent's inappropriate use of the IP does not lead to lost sales for the claimant, then the claimant has still been denied its appropriate payment for the use of the IP. This represents the lost payment aspect of IP damages.

Either way, the claimant has lost profits because it did not make an additional sale or because it was owed for the respondent's unauthorised use of its IP. If the respondent's unauthorised use of IP leads to a reduction in the value of the IP, that also would be considered an element of lost profits sustained by the claimant. Suppose, for example, that a respondent infringes a product patent and sells the infringing product at a lower price than the claimant. This could lead not only to lost unit sales for the claimant, but also to longer-term price erosion of the claimant's current and future sales.

The longer-term price erosion generated by infringing competition is clearly an element of lost profits sustained by the claimant related to the lost sales aspect of IP damages. As another example, suppose that a respondent's infringing use of a trademark reduces the ongoing value of the trademark to the claimant. This too represents an element of lost profits sustained by the claimant. As a result of damage to the value of the trademark, the claimant could lose future sales or need to expend additional effort (such as marketing and promotion) to make future sales. The lost value of the trademark is assessed in consideration of its impact on the amount and profitability of future sales.

Accordingly, the first step in assessing damages related to IP is to determine how the claimant has been harmed. Has the claimant lost sales as a result of the respondent's inappropriate use of the claimant's IP? To the extent that the respondent's inappropriate use of the IP did not generate lost sales for the claimant, what should the respondent have paid for its use of the IP?

It is not unusual for both types of lost profit damages related to IP to be present in the same matter. Typically, this would be situations in which the claimant, respondent and others compete in the market for sale of the product or the claimant and respondent compete in some but not in all segments of the market in which the respondent makes sales that inappropriately use IP. For those segments of the market in which the claimant and respondent compete, the respondent may have made sales that, but for its unauthorised use of IP, the claimant otherwise would have made. On these sales by the respondent, it is appropriate that the claimant be awarded its lost profits from the associated lost sales. On all other sales made by the respondent related to the unauthorised use of IP, the claimant has not lost sales but has lost the payment owed as a result of the respondent's unauthorised use of IP.

## Lost sales due to IP

As a general matter, to support a claim for lost profits that result from lost sales due to the respondent's unauthorised use of IP, the claimant should show the following:<sup>3</sup>

- the respondent would not have made the sale but for the unauthorised use of the claimant's IP (demand);
- the claimant otherwise had the ability to make the sale (capacity); and
- profit that the claimant would have been earned as a result of the lost sale (valuation).

## Demand

From an IP damages perspective, a claim of lost sales requires that the respondent's sale was made because of the unauthorised use of IP. This should not be construed as a characterisation that the claimant's IP was the only driver of demand for the product or service in question; rather, it should be established that, but for the unauthorised use of claimant's IP, the respondent would not have made the sale and the claimant would have made the sale.<sup>4</sup> In such circumstances, it would be evident that it was the respondent's unauthorised use of the IP that caused the claimant to lose the sale and consequently the profit that would have been associated with the sale.

There are a few reasons why the respondent's inappropriate use of IP associated with the sale of a product or service would not lead to a lost sale for the claimant, including the existence of other competitors and price considerations.

Often, the claimant and the respondent are not the only two companies with competing products for sale. As such, the respondent's inappropriate use of IP may be the reason that the respondent made the sale, but, in the absence of the respondent, it is not necessarily the case that the claimant would have made the sale. Typically, one assumes that the claimant would have made a share of the respondent's sales based on claimant's share of competing sales. For example, if there were three companies competing in the market segment, with

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<sup>3</sup> This can be thought of as a modified version of the four-pronged test commonly applied in patent infringement cases in the United States, as articulated in *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978). Some jurisdictions require claimants to meet additional requirements, such as the United Kingdom's requirement to show that recovery for the loss is not excluded by public or social policy (*Gerber Garment Technology v. Lectra Systems*, [1995] RPC 383, at 393).

<sup>4</sup> For an articulation of this principle, see, as a US case example, *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, at 1545 (Fed. Cir. 1995), and as a UK case example, *Meters Ltd. v. Metropolitan Gas Meters Ltd.*, [1911] 28 RPC 157, at 163.

the claimant having a 40 per cent share of sales, the respondent having a 20 per cent share of sales and the third company having the remaining 40 per cent of sales, then one typically would assume that half of the respondent's sales otherwise would have been sales made by the claimant.<sup>5</sup> Thus, the claimant would claim damages as lost profits on the lost sales related to half of the respondent's sales and would claim damages as lost profit due to lost payment for the inappropriate use of IP that allowed the respondent to make the other half of its sales.

Price is a determinant of demand. There is no issue if the claimant and the respondent each sold competing products for approximately the same price. To the extent, however, that the respondent sells the product for a meaningfully lower price than the claimant, then it may be that, but for the respondent making the sale, the claimant would not have made the sale. It may be that the customers who purchased the respondent's product would not have paid the higher price required to purchase the claimant's product. These customers may be part of a different segment of the market for which the claimant has chosen not to compete. In such circumstances, the claimant should not be able to collect damages based on lost sales, because no claimant sales were lost; rather, the respondent made sales that the claimant was never going to make. As such, the claimant's damages are not lost profits due to a lost sale but rather lost profits due to a lost payment from the respondent for its inappropriate use of IP.

Of course, it may be that the claimant reacts to the respondent's lower price by lowering its own price. This is sometimes called price erosion. In such circumstances, the claimant should not only receive damages as lost profits on the sales it lost to the respondent, but it also may be appropriate to receive damages based on the reduction in price required to make the sales that it did make. Care must be taken, however, not to ignore the price elasticity of demand. An axiom of economics is that a lower price leads to increased unit sales of a product. Accordingly, when assessing damages related to price erosion, one must consider whether the claimant actually would have made all the sales that it did make had it not lowered the price to compete with the respondent.<sup>6</sup>

Related to the demand element is the lack of an available alternative to the respondent's inappropriate use of the IP. To the extent that the respondent had an available alternative to inappropriate use of the IP such that the respondent still would have made the sale, then it cannot be that the primary reason for the respondent making the sale was the inappropriate use of the IP.<sup>7</sup> In such circumstances, the appropriate measure of damages is not the claimant's lost profits due to a lost sale; rather, the appropriate measure of damages would be lost profits due to a lost payment from the respondent for its inappropriate use of IP. As to the size of such a payment, the additional cost avoided by the respondent as a result of using the IP rather than taking advantage of the available alternative is likely to be a major consideration.

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5 Excluding the respondent's sales, the claimant accounts for 50 per cent of the rest of the sales:  $40/(40 + 40)$ .

6 For an example from US case law, see *Crystal Semiconductor v. Tritech Microelectronics*, 246 F.3d 1336, at 1359 (Fed. Cir. 2001); for an example from UK case law, see *Ultraframe (UK) Ltd. v. Eurocell Building Plastics Ltd.*, [2006] EWHC 1344 (Pat).

7 See, as a US example, *Grain Processing Corp. v. American Maize-Products*, 185 F.3d 1341 at 1356 (Fed. Cir. 1999), and as a Canadian example, *Merck & Co., Inc. v. Apotex Inc.*, 2015 FCA 171, at ¶¶ 41-43, 48-50, 59-60 (CanLII).

## Capacity

For the claimant otherwise to have been able to make the sales made by the respondent as a result of the respondent's inappropriate use of the claimant's IP, the claimant must have had access to the capacity required to make those sales. For a manufactured product, this means that the claimant must have been able to increase its production or otherwise satisfy the demand that the respondent's sales addressed, perhaps by drawing down inventories. To the extent that the claimant otherwise would have had to expand or access additional capacity to make the sales made by the respondent when those sales were made, the increased costs necessary for such expansion would need to be accounted for in the assessment of quantum. Similarly, it might be that the claimant would have needed labour to work overtime or acquire additional raw materials at higher costs. If so, these issues would also need to be accounted for in the assessment of quantum.

Capacity, however, is not only an issue for manufacturing; it is also an issue for marketing and distribution reach. A good example would be the respondent's inappropriate use of the claimant's IP to introduce a product in a geographic region that is not served by the claimant. But for the respondent, it may be that the claimant never would have made the sales because it had not been marketing the product in that country. Similarly, it may be that the respondent inappropriately uses the claimant's IP and markets the product for a separate use or in another sector of the economy. Again, it may be that, but for the respondent, the claimant never would have made those sales because it had not been marketing the product for that use or to that sector of the economy. Note that the advent of e-commerce does not render this issue moot. The claimant's product may have been available via e-commerce but the respondent's physical presence and approach may have led to sales that the claimant otherwise would not have made.

Thus, to the extent that the claimant did not have the capacity (either manufacturing or marketing and distribution) required to make the sales made by the respondent, the claimant would be unable to collect damages as lost profits due to lost sales that otherwise it never would have made. On those sales made by the respondent, the claimant would receive damages limited to the lost payment for the respondent's unauthorised use of the IP.

## Valuation

In most situations, accounting records should be sufficient to support a claim for lost profits due to lost sales. The focus, however, should be on a comprehensive perspective regarding the assessment of lost profits due to lost sales, particularly with respect to incremental costs.

Lost profits are calculated as the incremental revenues less the incremental costs associated with the incremental unit sales that the claimant would have made but for the respondent's actions. The key word here is incremental. Incremental costs are not average costs; they are the additional costs that the claimant would have incurred to make the sales that the respondent made. For example, the incremental costs related to lost sales typically would not include additional expenditures of fixed costs, such as the overhead that may be associated with head office salaries or the rent on an office building. Instead, incremental costs are usually the per-unit variable costs that may be associated with manufacturing, such as raw materials and direct labour, or the per-sale commissions that may be associated with salespeople. As discussed above, however, capacity costs also should be considered. If the claimant were going to need extra capacity to make its share of the respondent's sales

and that capacity were available to the claimant, then the assessment of lost profits due to lost sales would need to include the additional costs required for the additional capacity.

## Conclusion

In summary, damages resulting from the respondent's unauthorised use of the claimant's IP may be based on the claimant's lost profits due to lost sales if the following two criteria are met.

- The respondent's use of the claimant's IP was the principal reason for the sale made by the respondent. If so, it should be that, without using the IP, the respondent would not have made the sale.
- The claimant otherwise had the capacity to make the sale where and when the respondent made the sale and there is no reason to believe that, but for the respondent's actions, the claimant otherwise would not have made the sale.

Then, to the extent that the claimant has lost sales as a result of the respondent's unauthorised use of IP, lost profits should be quantified based on the incremental costs that the claimant otherwise would have incurred to support those lost sales.

## Lost payments for IP

To the extent that the respondent's unauthorised use of IP does not lead to lost sales for the claimant, then damages should be based on the lost profits sustained by the claimant as a result of lost payments for the respondent's unauthorised use of IP.

In the marketplace, payment for the use of IP is typically the result of a negotiation between the owner of the IP and the prospective user of the IP. The negotiation would consider how the prospective user is likely to use the IP and how that use of the IP generates value. The payment that results from the negotiation thus considers both the value associated with the prospective intended use of the IP and how that value should be divided between the owner of the IP and the user of the IP. Such payments for the use of IP often are referred to as royalties.

A standard concern is the assertion that the claimant never would have licensed the IP to the respondent. There even may have been negotiations between the parties for access to the IP that ultimately were unsuccessful. Nonetheless, damages in the arbitration must be determined; if liability has been found, the respondent made inappropriate use of the claimant's IP, whether or not the claimant otherwise would have licensed the IP to the respondent. Typically, the claimant's refusal to license may be based on concerns that licensing enables a prospective competitor (respondent) to make sales that otherwise would have been made by the claimant. However, to the extent such a concern regarding lost sales is valid, that concern is addressed above as the claimant is able to receive damages in the form of lost profits due to lost sales. Accordingly, the hypothetical negotiation would be concerned with the respondent's use of the IP to the extent that such use does not lead to lost sales for the claimant.

## Hypothetical negotiation

As the goal of the damages inquiry is to return the claimant to the economic position it would have been in but for the respondent's inappropriate actions, it is appropriate to estimate the value of lost payments by considering a hypothetical negotiation that would



have occurred between the claimant and the respondent on the eve of the respondent's first inappropriate use of the claimant's IP.<sup>8</sup> Such a negotiation presumes the claimant to be a willing licensor of the IP at issue and the respondent to be a willing licensee, with each party seeking to negotiate a licence to the IP in the ordinary course of business. The timing of such a negotiation would often be expected to have an impact on the outcome of the negotiation. Any upfront fees or milestone payments that may be associated with the use of the IP, as well as any royalty rate, will be affected by the then-current expectations of the potential value of the technology and by the then-current relative bargaining power of the parties to the negotiation.

Typically, the best perspective on the likely result of such a hypothetical negotiation is gained through a review of agreements or licences for the same or similar IP. The more comparable the agreement (considering the type of IP), the expected use of the IP, the position of the licensor and licensee, and the timing, the more likely it is that a comparable agreement (or agreements) would reflect the outcome of the hypothetical negotiation. In such circumstances, a market-based negotiation already has occurred and spoken to the expected value of the IP, the relative bargaining power of the parties and the appropriate structure of the payments for the use of the IP.

A review of comparable agreements may yield a relevant range for the result of the hypothetical negotiation. There may be a range of upfront payments required to enter into an agreement for use of the IP; there may be a range of payments associated with certain milestones related to the development and commercialisation of products or services associated with the IP, such as the launch of a product or milestones related to annual or cumulative sales; and there may be a range of royalty rates associated with per-unit use of the IP. Within these ranges, a determination must be made with respect to the results of the hypothetical negotiation between the claimant and the respondent related to the IP at issue, such that the claimant's lost profits related to the lost payments from the respondent may be determined.

How such a determination is reached should consider a number of factors related to the expected value of the IP and the bargaining power of the two parties to the negotiation. As noted above, these considerations should be evaluated assuming the hypothetical negotiation occurs just prior to the respondent's first unauthorised use of the IP.

### Expected value of use

Regarding the expected value of the IP as it relates to the respondent's use, there are a number of factors to consider. As one would anticipate, the greater the expected value of the IP in a particular use, the greater the payment for that use of the IP, all else being equal.

### *Exclusivity*

Many agreements related to IP note the exclusivity with which rights may be granted. Exclusive rights are worth more than non-exclusive rights. Of consideration in the

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<sup>8</sup> The canonical reference in US case law is *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 at 1120 (S.D.N.Y. 1970); in UK case law the canonical reference is *General Tire & Rubber Co Ltd. v. Firestone Tyre & Rubber Co Ltd.*, [1975] 1 W.L.R. 819; in Canadian case law the canonical reference is *AlliedSignal Inc. v. Du Pont Canada Inc.* (1998), 78 C.P.R. (3d) 129.

hypothetical negotiation would be the rights that the respondent would seek to acquire. As the arbitration is happening after the fact, it is likely that only non-exclusive rights would be at issue. After all, the claimant had continued to retain the right to license the IP and had not surrendered its own rights to use the IP.

### *Field of use*

Many agreements related to IP specify fields of use for which the IP rights may be granted. The rights to certain geographic markets or fields of use may be more valuable than the rights to other geographic markets or fields of use. For example, the rights to a biotechnology innovation may be more valuable in fields of use that include human therapeutics in the United States as compared to agriculture in the European Union. Global rights would be worth at least as much as, and likely more than, more restricted geographic rights, particularly with respect to upfront and development milestone payments as these fixed costs may enable the opportunity to exploit the IP across a broader market. The same is not necessarily true regarding per-use payments for the IP, such as a percentage-of-sales royalty, as different geographic markets may be more or less profitable than others.

### *Duration*

The duration of a licence agreement would be expected to have an impact on its value. Licences with longer durations would typically be worth more than those with shorter durations. This effect, however, is likely to be seen more with respect to upfront and development milestone payments, than with per-use payments, as the upfront and milestone fixed costs enable the opportunity to exploit the IP for longer with a longer licence.

### *Expected profitability of the product or service associated with the IP*

The more profitable the market opportunity associated with the IP, the more valuable the IP would be in terms of opening up that market opportunity.

### *Expected incremental benefit of the IP itself*

The more significant the contribution of the IP to the value of the market opportunity, the more valuable the IP would be. One manifestation would be in the degree of improvement represented by the IP relative to the prior technology.

### *Convoyed sales*

To the extent that the respondent's use of the claimant's IP opens up the opportunity for sales of the respondent's other products that do not embody the IP at issue, then that too would increase the value of the IP with respect to the respondent's expected use.

### *Relative bargaining power*

Similarly, with respect to the relative bargaining power of the parties to the negotiation, there are a number of factors to consider. The greater the bargaining power possessed by the claimant, the greater the negotiated payment for use of the claimant's IP.

### *History of licensing*

To the extent that the claimant has sought to preserve its exclusivity with respect to the IP at issue, this would be expected to have an effect of increasing bargaining power in favour of the claimant.

### *Potential competitors*

To the extent that the claimant licensing its IP to the respondent would strengthen the respondent's position as a competitor to the claimant, this too would shift bargaining power in favour of the claimant. However, even if the claimant and the respondent are not direct competitors, if there are direct competitors of the respondent that otherwise would have been able to compete with the respondent for the right to license the IP from the claimant then that would also shift bargaining power in favour of the claimant.

### Result of the hypothetical negotiation

Every negotiation and every agreement is different. The above-listed factors may be more or less significant for the hypothetical negotiation between the claimant and the respondent and consideration of each factor may move the result of the hypothetical negotiation to the upper or lower end of the relevant range framed by the comparable agreements being considered. To sort through this information, one approach would be to assign each factor a level of significance for the hypothetical negotiation at issue and then assess whether consideration of the factor would tend to move the result of the negotiation towards the upper or lower end of the relevant range. This methodology enables a transparent, disciplined approach to the evaluation of multiple factors that are likely to have an impact on the hypothetical negotiation and makes it apparent how consideration of each factor could influence the outcome of the negotiation.

For example, if consideration of all relevant factors tends to push towards the upper end of the range, then an appropriate conclusion would be that the outcome of the hypothetical negotiation should be the upper end of the range. Similarly, if consideration of all relevant factors tends to push towards the lower end of the range, then an appropriate conclusion would be that the outcome of the hypothetical negotiation should be the lower end of the range. In addition, multiple studies of bargaining games show that relatively equal positions of bargaining power lead to relatively equal distributions of the results of a negotiation; in this case, that would mean a payment for the respondent's use of the claimant's IP that represents an intermediate value.

To demonstrate our methodology for determining the outcome of a hypothetical negotiation involving the rights to IP, consider the following example. Suppose there exist other licence agreements for IP that are considered to be comparable to the IP at issue in the arbitration that exhibit royalty rates that range from 5 to 15 per cent of sales. To determine where in this relevant range the outcome of the hypothetical negotiation would be, we consider the eight factors identified above. We follow the steps indicated below.

- Assign a level of significance to each of the factors: a value of 1 indicates a factor of relatively low significance; a value of 2 indicates a factor of moderate significance; and a value of 3 indicates a factor of relatively high significance.

- Total the significance value of the factors to be considered in the hypothetical negotiation. For example, as shown in the table below, we might find four of the factors to be of high significance, two of the factors to be of moderate significance and two of the factors to be of low significance. The result is a negotiation with a total significance value of 18.
- Assess whether consideration of each factor would tend to move the result of the hypothetical negotiation to an outcome in the upper end of the range or in the lower end of the range. Consideration of a factor that would move the result towards the lower end of the range would not earn any of the significance value of the factor; consideration of a factor that would move the result of the negotiation to the upper end of the range would be assigned the full significance value of the factor. For example, consideration of a factor of relatively high significance that would move the result of the negotiation to the upper end of the range would yield the full three points of significance. Note that the treatment of a factor may be similar in the agreements that frame the relevant range and similar to what would be expected from the hypothetical negotiation. For example, the other licence agreements may be for non-exclusive rights to IP; accordingly, consideration of the exclusivity factor would lead to an outcome in the middle of the range for a hypothetical negotiation that also would have been focused on non-exclusive rights. In such circumstance, half of the significance value of the exclusivity factor would be realised.
- Add up the significance points earned in the hypothetical negotiation. As shown in the table, we determine that 12 of the 18 significance points were realised in the example.
- Determine the consequent movement along the relevant range. As shown in the table, we find that two-thirds of the significance points were realised in the example. This implies an outcome for the hypothetical negotiation, with appropriate consideration of the factors, that is two-thirds of the way along the royalty rate range from 5 to 15 per cent. The result of this hypothetical negotiation is thus a royalty rate of 11.7 per cent.

<i>Factor</i>	<i>Factor significance (a)</i>	<i>Factor value (b)</i>	<i>Effect on royalty (c)</i>	<i>Points (d)</i>
Exclusivity	Moderate	2	Middle	1
Field of use	High	3	Upper	3
Duration	Low	1	Upper	1
Expected profitability	High	3	Upper	3
Expected incremental benefit	High	3	Lower	0
Convoyed sales	Moderate	2	Lower	0
History of licensing	Low	1	Upper	1
Potential competitors	High	3	Upper	3
<b>Sum</b>		18		12
<b>Percentage of possible score</b>			67%	
<b>Minimum royalty</b>			5%	
<b>Maximum royalty</b>			15%	
<b>Resulting royalty rate</b>			11.7%	

## **Conclusion**

As stated, the goal of the damages inquiry for IP disputes is generally to restore the claimant to the financial position it would have achieved had the respondent not made inappropriate use of the claimant's IP. To calculate these damages, a lost profits analysis is generally appropriate. There are two types of lost profits to consider in such an analysis. First, if the claimant lost sales because the respondent made inappropriate use of the claimant's IP, then damages should be the claimant's lost profits due to those lost sales. Second, for all other inappropriate uses of the claimant's IP, damages should be the lost profits due to the claimant's lost payments for use of the IP. These payments may be a combination of upfront payments for access to the IP, milestone payments related to development or commercialisation associated with the IP and 'per-unit of use' payments. The construct of a hypothetical negotiation is an effective and often-employed methodology for determining the claimant's lost payments for the respondent's use of the IP.

# Part V

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Future Directions

# 13

## A Look to the Future of International IP Arbitration

**Thomas Legler and Andrea Schäffler<sup>1</sup>**

### Introduction

Traditionally, disputes concerning IP rights are mainly heard before national courts. Nevertheless, in recent years there has been a significant shift towards arbitration.<sup>2</sup> For example, the number of cases decided under the WIPO Arbitration and Mediation Rules is constantly increasing<sup>3</sup> and the number of specific IP-related arbitral institutions is rising as well.<sup>4</sup> This can be partially attributed to the territorially-limited scope of state court proceedings that no longer meet the requirements of current international economic processes.<sup>5</sup> The move towards arbitration is a logical shift because, as mentioned in previous chapters, arbitration is especially suitable as a more effective process in resolving IP disputes.<sup>6</sup> Arbitration is a confidential proceeding, which is particularly advantageous for IP

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2 Woller, Michael/Pohl, Michaela: IP Arbitration on the Rise, *Kluwer Arbitration Blog*, 16 July 2019 (accessed 24 September 2020, <http://arbitrationblog.kluwerarbitration.com/2019/07/16/ip-arbitration-on-the-rise/>); Kim, Hwan/DeFosse, Jonathan/Szlarb, Natalia: The Growing Importance of International Arbitration for Intellectual Property Disputes, *The National Law Review*, 13 March 2020 (accessed 24 September 2020, <https://www.natlawreview.com/article/growing-importance-international-arbitration-intellectual-property-disputes>); Halket, Thomas: Arbitration of International Intellectual Property Disputes, Huntington 2012.

3 The WIPO Arbitration and Mediation Center recently reported an increase in case numbers of 15 per cent from 2018 to 2019. In recent years, patent disputes have been most common, followed by ICT, trademark, and copyright disputes (cf. <https://www.wipo.int/amc/en/center/caseload.html>).

4 cf. Silicon Valley Arbitration and Mediation Centre (SVAMC); Honk Kong International Arbitration Centre (HKIAC) with a Panel of Arbitrators for Intellectual Property Disputes; Japan Intellectual Property Arbitration Center.

5 cf. <https://www.ipdr-forum.org/mission/>.

6 See American Arbitration Association, Products of the Mind (accessed 24 September 2020, [https://www.adr.org/sites/default/files/document\\_repository/AAA192\\_Intellectual\\_Property\\_Disputes.pdf](https://www.adr.org/sites/default/files/document_repository/AAA192_Intellectual_Property_Disputes.pdf)). According to the 'International Survey on Dispute Resolution in Technology Transactions' conducted by WIPO in 2013, 32 per cent of the participants indicated a preference for a forum selection clause in favour of state courts for

cases owing to the sensitive nature of the data involved. In addition, specialist knowledge is often required to resolve technical disputes efficiently, a difficulty that can be addressed by appointing suitably qualified arbitrators.

There are crucial questions we must ask with regards to the future of arbitration and its role in IP dispute resolution. What do trends show and where are arbitration professionals focusing their efforts? Can arbitration keep pace with innovation and technological advancements? What advantages will we see in arbitration compared to other methods of dispute resolution? What does the future hold for IP arbitration?

## Latest trends

It is common knowledge that arbitration cannot take place in the absence of a valid arbitration agreement, which generally results from a contractual relationship.<sup>7</sup> Alternatively, and in the absence of a contract, parties may still enter into an arbitration agreement after a dispute has occurred, but this is rare.<sup>8</sup> Thus, straightforward disputes over ownership<sup>9</sup> or infringements of IP rights are generally handled by state courts.<sup>10</sup> Furthermore, many countries reserve disputes about the validity of IP rights for the state courts and, therefore, do not recognise arbitral awards on validity.<sup>11</sup> Yet this does not mean that the validity of IP rights cannot be decided by arbitral tribunals. Rather, arbitral tribunals may address this issue not by declaring the IP right to be invalid, but by obliging the owner to withdraw its IP right from the respective registries or by ensuring that the established invalidity has *inter partes* effect only (e.g., in the United States, Canada, Singapore and France).<sup>12</sup> For example, in August 2019, the Intellectual Property (Dispute Resolution) Bill was passed by Parliament in Singapore and assented to by the President.<sup>13</sup> This Bill strengthens Singapore's position as a choice venue for the arbitration of international IP disputes because it explicitly states that IP disputes may be arbitrated in Singapore with *inter partes* effect.<sup>14</sup> Another

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their IP disputes, 30 per cent of the participants include an arbitration clause in their respective contracts and 12 per cent opt for mediation as their preferred dispute resolution method. In general, survey participants noted a trend towards greater use of alternative dispute resolution in this area. For further information, see Pre-empting and Resolving Technology, Media and Telecoms Disputes, International Dispute Resolution Survey, Queen Mary University of London 2016 (accessed 24 September 2020, [http://www.arbitration.qmul.ac.uk/media/arbitration/docs/Fixing\\_Tech\\_report\\_online\\_singles.pdf](http://www.arbitration.qmul.ac.uk/media/arbitration/docs/Fixing_Tech_report_online_singles.pdf)); cf. also Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (290).

7 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (291).

8 *ibid.*

9 Disputes about the ownership of patents or patent applications are, however, quite frequently handled by arbitral tribunals based on an arbitration clause contained for example in a research and cooperation agreement, license or distribution agreement. See Mondini, Andrea/Meier, Raphael: Patentübertragungsklagen vor internationalen Schiedsgerichten mit Sitz in der Schweiz und die Aussetzung des Patenterteilungsverfahrens, *sic!* 5/2015, p. 289 ff.

10 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (291).

11 *ibid.*

12 Schramm, Dorothee: International IP Arbitration – A Blessing Or A Bad Idea? In Vivo, Informa Pharma Intelligence, October 2019.

13 <https://sso.agc.gov.sg/Acts-Supp/23-2019/Published/20190911?DocDate=20190911>.

14 See Section 52B. Intellectual Property (Dispute Resolution) Bill No. 17/2019 ([https://www.parliament.gov.sg/docs/default-source/default-document-library/intellectual-property-\(dispute-resolution\)-bill-17-2019.pdf](https://www.parliament.gov.sg/docs/default-source/default-document-library/intellectual-property-(dispute-resolution)-bill-17-2019.pdf)).



example can be found in Hong Kong, where parties can use arbitration to resolve any type of IP dispute, including disputes over the enforceability, infringement, validity, ownership, scope or duration of an IP right.<sup>15</sup> Therefore, if Hong Kong is the place of arbitration, an arbitrator has the power to award any remedy or relief that could be ordered by the Hong Kong Court of First Instance in civil proceedings.<sup>16</sup> Consistently, an arbitral award (whether it was made in or outside Hong Kong) can be enforced in Hong Kong by filing with the Court of First Instance.<sup>17</sup> This coincides with the launch of the Panel of Arbitrators for Intellectual Property Disputes at the Hong Kong International Arbitration Centre.<sup>18</sup> In addition, there are state courts that recognise arbitral awards on the validity of IP rights with *erga omnes* effect (e.g., Switzerland and Belgium). In light of these factors, the question of whether a dispute is arbitrable at all is becoming less relevant.

Generally, one of the reasons parties seem to prefer an arbitral award over a state court judgment is because under the New York Convention, it is possible to enforce foreign arbitral awards in more than 159 jurisdictions. Under the New York Convention system, a foreign arbitral award is simply recognised on request, provided that the duly authenticated original award and the original arbitration agreement is enclosed, and with a translation of these documents if needed (Article IV of the New York Convention). However, arbitral awards in specific IP arbitration proceedings may not be enforceable in all these jurisdictions. For example, enforcement of an arbitral award that concerns the validity of an IP right may be refused in certain jurisdictions where state authorities have sole jurisdiction to determine the validity of an IP right.<sup>19</sup> The advantage of arbitration over state court proceedings is obvious, however, because it remains far easier to enforce a foreign IP arbitral award than a judgment of a foreign national court.

This principal shift – away from ordinary proceedings towards alternative dispute resolution (ADR) in the field of intellectual property – has also been recognised by public authorities. It is very evident that ADR is gaining popularity and is becoming more integrated in ordinary IP state proceedings.<sup>20</sup> Australia and Mexico, for example, provide alternative dispute options for the resolution of IP and technology disputes<sup>21</sup> and in England and Poland, there is an optional cooling-off period by means of mediation in trademark opposition proceedings. There have also been institutional developments in Singapore, where the Intellectual Property Office of Singapore developed a mediation option for trademark and patent proceedings, under its collaboration with WIPO, and an

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15 [https://www.doj.gov.hk/en/legal\\_dispute/pdf/arbitration\\_faq\\_e.pdf](https://www.doj.gov.hk/en/legal_dispute/pdf/arbitration_faq_e.pdf).

16 *ibid.*

17 *ibid.*

18 <https://www.hkiac.org/news/panel-arbitrators-intellectual-property-disputes>. Likewise: SIAC's panel of arbitrators for intellectual property disputes (<https://www.siac.org.sg/our-arbitrators/siac-panel#ip>) or the Swiss Chambers' Arbitration Institutions list of arbitrators specialised in IT and Data Privacy (<https://www.swissarbitration.org/Arbitration/Find-Arbitrator-Counsel>).

19 [https://www.doj.gov.hk/en/legal\\_dispute/pdf/arbitration\\_faq\\_e.pdf](https://www.doj.gov.hk/en/legal_dispute/pdf/arbitration_faq_e.pdf).

20 *WIPO Magazine*, An expanding role for IP offices in alternative dispute resolution, 2019, p. 40 (accessed on 24 September 2020, [https://www.wipo.int/export/sites/www/wipo\\_magazine/en/pdf/2019/wipo\\_pub\\_121\\_2019\\_01.pdf](https://www.wipo.int/export/sites/www/wipo_magazine/en/pdf/2019/wipo_pub_121_2019_01.pdf)).

21 <https://www.ipaustralia.gov.au/ip-infringement/enforcing-your-ip/international-alternative-dispute-resolution>.

expert determination option for patent proceedings.<sup>22</sup> Korea, Brazil, Spain, the United States and Germany, among others, collaborate with WIPO to develop or enhance their ADR services, especially mediation.<sup>23</sup> Various countries require mandatory mediation proceedings in commercial cases, including IP cases. While in the past, mandatory mediation schemes were typical for some common-law jurisdictions (such as Australia), an increasing number of countries with different legal traditions have decided to do the same (e.g., the Philippines, Argentina, Greece, Romania, India and Turkey).<sup>24</sup>

Especially in Europe, this trend may be partially attributed to a decision of the Court of Justice of the European Union (CJEU) from 2017 (Case C-75/16). In that decision, the CJEU concluded that mandatory mediation as a pre-condition to litigation is not precluded by a legislative framework, provided that the parties are not prevented from exercising their rights of access to the judicial system.<sup>25</sup> In Greece, mediation is mandatory in trademark infringement disputes<sup>26</sup> and Portugal has implemented mandatory arbitration proceedings for certain cases of infringement disputes concerning patents and supplementary protection certificates.<sup>27</sup> Turkey, for example, introduced mandatory civil mediation for commercial cases including money-related IP disputes.<sup>28</sup> In the Philippines, mediation

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- 22 *WIPO Magazine*, An expanding role for IP offices in alternative dispute resolution, 2019, p. 41 (accessed on 24 September 2020, [https://www.wipo.int/export/sites/www/wipo\\_magazine/en/pdf/2019/wipo\\_pub\\_121\\_2019\\_01.pdf](https://www.wipo.int/export/sites/www/wipo_magazine/en/pdf/2019/wipo_pub_121_2019_01.pdf)); cf. <https://www.ipos.gov.sg/protecting-your-ideas/hearings-mediation>; <https://www.wipo.int/amc/en/center/specific-sectors/ipos/mediation/>.
- 23 See PP 10 Global trends in IP Mediation, Prof. Nadja Alexander, EUIPO IP Mediation Conference, Alicante 2019 (accessed on 24 September 2020, <https://euiipo.europa.eu/ohimportal/de/ip-mediation-conference2019>); *WIPO Magazine*, An expanding role for IP offices in alternative dispute resolution, 2019, p. 44 (accessed on 24 September 2020, [https://www.wipo.int/export/sites/www/wipo\\_magazine/en/pdf/2019/wipo\\_pub\\_121\\_2019\\_01.pdf](https://www.wipo.int/export/sites/www/wipo_magazine/en/pdf/2019/wipo_pub_121_2019_01.pdf)); A full list of countries the WIPO Center collaborates with is available here: <https://www.wipo.int/amc/en/center/specific-sectors/ipoffices/>.
- 24 See PP 10 Global trends in IP Mediation, Prof. Nadja Alexander, EUIPO IP Mediation Conference, Alicante 2019 (accessed on 24 September 2020, <https://euiipo.europa.eu/ohimportal/de/ip-mediation-conference2019>).
- 25 cf. Morek, Rafal: To compel or not to compel: Is mandatory mediation becoming “popular”?, *Kluwer Mediation Blog*, 19 November 2018 (accessed on 24 September 2020, <http://mediationblog.kluwerarbitration.com/2018/11/19/to-compel-or-not-to-compel-is-mandatory-mediation-becoming-popular/>).
- 26 Perraki, Marina: Mandatory mediation in Greece – the saga continuous, *Kluwer Trademark Blog*, 3 December 2019 (accessed on 24 September 2020, <http://trademarkblog.kluweriplaw.com/2019/12/03/mandatory-mediation-in-greece-the-saga-continuous/>); Perraki, Marina: Greece: Mandatory mediation in trademark civil disputes, *Kluwer Trademark Blog*, 16 May 2018 (accessed on 24 September 2020, <http://trademarkblog.kluweriplaw.com/2018/05/16/greece-mandatory-mediation-trademark-civil-disputes-2/>); Perraki, Marina: Mandatory Mediation Questioned – Greece, *Kluwer Trademark Blog*, 17 July 2018 (accessed on 24 September 2020, <http://trademarkblog.kluweriplaw.com/2018/07/17/mandatory-mediation-questioned-greece/>).
- 27 cf. Lousa, Nuno/Silva, Raquel: Arbitrating Intellectual Property Disputes in Portugal: A Case Study, *Kluwer Arbitration Blog* (accessed on 24 September 2020, <http://kluwerarbitrationblog.com/2015/11/13/arbitrating-intellectual-property-disputes-in-portugal-a-case-study/>).
- 28 cf. Yilmaztekin, Hasan Kadir: Turkey introduces mandatory civil mediation for commercial cases including IP rights, *Journal of Intellectual Property Law & Practice*, Vol. 14, June 2019, pp. 432–437; Alkan, Dogan: Turkey introduces mandatory mediation for money-related IP disputes, 4 February 2019 (accessed on 24 September 2020, <https://www.managingip.com/article/b1kblyn8jls5vl/turkey-turkey-introduces-mandatory-mediation-for-money-related-ip-disputes>).

is mandatory for administrative complaints relating to IP rights violations, *inter partes* cases, such as trademark opposition and cancellation proceedings, and disputes involving technology transfer payments.<sup>29</sup>

It is important to note that state courts strive to maintain their international appeal for commercial disputes (including IP disputes) and many have created corresponding chambers for international dispute resolution. For example, the following chambers have all been established in the past five years: the International Division of the Patent Court of Korea; the Singapore International Commercial Court; the Chamber for International Commercial Disputes of the District Court of Frankfurt am Main, Germany; the International Chamber of the Paris Court of Appeal, France; the Netherlands Commercial Court; and the Brussels International Business Court, Belgium. There is also the Zurich International Commercial Court project in Switzerland.

## **Future developments**

### **Unified Patent Court in the European Union**

One of the most notable projects in European IP law is the establishment of the Unified Patent Court. This is part of a package of regulations on patent law, the core of which is the introduction of a European ‘community patent’ with unitary effect at the level of the European Union.

Unfortunately, the project has met a few challenges; the UK has made final preparations to withdraw from the Unified Patent Court project and, in March 2020, the Federal Constitutional Court of Germany declared that parliamentary approval of the Agreement on the Unified Patent Court is void on grounds of not achieving the necessary parliamentary majority.<sup>30</sup>

From an arbitration viewpoint, the related framework agreement (Regulation (EU) No. 1260/2012) provides the following in Article 35:

- (1) *A patent mediation and arbitration centre (‘the Centre’) is hereby established. It shall have its seats in Ljubljana and Lisbon.*
- (2) *The Centre shall provide facilities for mediation and arbitration of patent disputes falling within the scope of this Agreement. Article 82 shall apply mutatis mutandis to any settlement reached through the use of the facilities of the Centre, including through mediation. However, a patent may not be revoked or limited in mediation or arbitration proceedings.*

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<sup>29</sup> <https://www.wipo.int/amc/en/center/specific-sectors/ipophl/>.

<sup>30</sup> UK withdraws ratification of the Unified Patent court Agreement, Kluwer Patent Blog, 20 July 2020 (accessed on 24 September 2020, <http://patentblog.kluweriplaw.com/2020/07/20/uk-withdraws-ratification-of-the-unified-patent-court-agreement/>); <https://www.unified-patent-court.org/news/uk-withdrawal-upca>; <https://www.unified-patent-court.org/news/federal-constitutional-court-decision>; in Germany, a new draft bill was already presented in June 2020, see for the ongoing procedure: [https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/DE/EPG%C3%9C\\_Vertragsgesetz.html?sessionid=C7D5061064D78BB3130239BB4CBC41C5.1\\_cid324](https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/DE/EPG%C3%9C_Vertragsgesetz.html?sessionid=C7D5061064D78BB3130239BB4CBC41C5.1_cid324).

In other words, arbitration is to become a standard feature in this unified patent court system. The jurisdiction of these two arbitration centres is, however, rather limited as they cannot order the cancellation of a patent. A certain margin of interpretation remains and some suggest that an award on the validity of a patent should at least have an *inter partes* effect.<sup>31</sup>

## SEP/FRAND

As already pointed out, ADR in IP matters is by no means a new phenomenon.<sup>32</sup> Recently, however, its importance has increased in the context of licensing of standard-essential patents (SEPs) on fair, reasonable and non-discriminatory (FRAND) terms.<sup>33</sup> Standards setting organisations, such as the Institute of Electrical and Electronics Engineers, suggest the use of arbitration (an arbitration agreement is thus integrated into a FRAND licence offer), *inter alia*, for the determination of royalties respecting FRAND principles.<sup>34</sup> Several large SEP/FRAND arbitration proceedings have already been conducted<sup>35</sup> and the legal development in this field was furthered by projects such as the ‘Guidance on WIPO FRAND Alternative Dispute Resolution (ADR)’,<sup>36</sup> the SEP communication of the European Commission and the FRAND ADR Case Management Guidelines of the Munich IP Dispute Resolution Forum.<sup>37</sup> Generally, the response from administrative and judicial authorities to resolve SEP/FRAND conflicts through ADR has been exceptionally positive.<sup>38</sup> The advantages of arbitration for such cases lie in the choice of specialised arbitrators with the necessary

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- 31 De Werra, Jacques: New Developments of IP Arbitration and Mediation in Europe: The Patent Mediation and Arbitration Center Instituted by the Agreement on a Unified Patent Court (UPC), *Revista Brasileira de Arbitragem (RBA)*, 2014, p. 27 f. (asserting that an award on the validity of a patent should at least have an *inter partes* effect). The author further indicates on p. 34 that arbitration could apply to disputes about SEPs where an arbitral tribunal may decide whether a licence is ‘fair, reasonable and non-discriminatory’. See also Granata, Sam: The Unified Patent Court: A One-Stop-Shop IP Dispute Resolution Entity, the Patent Mediation and Arbitration Centre (PMAC), in: Zeiler, Gerold/Zojer, Alexander (ed.), *Resolving IP Disputes*, Vienna/Graz 2018, p. 75 ff.
- 32 See also: Picht, Peter/Loderer, Gaspare: Arbitration in SEP/FRAND Disputes, Overview and Core Issues, *Journal of International Arbitration*, 2019, pp. 575–594 (575).
- 33 See also: Picht, Peter/Loderer, Gaspare: Arbitration in SEP/FRAND Disputes, Overview and Core Issues, *Journal of International Arbitration*, 2019, pp. 575–594 (575); Rhie, John/Noh, Harold: Resolving IP Disputes through International Arbitration, *Korean Arbitration Review*, 7th Issue, 2016, pp. 11–15 (12); Wild, Joff: Despite the difficulties, it is time to embrace arbitration as the best way to resolve licensing disputes, 31 August 2019 (accessed on 24 September 2020, <https://www.iam-media.com/embrace-arbitration/>); The Case for Arbitration of Patent Disputes, *Kluwer Arbitration Blog*, 25 February 2016 (accessed on 24 September 2020, <http://arbitrationblog.kluwerarbitration.com/2016/02/25/recent-event-the-case-for-arbitration-of-patent-disputes/>); Bender, Raymond: Arbitration – An Ideal Way to Resolve High-Tech Industry Disputes, *Dispute Resolution Journal*, 2011, p. 9.
- 34 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (302).
- 35 e.g., *BlackBerry v. Qualcomm* (<https://www.cnn.com/2017/04/12/blackberry-awarded-815-million-in-arbitration-case-against-qualcomm.html>). For further examples see Picht, Peter/Loderer, Gaspare: Arbitration in SEP/FRAND Disputes, Overview and Core Issues, *Journal of International Arbitration*, 2019, pp. 575–594 (576).
- 36 The Guidance is available here: <https://www.wipo.int/publications/en/details.jsp?id=4232&plang=EN>.
- 37 Picht, Peter/Loderer, Gaspare: Arbitration in SEP/FRAND Disputes, Overview and Core Issues, *Journal of International Arbitration*, 2019, pp. 575–594 (576).
- 38 See the recent activities in Japan regarding SEP/FRAND arbitration: [https://www.jpo.go.jp/e/support/general/sep\\_portal/](https://www.jpo.go.jp/e/support/general/sep_portal/).

expertise for SEP/FRAND disputes, which are complex, both in a legal sense and from a technical point of view.<sup>39</sup> Another advantage lies in the possibility of finding tailor-made solutions regarding issues of confidentiality in this highly competitive field, even considering certain restrictions in the interest of other market participants and the general public.<sup>40</sup>

In 2017, WIPO published the Guidance on WIPO FRAND Alternative Dispute Resolution (ADR), which aims to facilitate submissions of FRAND disputes to WIPO mediation and arbitration.<sup>41</sup> The Guidance, inter alia, explains the procedural options that are available at different stages of the process and identifies key elements that the parties may wish to consider to shape the arbitration proceedings, notably, addressing large SEP portfolios and containing time and cost of the proceedings.<sup>42</sup>

### Trade fairs

In a global pandemic, one does not think about trade fairs, except for those that have been cancelled.<sup>43</sup> Nevertheless, such events will be scheduled again<sup>44</sup> and, as such, arbitral jurisdiction will regain importance. Setting aside pandemics and digital revolutions, statistics still confirm the popularity of trade shows and it is likely that popularity will increase after an exceptional occurrence, such as the current pandemic.<sup>45</sup> If an exhibitor infringes IP rights at a trade fair, the owner of the IP rights can apply for emergency relief – a tool that is used to immediately stop the infringing activity.<sup>46</sup> In the United States, for example, courts may award a temporary restraining order (TRO), which it may do *ex parte* – without a hearing of the alleged infringer.<sup>47</sup> Aside from the Supreme Court decision in *eBay v. MercExchange*, the applicability of TROs in connection with trade fairs in the United States is limited under current law.<sup>48</sup> American doctrine does reference ADR.<sup>49</sup>

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39 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (302); Picht, Peter/Loderer, Gaspare: Arbitration in SEP/FRAND Disputes, Overview and Core Issues, *Journal of International Arbitration*, 2019, p.p 575–594 (576).

40 See in particular: Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (301 et seq.); Picht, Peter/Loderer, Gaspare: Arbitration in SEP/FRAND Disputes, Overview and Core Issues, *Journal of International Arbitration*, 2019, pp. 575–594 (579).

41 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (302).

42 *ibid.*

43 For example, Switzerland's two-week Geneva International Motor Show or the 10-day South by Southwest (SXSW) music, film and technology conference in Austin, Texas.

44 cf. <https://www.madeparis.com/>.

45 See Trimble, Marketa: Enforcement of Intellectual Property Rights at Trade Shows, A Review and Recommendations, *Ohio State Journal on Dispute Resolution*, 2018, p. 3 et seq.

46 *ibid.*, p. 9.

47 Fed. R. Civ. P. 65(b)(1); see Trimble, Marketa: Enforcement of Intellectual Property Rights at Trade Shows, A Review and Recommendations, *Ohio State Journal on Dispute Resolution*, 2018, p. 10.

48 *eBay Inc v. MercExchange, LLC*, 547 U.S. 388 (2006).

49 Trimble, Marketa: Enforcement of Intellectual Property Rights at Trade Shows, A Review and Recommendations, *Ohio State Journal on Dispute Resolution*, 2018, p. 12.

In fact, ADR at trade fairs is common worldwide because of its fast and efficient application.<sup>50</sup> Some trade show organisers provide legal support for IP right holders, such as the Consumer Technology Association, which runs the International Consumer Electronics Show in Las Vegas.<sup>51</sup> Otherwise, trade show participants are generally made aware of IP clauses in trade shows' terms and conditions, such as Reed Exhibitions' 'IP Issues and Procedures', applicable for the BookExpo in New York City.<sup>52</sup> The most sophisticated form of trade show organiser involvement in IP enforcement consists of the establishment and maintenance of ADR mechanisms that address IP rights violations alleged to have occurred at trade shows.<sup>53</sup> These ADR procedures are likely to become more important, especially if trade fairs are increasingly taking place online.<sup>54</sup>

Today, for example, Palexpo Trade Fairs in Geneva, Switzerland (based on the former Baselworld watch fair), Spielwarenmesse in Nuremberg, Germany or the AAPEX trade show in Las Vegas, United States, participate in ADR mechanisms for IP disputes.<sup>55</sup> Likewise, in Singapore, SingEx developed a fast-track IP dispute resolution procedure for SingEx trade and consumer fairs in collaboration with the WIPO Center.<sup>56</sup> State courts have also noted that the requirements for proceedings in connection with the infringement of IP rights at trade fairs are different from ordinary proceedings on IP rights infringements. Therefore, some state courts have deliberately adjusted to the needs of trade fair participants and, thus, offer standby services for trade shows.<sup>57</sup> Following China's example, there is likely to be a merger of national court and ADR mechanisms in connection with trade fairs if alternative systems are introduced into state court systems.<sup>58</sup>

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- 50 Burnier, Michèle: La resolution des litiges dans les foires, in: Hirsch, Laurent/Imhoos Christophe (ed.), Arbitrage, médiation et autres modes pour résoudre les conflits autrement, Geneva 2018, pp. 405–414 (413).
- 51 <https://www.ces.tech/Exhibitors/Show-Planning/Procedures-for-Requests-by-IP-Owners.aspx>; Trimble, Marketa: Enforcement of Intellectual Property Rights at Trade Shows, A Review and Recommendations, *Ohio State Journal on Dispute Resolution*, 2018, p. 14; similar procedures available in connection with Baselworld trade show in Basel, Switzerland and the International Hospitality Exhibition in Milan, Italy.
- 52 [https://www.bookexpoamerica.com/RNA/RNA\\_BookExpo\\_V2/2020/\\_docs/emanual/BE-BC-UB-2020-IP.pdf?v=637190329325863525](https://www.bookexpoamerica.com/RNA/RNA_BookExpo_V2/2020/_docs/emanual/BE-BC-UB-2020-IP.pdf?v=637190329325863525).
- 53 Trimble, Marketa: Enforcement of Intellectual Property Rights at Trade Shows, A Review and Recommendations, *Ohio State Journal on Dispute Resolution*, 2018, p. 17; with reference to Thomas Legler, WIPO Fast-Track Intellectual Property Dispute Resolution Procedure for Palexpo Trade Fairs, WIPO, Advisory Committee on Enforcement, WIPO/ACE/10/6, 5 August 2015, p. 2.
- 54 See, for example, <https://ces.tech/planning-for-ces-2021.aspx>.
- 55 See Burnier, Michèle: La resolution des litiges dans les foires, in: Hirsch, Laurent/Imhoos Christophe (ed.), Arbitrage, médiation et autres modes pour résoudre les conflits autrement, Geneva 2018, pp. 405–414 (406 et seq.); <https://www.wipo.int/amc/en/center/specific-sectors/tradefairs/palexpo/>; [https://s.spielwarenmesse.de/fileadmin/data\\_archive/Relaunch\\_Spielwarenmesse/pdf/IPR\\_2020\\_DE\\_Information.pdf](https://s.spielwarenmesse.de/fileadmin/data_archive/Relaunch_Spielwarenmesse/pdf/IPR_2020_DE_Information.pdf); <https://www.aftermarketnews.com/aapex-event-management-strengthens-intellectual-property-policy/>.
- 56 See: <https://www.wipo.int/amc/en/center/specific-sectors/tradefairs/singex/>; <https://singex.com/>.
- 57 District Court in Braunschweig, Germany with territorial jurisdiction over Hannover (major trade show center) and the Commercial Courts of Barcelona, Spain. For further information, see Trimble, Marketa: Enforcement of Intellectual Property Rights at Trade Shows, A Review and Recommendations, *Ohio State Journal on Dispute Resolution*, 2018, p. 26.
- 58 Trimble, Marketa: Enforcement of Intellectual Property Rights at Trade Shows, A Review and Recommendations, *Ohio State Journal on Dispute Resolution*, 2018, p. 30 et seq.

## Blockchain and smart contracts

Blockchain is a transparent, secure information storage and transmission technology that operates without a central control body.<sup>59</sup> By extension, a blockchain is a shared database filled with entries (the ‘blocks’ in the ‘chain’) that must be confirmed and encrypted, which contain the history of all exchanges between its users since its creation.<sup>60</sup> This database is secure and distributed; it is shared by its different users, without intermediaries, which allows everyone to check the validity of the string and which makes it difficult or impossible to change, hack or cheat the system.<sup>61</sup> The chained data blocks often contain ‘transactions’, but from a technical point of view, any other type of information can be stored as well.<sup>62</sup> On these grounds, combined with other technologies, blockchain has many useful applications.

A key example of this is smart contracts. These are stand-alone programs that, once started, automatically execute the terms and conditions of a contract (input or ‘oracles’) without requiring human intervention.<sup>63</sup> In the field of intellectual property, smart contracts allow automatic implementation of IP contracts; particularly licensing or exclusive distribution contracts.<sup>64</sup> By combining smart contracts with blockchain technology, a series of coded contractual clauses sit on the blockchain and enable self-enforcement of the rights and obligations of the parties.<sup>65</sup>

The application of blockchain technology may be used in the field of intellectual property in the following ways: proof of the creation or ownership of IP rights, copyright management, particularly in the field of online music distribution, transmission of payments in real time to rights holders, authentication of goods, detection of counterfeits, etc.<sup>66</sup> Therefore, as a stand-alone tool, blockchain technology can simplify and improve existing processes in the administration of any proceedings, and arbitration proceedings in particular

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59 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (302); Sesing, Andreas/Baumann, Jonas: Automatisierung von Vertragsbeziehungen in der Industrie 4.0, *InTeR* 2020, S. 134–141, 137.

60 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, p.p 289–304 (302); Jevremovic, Nevena: 2018 In Review: Blockchain Technology and Arbitration, 27 January 2019 (accessed on 24 September 2020, [http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing\\_wp\\_cron=1598518421.0166640281677246093750](http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing_wp_cron=1598518421.0166640281677246093750)).

61 Sesing, Andreas/Baumann, Jonas: Automatisierung von Vertragsbeziehungen in der Industrie 4.0, *InTeR* 2020, S. 134–141, 137; [www.blockchainfrance.net](http://www.blockchainfrance.net).

62 Sesing, Andreas/Baumann, Jonas: Automatisierung von Vertragsbeziehungen in der Industrie 4.0, *InTeR* 2020, S. 134–141, 137; de Caria, in: DiMatteo/Cannarsa/Poncibò (Hrsg.): *The Cambridge Handbook of Smart Contracts, Blockchain Technology and Digital Platforms*, 2020, S. 19, 35.

63 Furrer, Andreas: Die Einbettung von Smart Contracts in das schweizerische Privatrecht, *Schweizer Anwaltsrevue*, 3/2018, 103 ff.; Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, p. 289–304 (302).

64 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (303).

65 Jevremovic, Nevena: 2018 In Review: Blockchain Technology and Arbitration, 27 January 2019 (accessed on 24 September 2020, [http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing\\_wp\\_cron=1598518421.0166640281677246093750](http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing_wp_cron=1598518421.0166640281677246093750)).

66 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (303).

(in the same way audio and video conferencing tools did a couple of years ago).<sup>67</sup> In addition, special consideration must be given to the advantages of blockchain technology and the ways it can be used for authentication and validation of smart contracts.

This means, on the one hand, that an arbitration clause could be included in the code of a smart contract – for example, an IP licensing or exclusive distribution contract.<sup>68</sup> In the event of a dispute, a predefined arbitration process would follow.<sup>69</sup> On the other hand, blockchain could also affect the analogue nature of arbitration proceedings themselves, as they could be automated via blockchain. Apart from the arbitration clause in a smart contract, various stages of the arbitration proceeding may be affected: submission and taking of evidence and enforcement of arbitral awards, each using the benefits of the technology to enhance the efficiency of proceedings.<sup>70</sup> In any case as a starting point, an arbitration clause would need to become a smart arbitration clause.<sup>71</sup> Even if some technical and practical questions arise regarding the implementation of such arbitration procedures (e.g., does a smart arbitration clause meet the requirements of Article II of the New York Convention?), this is no longer science fiction and there are already various blockchain-based platforms on the market (see, e.g., JURIPAX, Kleros, CodeLegit, SAMBA).<sup>72</sup>

### **Advanced use of technical tools in arbitration**

Apart from blockchain technology and smart contracts, special attention has recently been given to the technical developments in arbitration proceedings, which has been accelerated by covid-19. With regards to expectations post covid-19, it is generally believed that the use of arbitration may significantly increase because of the greater flexibility it offers in times of crisis.<sup>73</sup> For example, it would be possible in an arbitration setting for the parties to agree to move the venue of a hearing to a region less affected by covid-19, to adopt a documents-only procedure or to perform the hearing virtually or via teleconference.<sup>74</sup>

The WIPO Center is observing a growing interest in and use of these options by parties, including in two recent WIPO mediation cases of trademark opposition and invalidation proceedings before the Intellectual Property Office of Singapore, which were fully conducted online with a successful outcome.<sup>75</sup> Online dispute resolution (ODR) is a valid alternative to traditional physical arbitration, be it only for a short period of time during a

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67 Jevremovic, Nevena: 2018 In Review: Blockchain Technology and Arbitration, 27 January 2019 (accessed on 24 September 2020, [http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing\\_wp\\_cron=1598518421.0166640281677246093750](http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing_wp_cron=1598518421.0166640281677246093750)).

68 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (303).

69 *ibid.*

70 Jevremovic, Nevena: 2018 In Review: Blockchain Technology and Arbitration, 27 January 2019 (accessed on 24 September 2020, [http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing\\_wp\\_cron=1598518421.0166640281677246093750](http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration/?doing_wp_cron=1598518421.0166640281677246093750)).

71 *ibid.*

72 Legler, Thomas: Arbitration of Intellectual Property Disputes, *ASA Bulletin*, 2019, pp. 289–304 (303).

73 Chawla, Chahat: International Arbitration during COVID-19: A Case Counsel's Perspective, 4 June 2020 (accessed on 24 September 2020, <http://arbitrationblog.kluwerarbitration.com/2020/06/04/international-arbitration-during-covid-19-a-case-counsels-perspective/>).

74 See, for example, the proposed procedures of SIAC: <https://www.siac.org.sg/faqs/siac-covid-19-faqs>.

75 Online tools (including videoconferencing facilities) are offered free of charge by the WIPO Center: <https://www.wipo.int/amc/en/eadr/>.



pandemic or for many years to come.<sup>76</sup> Not only relating to arbitration but also in general, online dispute resolution is becoming increasingly popular. Beyond online dispute resolution pertaining to domain names, there are different institutions using ODR, such as eBay<sup>77</sup> (in the United States) and Eachnet<sup>78</sup> (in China).<sup>79</sup> Looking to China, it is hardly surprising that three (state) internet courts have already been established to resolve copyright disputes. As if that was not enough, the internet court in Hangzhou admitted evidence that was authenticated by blockchain in one online copyright infringement case.<sup>80</sup> We are curious to see how long it will take for such institutions to emerge outside China.

## Summary

IP arbitration is on the rise. Globalisation and the advent of new technologies have not only increased the importance of the field of intellectual property but also the number of disputes in this field.

The following are key takeaways relating to the future of IP arbitration:

- The question of whether a dispute is arbitrable at all is becoming less relevant. Arbitral tribunals increasingly address this issue by ensuring that the award has *inter partes* effect only. Additionally, trends show that state authorities increasingly recognise and enforce arbitral awards relating to IP disputes (including validity issues, in particular).
- ADR is expected to be more integrated in regular state court proceedings; for example, in the European Unified Patent Court system.
- Arbitration may face increasing competition from national courts to handle IP disputes. For fear of losing large international proceedings to arbitration tribunals (including IP disputes), the number of ordinary commercial courts offering a specialised international chamber and the application of English as procedural language is likely to increase.
- With regard to SEP/FRAND and trade fair disputes, arbitral tribunals will become more important in the future as arbitration is more suitable for these types of disputes compared to national courts.
- Development in the area of blockchain and smart contracts is promising. Arbitration proceedings as we know them today could change permanently if arbitration clauses in smart contracts trigger an automated process and the various steps in arbitration proceedings are completed via blockchain.

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76 Benton, Gary: It is not the strongest of the species that survives but the most adaptable: The case for online commercial arbitration, CCA Blog, 4 July 2020 (accessed on 24 September 2020, <https://www.ccarbitrators.org/the-case-for-online-commercial-arbitration/>).

77 <https://pages.ebay.com/services/buyandsell/disputeres.html>.

78 Sackin, Jennifer: Online Dispute Resolution with China: Advantageous, but at what cost?, *Cardozo Journal of Conflict Resolution*, Vol. 12, 2010, p. 272; Xue, Hong: Online Dispute Resolution for E-commerce in China: Present Practices and Future Developments, *Hong Kong Law Journal*, Vol. 34, 2004, p. 396.

79 See PP 10 Global trends in IP Mediation, Prof. Nadja Alexander, EUIPO IP Mediation Conference, Alicante 2019 (accessed on 24 September 2020, <https://euiipo.europa.eu/ohimportal/de/ip-mediation-conference2019>).

80 Lu, Kim/Ning, Dong: China patent: Courts respond positively to blockchain evidence, 18 September 2019 (accessed on 24 September 2020, <https://www.managingip.com/article/b1kbm1ql82cl83/china-patent-courts-respond-positively-to-blockchain-evidence>).

# Appendix 1

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Hiroyuki Tezuka heads N&A's international dispute resolution practice group. He has been involved in a number of international arbitrations as counsel, sole-arbitrator, co-arbitrator or chairman, including before the ICC, the JCAA, the AAA-ICDR, VIAC, the KCAB and SIAC.

Hiroyuki serves as an executive director of the Japan Association of Arbitrators, was a vice-chair of the Arbitration Committee of the IBA Legal Practice Division and was a committee co-chair of the Dispute Resolution and Arbitration Committee of the IPBA. Since 2013, he has been a member of SIAC's Court of Arbitration. From 2013 to 2016, he taught international arbitration at the University of Tokyo, School of Law as a visiting professor. Since 2016, he has been a member of the ACICA council, the Seoul IDRC Advisory Board and a fellow of the Chartered Institute of Arbitrators (FCI Arb). He is also a member of the International Court of Arbitration of the International Chamber of Commerce (ICC) for Japan and has been a council member of the ICC Institute of World Business Law since 2018.

Hiroyuki graduated from the University of Tokyo (LLB, 1984) and Harvard Law School (LLM, 1992).

He is admitted as an attorney in Japan (1986) and in New York (1993).

## **Rachel Thorn**

Cooley LLP

Rachel Thorn focuses on international commercial arbitration, investment treaty disputes and cross-border litigation. She has extensive experience in disputes involving life sciences, technology, energy and extractive industry sectors, as well as post-M&A disputes and disputes concerning joint ventures and long-term cooperation agreements, concession contracts and offtake agreements. Her practice also includes defending, enforcing and challenging arbitral awards in the United States under the New York Convention, the ICSID Convention and the Federal Arbitration Act. Rachel also regularly advises on structuring dispute resolution clauses in cross-border contracts, as well as investment structuring.

Rachel is a member of the New York City Bar Association, the International Commercial Disputes Committee and the ICC United States Arbitration Nomination Commission, as well as the WILEF Global Advisory Board.

## **Richard A HVary**

Bird & Bird LLP

Richard A HVary is a partner in Bird & Bird's intellectual property practice, based in London. Richard is an acknowledged expert on global mobile telecommunications patent litigation and arbitration, and has acted on disputes for many of the major players in the sector.

Before joining Bird & Bird in 2016, Richard was the vice president and head of litigation at Nokia, where he managed Nokia's global litigation. During his time at Nokia he managed cross-border patent litigations between Nokia and KPN, IPCom, Apple, HTC, Blackberry and Viewsonic. He was heavily involved in the dispute with Qualcomm, having overall responsibility for the actions in China. He also managed Nokia's groundbreaking arbitration on Standards Essential Patent valuations with Samsung and LG.

Richard has been named twice in Managing IP's annual list of the 50 most influential people in intellectual property and is regularly viewed as a corporate IP star by MIP. At Nokia, he was awarded 'In-House Counsel of the Year' by *The Lawyer*.

He sits part-time as a district judge in London and the South East, and in the Intellectual Property Enterprise Court.

## **Robert Wachter**

Lee & Ko

Robert Wachter FCI Arb is the co-head of the international arbitration practice at Lee & Ko. After finishing at the top of his law school class, Mr Wachter began his career as a law clerk to Senior US District Judge Samuel P King for the District of Hawaii. Thereafter, he joined the San Francisco office of O'Melveny & Myers, where he was promoted to counsel. He moved to Korea in 2004. He has acted in cases brought under all the major arbitration rules, including ICC, SIAC, KCAB, VIAC, Swiss Chambers, LCIA, SCC, JCAA and UNCITRAL. He has significant experience in both common law and civil law jurisdictions. In addition to his experience in Korea, he worked at Graf & Pitkowitz in Vienna, Austria, before returning to Korea in 2014. He became the co-head of the Lee & Ko team in 2015.

**Grace Yoon**

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Grace Yoon specialises in international commercial arbitration and has acted as counsel in numerous international arbitration cases brought under major institutional rules, including ICC, LCIA, SIAC and KCAB. She has also handled several mediations and other alternative dispute resolution matters. In addition, she has wide-ranging experience in international disputes in Latin America, Europe and South East Asia, representing Korean and foreign clients, and has been involved in a number of matters concerning investments into Latin America and Iberia.

## Appendix 2

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Until recently, large IP owners were hesitant about international arbitration – it was too scary (no prospect of appeal, etc.). Now, many are changing their minds.

This timely book sets out how arbitration can be tailored to meet the needs of IP owners and dispels some of the myths surrounding its use. It is in five parts that mirror the life cycle of disputes and will be of interest to newcomers and aficionados alike.

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