



# THE GUIDE TO IP ARBITRATION

SECOND EDITION

Editors

John V H Pierce and Pierre-Yves Gunter

# **The Guide to IP Arbitration**

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**Second Edition**

## **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 in their chosen professional niche. 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, it is fair to say they have not intersected much – certainly less than perhaps expected. Large IP owners are regarded in arbitration circles as being sceptical about arbitration as a format (a bit like banks). Their fears are, for the most part, ill-founded. In many ways, international arbitration is perfect for them: a private, bespoke process invented to bridge cultural divides and that is – most important of all – internationally enforceable. And there are one or two segments of the IP world where use of international arbitration is quite common (the European headquarters of pharmaceutical and life sciences companies are consistent international arbitration users).

Recently, this openness to arbitration has shown signs of spreading. Through our colleagues on IAM and WTR, we are aware of fierce debate within IP about whether litigating in so many forums simultaneously is the best use of resources: why spend US\$100 million in legal fees when it could all be done for, say, US\$40 million in arbitration? Still a lot, but a saving of US\$60 million on both sides. It's rare for any group of users to find arbitration quicker and more cost effective than the alternative, but for large IP owners it is. So one now finds some IP owners who are international arbitration evangelists.

We are therefore delighted to publish the second 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 Trademark Review.

This book is in four 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, telecoms disputes, 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 élan 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>**

We are enormously pleased to present this second edition of *The Guide to IP Arbitration*.

Having received very positive feedback about the first edition of this Guide, for which credit goes to the learned authors who contributed chapters and the excellent editorial team at Global Arbitration Review (GAR), we have not sought to change the book's basic structure and focus; rather, we have sought to update it, where appropriate, and expand its reach into new areas.

To that end, most of the chapters in the Guide have been thoroughly revised to address new developments in international IP arbitration since the first edition was published. In addition, we have added two new substantive chapters, which we hope will be of interest to our readers.

First, we have added a chapter focused entirely on WIPO arbitration, written by the leaders of the IP disputes section at the WIPO Arbitration and Mediation Center. We believe that this new chapter on recent trends in WIPO arbitration and mediation adds an important perspective from one of the most active and well-established institutions in the world of IP arbitration.

Second, we have expanded the book's discussion of the arbitrability of IP disputes by including a chapter on the arbitrability of IP disputes in Brazil. While the first edition covered the issue of arbitrability in common law jurisdictions and civil law jurisdictions in Europe and Asia (principally, Germany and Japan), the second edition adds an important perspective from the largest economy in Latin America – a region that was not represented in the first edition of the book.

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<sup>1</sup> John V H Pierce is a partner at Latham & Watkins LLP, and Pierre-Yves Gunter is a partner at Bär & Karrer Ltd.

## Historical limitations on international IP arbitration

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 intellectual property 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.

## 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 from 2012 to 2019. In addition, WIPO administered 24 per cent more cases in 2020 and 45 per cent more cases in 2021. As these statistics make clear, the growth of international IP arbitration continues to accelerate.

What accounts for this growth? 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, 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 the 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 fact 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 GAR, 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, Japan, South Korea, Germany, France, Switzerland and Brazil.

We have divided this Guide into four 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 journey through the life cycle of an arbitration, 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 arbitration. 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. As noted, the second edition expands this discussion by including a new chapter on arbitrability

from another important jurisdiction for international IP disputes: Brazil. 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 may arise once an IP arbitration gets under way. 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 preparing for the arbitration, constituting the arbitral tribunal, managing ongoing business concerns, gathering evidence and navigating the initial procedural conference 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; and second, a chapter on disclosure in international IP arbitration, with a particular focus on privilege issues, recourse to national courts and compliance with the EU General Data Protection Regulation. Part II concludes with a chapter on the mediation of international IP disputes, emphasising the importance of making mediation 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: Key Issues in Arbitrating Particular IP Disputes’ moves on to 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, copyright and trademark disputes; the second provides an overview of, and practical advice for, IP arbitration against sovereign states; the third considers the kinds of damages analyses that are most often undertaken in IP cases. Finally, Part III concludes with a new chapter addressing recent trends in WIPO arbitration, including with respect to domain name disputes.

‘Part IV: 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 revised 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 GAR 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 recommend that resource to our readers.

## **Future editions and acknowledgements**

In future editions of this Guide, current chapters will again 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 GAR. In addition, a book such as this is only as good as its authors. We took great care, for this second edition as for the first, 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

## CHAPTER 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 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:

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

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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 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, 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. This chapter 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 regarding IP infringement claims.

Even in those 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>

The International Court of Arbitration of the International Chamber of Commerce (ICC) reported an average duration of 26 months for all administered arbitration proceedings that reached a final award in 2020 and a median duration of 22 months.<sup>7</sup>

Between 2013 and 2021, the average Hong Kong International Arbitration Centre (HKIAC) administered arbitration was 16.9 months.<sup>8</sup>

Other data points show similar results: between 2007 and 2014, the Arbitration Institute of the Stockholm Chamber of Commerce (SCC) reported that the median duration of an SCC-administered arbitration was 13.5 months.<sup>9</sup> More recently, the SCC reported that the majority of awards under its Arbitration Rules in 2021 were rendered within six to 12 months after the case was referred

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3 See, for example, Thomas Legler, *Arbitration of Intellectual Property Disputes*, 37 *ASA Bull.* 273, 296–97 (2019); and Trevor Cook and 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* 2nd edn. 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 London Ct. of Int'l Arb. (LCIA), 'Facts and Figures: Costs and Duration: 2013-2016', at 3 (2017), [www.lcia.org/media/download.aspx?MediaId=596](http://www.lcia.org/media/download.aspx?MediaId=596) (accessed 7 October 2022). See also Legler, *supra* n. 3 at 296.

7 International Court of Arbitration (ICC), *ICC Dispute Resolution 2020 Statistics*, ICC Publication No. DRS 895 ENG (2021).

8 Hong Kong Int'l Arb. Ctr. (HKIAC), 'HKIAC Average Costs and Duration', [www.hkiac.org/content/costs-duration](http://www.hkiac.org/content/costs-duration) (accessed 7 October 2022).

9 Celeste E Salinas Quero, 'Costs of Arbitration and Apportionment of Costs under the SCC Rules,' *Arb. Inst. of the Stockholm Chamber of Commerce (SCC)* (February 2016).

to an arbitral tribunal.<sup>10</sup> 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>11</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 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 evidential hearings<sup>12</sup> with comparatively limited examination of witnesses<sup>13</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 faster than, the average arbitration.<sup>14</sup>

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10 SCC, 'SCC Statistics 2021', <https://sccinstitute.com/statistics> (accessed 7 October 2022).

11 Press Release, Singapore Int'l Arb. Ctr. (SIAC), 'SIAC Releases Costs and Duration Study' (10 October 2016).

12 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.

13 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.

14 Statistics for 2020 from North Rhine-Westphalia (the largest German state) show that the average length of proceedings before a court of first instance was 10.6 months (plus an additional 7.7 months when considering appeals). See 'Dauer der erstinstanzlichen Zivilverfahren [Duration of first-instance civil proceedings]', Justiz-Online: Justizportal Nordrhein-Westfalen (2020), [www.justiz.nrw.de/Gerichte\\_Behoerden/zahlen\\_fakten/statistiken/justizgeschaeftsstatistik/landgerichte/verfahrensdauer/zivil\\_1instanz.pdf](http://www.justiz.nrw.de/Gerichte_Behoerden/zahlen_fakten/statistiken/justizgeschaeftsstatistik/landgerichte/verfahrensdauer/zivil_1instanz.pdf) (accessed 7 October 2022); and 'Dauer der Zivilverfahren in der Berufungsinstanz [Duration of appellate court civil proceedings]', Justiz-Online: Justizportal Nordrhein-

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>15</sup> This principle of finality is a hallmark of both domestic and international arbitration.<sup>16</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>17</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

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Westphalen (2020), [www.justiz.nrw.de/Gerichte\\_Behoerden/zahlen\\_fakten/statistiken/justizgeschaeftsstatistik/oberlandesgerichte/verfahrensdauer/zivil\\_berufung.pdf](http://www.justiz.nrw.de/Gerichte_Behoerden/zahlen_fakten/statistiken/justizgeschaeftsstatistik/oberlandesgerichte/verfahrensdauer/zivil_berufung.pdf) (accessed 7 October 2022). See also Markus S Rieder and Richard Kreindler, ‘Potential Advantages and Disadvantages of Arbitration in Germany: Speed?’, Section 1.57, in *Commercial Arbitration in Germany* (Richard Kreindler et al., eds., 1st edn. 2016). (‘Also, in the German context the expectation that an arbitration proceeding will truly be speedier . . . is already ambitious, in the sense that German court proceedings are generally more efficient and streamlined than litigation in numerous other countries.’)

15 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.

16 See Cook and Garcia, *supra* n. 3 at 38–9.

17 See, for example, *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’).

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 evidential 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 and more or less costs to the parties.<sup>18</sup>

This procedural flexibility may enable certain abuses by recalcitrant parties seeking to delay proceedings and impose additional costs on the opposing party (although 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>19</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>20</sup> If parties' business relationship involves IP-related rights in two or more countries,

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18 This includes (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.

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

20 See, for example, 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

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>21</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>22</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>23</sup> Parallel national court proceedings also entail the risk of contradictory decisions.<sup>24</sup> In addition, as discussed below,<sup>25</sup> the relative difficulty of enforcing a foreign court judgment further adds to the appeal of arbitrating multi-jurisdictional IP disputes.

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 Arbitration and Mediation Center of the World Intellectual Property Organization (WIPO), which focuses on technology and IP disputes. WIPO offers specialised procedural rules tailored to intellectual property, including the WIPO Arbitration Rules and the WIPO Expedited Arbitration Rules<sup>26</sup> and other model arbitration clauses and submission

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proceedings questions of validity and infringement can also be dealt with as incidental subjects.’).

- 21 See Cook and 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.’).
- 22 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.
- 23 Cook and Garcia, *supra* n. 3 at 44–6.
- 24 Legler, *supra* n. 3 at 297.
- 25 See *infra* ‘International enforcement of arbitral awards’.
- 26 See WIPO Arbitration Rules (effective 1 January 2021) (accessed 7 October 2022) and WIPO Expedited Arbitration Rules (effective 1 January 2021) (accessed 7 October 2022).

agreements developed for FRAND disputes.<sup>27</sup> WIPO-administered arbitration also provides specific rules governing preliminary relief, a critical consideration for many IP disputes.<sup>28</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>29</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>30</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>31</sup>

Some of those arbitral institutions, such as the CPR and WIPO, offer specific expertise in cross-border and international IP disputes.<sup>32</sup>

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 prior pending arbitration or court proceedings related to the same or similar IP rights will depend on a variety of factors, including the

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

28 Michael Woller and Michaela Pohl, 'IP Arbitration on the Rise,' Wolters Kluwer: Kluwer Arb. Blog (16 July 2019), <http://arbitrationblog.kluwerarbitration.com/2019/07/16/ip-arbitration-on-the-rise> (accessed 7 October 2022).

29 American Arbitration Association (AAA), 'Resolution of Patent Disputes Supplementary Rules' (AAA Patent Rules) at 3 (1 January 2006).

30 Int'l Inst. for Conflict Prevention & Resol. (CPR), CPR Rules for Non-Administered Arbitration of Patent & Trade Secrets Disputes (2005 Revision).

31 CPR Rules for Non-Administered Arbitration of International Disputes at 3 (effective 1 November 2007); see also CPR Rules for Administered Arbitration of International Disputes at 3 (effective 1 March 2019).

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

extent to which the identity of the parties, the causes of action and the 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>33</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>34</sup> In addition, the parties may agree on certain desired characteristics of the presiding arbitrator (including that the arbitrator 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>35</sup> To assist parties, many leading arbitral institutions maintain panels or listings of arbitrators specialising in IP disputes, including WIPO,<sup>36</sup> HKIAC,<sup>37</sup> CPR<sup>38</sup> and SIAC.<sup>39</sup>

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33 See, for example, Cook and Garcia, *supra* n. 3 at 27–28 (discussing perceptions of bias by litigants in the home jurisdiction of their opposing party).

34 See, for example, Legler, *supra* n. 3 at 297–98.

35 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.

36 The World Intellectual Property Organization (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, 'WIPO Neutrals'.

37 HKIAC, 'Panel of Arbitrators for Intellectual Property Disputes', [www.hkiac.org/arbitration/arbitrators/panel-arbitrators-intellectual-property](http://www.hkiac.org/arbitration/arbitrators/panel-arbitrators-intellectual-property) (accessed 7 October 2022).

38 CPR, 'Technology/IP Panel', [www.cpradr.org/neutrals/specialty-panels/technology-ip-panel](http://www.cpradr.org/neutrals/specialty-panels/technology-ip-panel) (accessed 7 October 2022).

39 SIAC, 'SIAC Panel', <https://siac.org.sg/siac-panel-of-arbitrators> (accessed 7 October 2022).



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 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>40</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, divergent.

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>41</sup> Within the regional framework of the European Union, Council Regulation (EC) No. 44/2001 (the Brussels I Regulation) and

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40 This includes 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.

41 See Cook and Garcia, *supra* n. 3 at 23–4.

the related Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the Lugano Convention) represent limited exceptions.<sup>42</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>43</sup>

Confirmation and enforcement of arbitral awards also requires separate court proceedings following the arbitration process, but this step is usually straightforward. As many commentators have highlighted, the vast majority of arbitral awards are complied with voluntarily and without recourse to enforcement proceedings.<sup>44</sup>

### Confidentiality

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

Regarding 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>45</sup> While this

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42 See, for example, 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').

43 See Cook and 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.').

44 See, for example, Cook and Garcia, *supra* n. 3 at 26, note 16 (citing Born, *supra* n. 4 at 8; Gerry Lagerberg and 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* (29 October 1996).

45 For example, Article 44 of the 2021 Swiss Rules of International Arbitration provides for broad default confidentiality rules and undertakings. Similar default rules and undertakings

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.

Regarding 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 comprehensive confidentiality regime, including appointment of a confidentiality adviser 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>46</sup>

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exist in Article 30 of the 2020 LCIA Arbitration Rules, and Article 44 of the 2018 German Arbitration Institution 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 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.

46 See WIPO Arbitration Rules, Articles. 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 and 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').

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; therefore, 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 road map 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>47</sup>

While litigation in national courts usually means the parties are subject to that jurisdiction's rules regarding 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.

For instance, if 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 them; however, by failing

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<sup>47</sup> Joseph R Profaizer et al., 'Costs', in *The Guide to Damages in International Arbitration* (4th edn., Glob. Arb. Rev. 2021). 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.

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>48</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.

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48 Born, *supra* n. 4 at 2446; Cook and Garcia, *supra* n. 3 at 35–6.

In those circumstances, preliminary measures or injunctive relief orders that can terminate the violation of rights and contain the resulting economic damage are especially attractive.<sup>49</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 the seat of arbitration.<sup>50</sup>

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, although they may differ regarding timing.<sup>51</sup> 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>52</sup>

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

50 See *id.*, at 59.

51 See David Herrington and Alexandra Theobald, 'Chapter 10: Preliminary and Final Remedies' 558–562, in *Arbitrating International Intellectual Property Disputes* (Thomas D Halket, ed., 2nd edn., 2021) (comparing the availability of preliminary remedies under the rules of the ICC, LCIA, ICDR, AAA, CIArb, 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, for example, 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); ICC, 'Arbitration Clause', <https://iccwbo.org/dispute-resolution-services/arbitration/arbitration-clause> (accessed 7 October 2022).

52 AAA Patent Rules, Article 3(h).

Where suitable preliminary or expedited relief is available from an arbitral tribunal, enforcement of that relief will require (with rare exceptions<sup>53</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>54</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>55</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 because of the powers of the arbitral tribunal in the field of interim relief, which may go beyond those of the national court. Pursuant to the AAA Rules, for instance, the arbitral tribunal is expressly authorised to

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53 See, for example, 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').

54 See James E Castello and Rami Chahine, 'Enforcement of Interim Measures', in *The Guide to Challenging and Enforcing Arbitration Awards* (J William Rowley et al., eds., 2nd edn., Glob. Arb. Rev. 2021); 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').

55 Kreindler, *supra* n. 47 at 56.

grant injunctive relief to terminate infringement.<sup>56</sup> 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 regard 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>57</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>58</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>59</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

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

57 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, 15 December 1975, *Swiss Review of Industrial Property and Copyright* (1976), p. 38, Para. 4.

58 See, for example, 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]').

59 Born, *supra* n. 4 at 1418-484.



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.

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.

### Evidential 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 evidential 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 evidential 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 that is well known in most civil law jurisdictions.<sup>60</sup> As such, the Prague Rules eschew the hybrid approach of the IBA Rules, eliminating the

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60 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.

default application of various common law evidential features, such as document disclosure,<sup>61</sup> party autonomy over the examination of witnesses,<sup>62</sup> the use of party-appointed experts<sup>63</sup> and evidential hearings.<sup>64</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 regard to evidential features may be particularly relevant in many international IP arbitrations, where the strength of a claim may depend on access to an adversary’s documents, such as internal testing results, meeting notes and internal communications.

In the previous edition of this chapter, it was noted that in the United States, 28 USC Section 1782 makes a wide range of US discovery tools available to litigants in foreign proceedings, and that there was a split among US courts on whether foreign arbitral proceedings are covered by Section 1782. On 13 June 2022, in *ZF Automotive US, Inc v. Luxshare, Ltd*, the US Supreme Court held that commercial arbitration tribunals are not ‘foreign international tribunals’ for Section 1782 purposes, while leaving the door open for investment treaty arbitration if a party demonstrates the tribunal was ‘imbue[d] with governmental authority’.<sup>65</sup>

## 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>66</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

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61 Prague Rules, Article 4.2 (‘the arbitral tribunal and the parties are encouraged to avoid any form of document production, including e-discovery’).

62 *id.*, Articles 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’).

63 *id.*, Article 6.1 (‘the arbitral tribunal may appoint one or more independent experts to present a report on disputed materials which require specialized knowledge’).

64 *id.*, Article 8.1 (‘the arbitral tribunal and the parties should seek to resolve the dispute on a documents-only basis.’).

65 *ZF Automotive US, Inc v. Luxshare, Ltd*, 142 S. Ct. 2078, 2080 (2022).

66 See John A Trenor, ‘Introduction’, in *The Guide to Damages in International Arbitration* (4th edn., Glob. Arb. Rev. 2021, 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’).

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 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 – although 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.

## Experts

Similar assessments may arise with regard 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>67</sup>

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67 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).

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>68</sup> While differences in attitudes towards the role of the expert may generally be animated by common law and civil law divides,<sup>69</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>70</sup>

In any event, tribunals differ widely with regard 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; however, 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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68 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 evidential hearings, possible hot-tubbing of experts; and drafting and submission of joint expert reports.

69 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.

70 Florian Haugeneder, 'Chapter II: The Arbitration Agreement and Arbitrability, Party-Appointed and Tribunal-Appointed Experts in International Arbitration' at 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>71</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 within the exclusive province of the sovereign.

While many jurisdictions now provide that IP disputes are generally arbitrable,<sup>72</sup> non-arbitrability may 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>73</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>74</sup>

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>75</sup>

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71 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).

72 See Wolter & Pohl, *supra* n. 26.

73 Smith, *supra* n. 71, at 346; Zhuan Li Fa [Patent Law] (promulgated by the Standing Comm. Nat'l People's Cong., 12 March 1984, effective 12 March 1984, amended 1 June 2021) Article 45; Trade Mark Law of the People's Repub. of China (promulgated by the Standing Comm. Nat'l People's Cong., 23 August 1982, amended 23 April 2019), Articles 41, 42.

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

75 Richard Kreindler and Jean-Yves Garaud, Chapter 9: The Impact of Public Policy Considerations 522, in *Arbitrating International Intellectual Property Disputes* (Thomas D Halket, ed., 2nd. edn., 2021) (citing François Dessemontet, 'Arbitration of Intellectual

## 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.

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>76</sup>

Second, notwithstanding any determination regarding 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>77</sup> this is not the case in certain other jurisdictions.<sup>78</sup>

Finally, arbitration of competition law claims can also implicate complex choice-of-law issues regarding 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.

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Property Rights and Licensing Contracts', in *Enforcement of Arbitration Agreements and International Arbitral Awards: The New York Convention in Practice* 553, 556 (Emmanuel Gaillard and Domenico di Pietro eds., 2008)).

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

77 *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.).

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

## Conclusion

The discussion in this chapter seeks to provide a high-level road map 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.

## CHAPTER 2

# Arbitrability of IP Disputes

Matthew R Reed, Ava R Shelby, 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 at the seat of the arbitration 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.

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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 Matthew A Smith et al., 'Arbitration of Patent Infringement and Validity Issues Worldwide', *Harvard Journal of Law & Technology*, Vol. 19, No. 2, Spring 2006 at 305 (Smith).



Given that intellectual property 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. The first part of this 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 common law jurisdictions; however, because decisions regarding the validity of IP rights typically require enforcement by the relevant country's IP office, validity challenges are often considered either not arbitrable at all or arbitrable with the

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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*, Rome, MA diss., Luiss Guido Carli University, 2017 at 9–11.

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

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

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>

### What is arbitrable?

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, 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 2022, 170 states are signatories to the New York Convention, including the vast majority of the UN member states.<sup>8</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>9</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>10</sup> This raises the threshold question of arbitrability: what is – and what is not – capable of settlement by arbitration?

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6 Therese Jansson, 'Arbitrability Regarding Patent Law – An International Study', *Juridisk Publikation*, No. 2011 at 58–59.

7 *id.*

8 United Nations Commission on International Trade Law, 'Status: Convention on the Recognition and Enforcement of Foreign Arbitral Awards', [https://uncitral.un.org/en/texts/arbitration/conventions/foreign\\_arbitral\\_awards/status2](https://uncitral.un.org/en/texts/arbitration/conventions/foreign_arbitral_awards/status2) (accessed 27 October 2022).

9 New York Convention, Article II(1).

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

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>11</sup> Examples of non-arbitrable disputes include criminal, bankruptcy and consumer matters,<sup>12</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>13</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 intellectual property – 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 in respect of 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.

### *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., can normally 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 intellectual property is deemed invalid by the national court, such a determination will typically have effect *erga omnes*, and the owner cannot

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

12 *id.*, at § 6.02 [D].

13 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.

later assert the invalid intellectual property 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 intellectual property.<sup>14</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 with regard to the parties in the arbitration because patent rights are considered to be an issue of public policy and can usually be deemed invalid only through state action.<sup>15</sup> Typically, therefore, only a national court decision regarding patent validity can have effect *erga omnes*.<sup>16</sup>

For this reason, some IP owners will consider arbitration less risky than court action because even if the arbitrator invalidates their intellectual property, they will lose only the right to enforce that intellectual property against the adverse party in the arbitration rather than against all third parties. There are trade-offs, however, because a determination of validity by a court may have some value with regard to 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 intellectual property.

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>17</sup> Moreover, the UK Patents Act 1977 explicitly allows for arbitration in only very limited circumstances.<sup>18</sup> For instance, when an application for a compulsory patent licence is opposed, the Comptroller

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

15 Legler.

16 *id.*

17 ‘Final Report on Intellectual Property Disputes and Arbitration’, 9 ICC International Court of Arbitration Bulletin, 1998 at 42–43. 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. See Arbitration Act 1996 § 1(b).

18 *id.*

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 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>19</sup>

Instead, the arbitrability of IP disputes has largely been recognised judicially.<sup>20</sup> Trademark and copyright disputes are both fully arbitrable,<sup>21</sup> and while patent validity is as well, a validity determination only has *inter partes* effect under English law.<sup>22</sup> In general, English courts have interpreted arbitration agreements broadly.<sup>23</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 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>24</sup>

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19 UK Patents Act 1977 § 52-(5).

20 'Final Report on Intellectual Property Disputes and Arbitration'; Maurizio Crupi, 'Patent arbitration: a European comparative analysis', MSc diss., Milan, Bocconi University, 2014 at 58–62.

21 Adamo at 18–19.

22 id.

23 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, 'Report on the concept of "Arbitrability" under the New York Convention', IBA subcommittee on recognition and enforcement of arbitral awards at 13.

24 35 U.S.C. § 294(a).

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 person.*<sup>25</sup>

During 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.

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>26</sup> This includes the validity of a copyright.<sup>27</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>28</sup> Still, an arbitral award in Canada that concerns a patent generally

25 35 U.S.C. § 294(c).

26 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'); *First Command Bank v. Exner*, No. 4:21-cv-00621-P, 2021 U.S. Dist. LEXIS 256042, at \*13 (N.D. Tex. June 16, 2021) (finding plaintiff's copyright claim arbitrable).

27 *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 *Glickenhau & Co. v. Household Intern., Inc.*, 787 F.3d 408 (7th Cir. 2015).

28 Canadian Patent Act (R.S.C., 1985, c. P-4) § 60(1); Adam Haller, Caroline Henrie and Kristin Wall, 'IP rights enforcement in Canada', Lexology at 1 (Haller). Likewise, the Federal Court

can be enforced as between the parties to the arbitration;<sup>29</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 that a patent is invalid.<sup>30</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>31</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>32</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>33</sup> The Supreme Court found that the lower court 'was in error when it said that . . . problems relating to the 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>34</sup> It 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.'*<sup>35</sup>

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has exclusive jurisdiction to invalidate a trademark, or to issue a declaration of non-infringement (see Haller at 1).

29 Smith et al. 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').

30 Steven Garland, Jeremy Want and Matthew Burt, 'Patent litigation in Canada: overview', Thomson Reuters at 12.

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

32 id., at 207 (quoting Civil Code of Quebec, S.Q. 1991, C. 64, Article 2639).

33 id., at 210.

34 id., at 214.

35 id. at 215.

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>36</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>37</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>38</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>39</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>40</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 – a power, it claimed, vested exclusively with the Commissioner of Patents or the Federal Court.<sup>41</sup>

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36 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).

37 *id.*, § 30.

38 *id.*, § 37.

39 *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').

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

41 *id.*, at 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>42</sup> The Supreme Court also determined that arbitrators cannot determine validity in a situation in which the grant of a patent is opposed.<sup>43</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>44</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>45</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. Under the amendment, arbitral awards concerning IP rights have effect *inter partes*.<sup>46</sup>

The amendment includes the following IP rights: patents, trademarks, geographical indications, registered designs, copyrights, rights in a protected layout-design of an integrated circuit, grant of protection in respect of a plant variety, rights in confidential information, rights in trade secrets or know-how, rights to protect goodwill by way of passing off or similar action against unfair competition, or any other IP right of whatever nature.<sup>47</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

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42 id., at 64.

43 id., at 66.

44 id., at 67.

45 id., at 75.

46 Singapore Intellectual Property (Dispute Resolution) Act 2019, Section 52B.

47 id., Section 52A.

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>48</sup> The amendment therefore, explicitly authorises arbitration over patent validity with effect *inter partes*.

### *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 intellectual property rights may be arbitrated and that it is not contrary to the public policy of Hong Kong to enforce arbitral awards involving intellectual property rights.'<sup>49</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>50</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>51</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>52</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>53</sup>

Along with standard patents, which extend rights to the owner for a maximum of 20 years, Hong Kong also offers IP protection under short-term patents, which are renewable after four years from filing for a maximum term of eight years.<sup>54</sup>

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48 *id.*, Section 52B.

49 Hong Kong Arbitration (Amendment) Ordinance 2017.

50 *id.*, Section 103D(1) and (3).

51 *id.*, Section 103B(1).

52 *id.*, Section 103C.

53 *id.*, Section 103I.

54 Hong Kong Intellectual Property Department, 'How to apply for grant of patents in the Hong Kong Special Administrative [sic] Region?', [www.ipd.gov.hk/eng/intellectual\\_property/patents/how\\_to\\_apply.htm](http://www.ipd.gov.hk/eng/intellectual_property/patents/how_to_apply.htm) (accessed 27 October 2022).

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>55</sup>

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 interlocutory proceedings.<sup>56</sup> As is the case in court proceedings in Hong Kong, in arbitration, 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>57</sup>

## Conclusion

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. It is, therefore, important for parties to consider the law and policies of the particular jurisdiction in which arbitration would take place when drafting and seeking to enforce an arbitration agreement.

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55 Hong Kong Patents Ordinance (Cap. 514), Section 129(1).

56 Hong Kong Arbitration (Amendment) Ordinance 2017.

57 *id.*; Hong Kong Patents Ordinance (Cap. 514), Section 129(2).

## 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 arbitration 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>58</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>59</sup> which is the exception;
- the acceptance of *inter partes* awards or incidental decisions on patent validity without *res judicata* effect (e.g., France, Italy and Portugal);<sup>60</sup> and
- absent express laws, which are so far a matter of debate (e.g., Spain and China).<sup>61</sup>

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58 See, for example 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 edn., Kluwer Law International, 2015 (Schäfer), p. 910.

59 Dário Moura Vicente, 'Arbitrability of Intellectual Property Disputes: a Comparative Survey', *Arbitration International*, 2015, 31, p. 153 and p. 157 (Moura Vicente); David Rosenthal, 'Chapter 5: IP & IT Arbitration in Switzerland', in Manuel Arroyo (ed.), *Arbitration in Switzerland: The Practitioner's Guide*, 2nd edn., Kluwer Law International, 2018 (Rosenthal), pp. 957–960; Legler; Alejandro Garcia and Sophie Lamb, 'Arbitration of Intellectual Property Disputes,' *The European & Middle Eastern Arbitration Review 2008*, Global Arbitration Review (Garcia and Lamb).

60 Moura Vicente, pp. 154–156.

61 Rosenthal, pp. 61–62; 'Chapter 8: Arbitrability and Arbitral Scope', in Lin Yifei, *Judicial Review of Arbitration: Law and Practice in China*, Kluwer Law International, 2018, p. 218ff; William Grantham, 'The Arbitrability of International Intellectual Property Disputes', *Berkeley Journal of International Law* 14, 1996, p. 204.

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

Against this background, we assess 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.

We then 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 arbitration; 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 both Germany and Japan, as discussed below in more detail.

### Switzerland

Switzerland has undoubtedly adopted one of the most liberal and pro-arbitration stances among civil law jurisdictions when it comes to IP disputes.<sup>62</sup> Under Swiss law, IP disputes have long been considered arbitrable and not subject to any statutory restrictions.<sup>63</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'. Swiss courts have regularly interpreted this to cover any claims with a pecuniary value for the parties.<sup>64</sup>

Arbitral awards on patent validity are recognised and enforced by the Swiss Federal Institute on Intellectual Property (for the purposes of 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>65</sup>

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62 See, for example, Rosenthal, pp. 957–958.

63 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 World Intellectual Property Organization, *Worldwide Forum on the Arbitration of Intellectual Property Disputes*, 3–4 March 1994, Paragraph 2.2.

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

65 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

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 arbitration.<sup>66</sup>

### France

An alternative, more restrictive approach to patent validity arbitration has emerged in France. Contrary to Switzerland, France traditionally denied IP arbitration.<sup>67</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>68</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>69</sup>

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does not involve a merits review of the award. See also Moura Vicente, p. 157; Legler, p. 294; Garcia and Lamb.

66 Rosenthal, p. 959.

67 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. 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 (SNCF)*, 29 March 1991, Rev. Arb., 1991, p. 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, p. 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'.

68 Moura Vicente, p. 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, pp. 25–26.

69 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 law [i.e., courts of first 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 Moura Vicente, pp. 154–155.

## Germany

### Introduction

In Germany, arbitration concerning genuine IP law issues, such as patent validity, remain rare.<sup>70</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, South Korea, China and – with certain restrictions (see below) – Japan.<sup>71</sup>

Unlike in many jurisdictions,<sup>72</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.<sup>73</sup> In Germany, jurisdiction over infringement claims is concentrated in 12 regional courts with specialised divisions.<sup>74</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>75</sup> The FPC’s decision to partially or fully revoke a patent it considers

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70 Schäfer, p. 908. While the exact number is unknown, according to Schäfer, the IP share of published institutional cases (e.g., ICC and DIS) ranged from 3 per cent to 10 per cent. See Wolfgang Kellenter and Benedikt Migdal, ‘Patent litigation in Germany: overview’, *Practical Law*, 2020 (Kellenter and Migdal).

71 See World Intellectual Property Indicators 2018, p. 13. Matthew Bultman, ‘What You Need to Know about Patent Litigation in Germany’, *Law 360*, 27 July 2018.

72 Jurisdictions with non-bifurcated patent litigation systems include Switzerland, France, Netherlands, the United States and the United Kingdom. See World Intellectual Property Indicators 2018, p. 13.

73 Section 139(1) and (2) of the German Patent Act (GPA).

74 Section 143(2) of the GPA. 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 Kellenter and Migdal. Proceedings are heard by three-judge panels with substantial experience in technical matters.

75 Sections 22(1), 65(1) and 81(1) and (4) of the GPA. See website of the Federal Patent Court (FPC), [www.bundespatentgericht.de/EN/TheCourt/theCourt\\_node.html](http://www.bundespatentgericht.de/EN/TheCourt/theCourt_node.html) (accessed 27 October 2022). 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 to 300 revocation actions, of which around 75 per cent are at least partially successful. See FPC, Annual Report 2019, Business Report 2019, pp. 163–164; Bardehle Pagenberg, ‘Patentnichtigkeitsverfahren’, *IP Fachbroschüre*, 2019.

invalid has *erga omnes* effect.<sup>76</sup> Revocation actions are typically a response by the alleged infringer to an infringement claim.<sup>77</sup> Despite their interrelation, both proceedings are tried separately and at a considerably different pace.<sup>78</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>79</sup> Since infringement claims are regularly concluded before revocation actions,<sup>80</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>81</sup>

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76 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.

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

78 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 (BGH) both on points of fact and law. See FPC, Annual Report 2019, Business Report 2019, pp. 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 BGH. Michael Munsch, Niels Schuh and Dr Tobias Wuttke, ‘Germany’, in Dominick A Conde (ed.), *The Intellectual Property Review*, 11th edn., London, Law Business Research Ltd, 2022 (Munsch, Schuh and Wuttke), p. 99 and p. 103; Julia Schönbohm and Boiko Ehlgen, ‘Germany’, in Trevor Cook (ed.), *The Patent Litigation Law Review*, 5th edn., London, Law Business Research Ltd, 2021 (Schönbohm and Ehlgen), p. 71; 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.

79 EPO, *Patent Litigation in Europe: An Overview of National Law and Practice in the EPC Contracting States*, 5th edn., 2019, p. 37; Kellenter and Migdal.

80 See footnote 78.

81 Katrin Cremers et al., ‘Invalid but Infringed? An Analysis of the Bifurcated Patent Litigation System’, *Journal of Economic Behavior and Organization*, Vol. 131, 2016, p. 221.



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

- making an application for suspension of the infringement proceedings;<sup>82</sup>
- seeking a provisional stay of enforcement of the infringement judgment;<sup>83</sup> or
- seeking an action for retrial of the case.<sup>84</sup>

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>85</sup> To succeed, an applicant must show that a patent will 'in all probability' be revoked.<sup>86</sup> A suspension will also be granted where the FPC notifies the infringement court that it considers the patent invalid (or revokes it).<sup>87</sup>

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82 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'.

83 Section 707(1) of the GCCP (by analogy): '(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(1) of the GCCP: '(1) Insofar as a judgment declared provisionally enforceable is protested against or appealed, the stipulations of section 707 shall apply mutatis mutandis.'

84 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'.

85 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.

86 OLG Düsseldorf (2nd Civil Senate), Order dated 24 August 2017 – 2 U 75/16. See also BGH (Cartel Senate), Order dated 17 July 2018 – KZR 35/17, Paragraph 10. In a rare decision in 2018, the BGH granted a suspension since it considered it 'appropriate in order to guarantee a uniform interpretation' between the infringement court and the FPC; however, it did not expressly override the principles established in its prior case law requiring a high probability for a suspension to be granted. See BGH (Xth Civil Senate), Order dated 5 June 2018 – X ZR 58/16.

87 See, for example, BGH (Cartel Senate), Order dated 17 July 2018 – KZR 35/17. This notification requirement (also known as 'qualified notice') is codified under Section 83(1) of the GPA as amended. Prior to 2022, the provision neither expressly required that the FPC notify the (infringement) court *ex officio* (but only referred to a notice to the parties), nor did it set a concrete deadline for such notice. Section 83(1) of the old GPA: '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 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>88</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>89</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>90</sup>

In January 2020, to remedy the effects of an injunction gap and to avoid the issuance of an injunction before a decision on patent validity has been rendered, the German government introduced a bill by which the FPC 'should' provide its preliminary view on patent validity within six months from the filing of a revocation action not only to the parties but, importantly, *ex officio* to the infringement court.<sup>91</sup>

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the decisions or which are helpful for concentrating the oral proceedings upon the issues which are essential for the decision'. See more on Section 83 of the GPA under footnote 91.

88 BGH (Xth Civil Senate), Order dated 16 September 2014 – X ZR 61/13; BGH (Cartel Senate), Order dated 17 July 2018 – KZR 35/17.

89 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'.

90 LG München I (21st Civil Chamber), Final Judgment dated 13 December 2013 – 21 O 19618/12. See also OLG Düsseldorf, Judgment dated 19 December 2019 – 2 U 41/19.

91 Section 83(1) of the GPA now reads as follows: '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. 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*'. As indicated under footnote 87, the former Section 83(1) of the GPA did not expressly require the FPC to communicate its qualified notice to the infringement court or set a specific deadline for its notice. These requirements have now been codified under Section 83(1), sentences 2 and 3 of the GPA. Strictly speaking, however, Section 83(1), sentences 2 and 3 of the GPA do not contain an express obligation for the FPC, since the *ex officio* notice and deadline are merely worded as 'should' provisions (i.e., they do not include mandatory terms such as 'shall' or 'must'). It is,

This led to the revision of the ‘qualified notice’ stipulated in Section 83 of the German Patent Act (GPA), which became effective in its current form as of 1 May 2022.<sup>92</sup> The amendment is aimed at streamlining the infringement and revocation proceedings; it seeks to increase the chances that an infringement court may take into account the FPC’s view on patent validity and suspend its proceedings where the FPC considers a patent to be potentially invalid. Whether this change will bear the desired fruits remains to be seen.<sup>93</sup>

It will be interesting to see whether the German model, which represents a compromise between the traditional bifurcated system and a full streamlining of the infringement and revocation proceedings, will be outperformed by the EU Unitary Patent Court (UPC) system, which is designed to be a true alignment of both proceedings and is expected to be implemented in late 2022 or early 2023.<sup>94</sup>

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therefore, unclear to what extent the FPC will follow this amendment. See Heuking Kühn Lüer Wojtek, ‘Zweites Gesetz zur Modernisierung und Vereinfachung des Patentrechts’, *IP, Media & Technology*, No. 50, 24 August 2021.

92 The bill was passed in June 2021 and entered into force immediately following its promulgation in the German Federal Law Gazette, except for certain provisions, including Section 83 of the GPA. See the German Federal Law Gazette, Part I, No. 53, 2021 (BGBl. I S. 3490), promulgated in Bonn on 17 August 2021.

93 Another key amendment introduced with the latest GPA reform involves Section 139(1) of the GPA. This provision regulates the possibility for a plaintiff in infringement proceedings to seek injunctive relief. Prior to the reform, an infringement court could grant injunctive relief without having to consider its proportionality. Consequently, alleged infringers could be affected rather seriously, particularly because of the existing injunction gap. This is because an infringer could be prevented from using a patent as soon as injunctive relief had been granted to the purported patent owner, despite a pending revocation action. According to the amended Section 139(1), such injunctive relief may be denied where the court considers that it would be disproportionate to the infringer’s or a third party’s interests, upon payment of compensation by the infringer. According to Section 139(1), sentences 1 to 4 of the GPA (as amended): ‘Any person who uses a patented invention contrary to sections 9 to 13 may, in the event of the risk of recurrent infringement, be sued by the aggrieved party for cessation and desistance. This right may also be asserted in the event of the risk of a first-time infringement. This right shall be precluded to the extent that, considering the special circumstances of the particular case and the principles of good faith, it would cause the infringer or third parties disproportionate hardship not justifiable by the right of exclusivity. In such a case, the infringed party shall be awarded a reasonable compensation in money.’ At the same time, it is considered that this amendment will only have a limited impact and that infringement courts will only find injunctive relief to be disproportionate in exceptional cases. This is what the BGH had already established in its *Wärmetauscher* judgment in 2016 (BGH (Xth Civil Senate), Judgment dated 10 May 2016 – X ZR 114/13). Munsch, Schuh and Wuttke, p. 99; Schönbohm and Ehlgen, p. 79.

94 For more on the EU Unitary Patent Court (UPC) system, please see the section entitled ‘EU developments’ below. See also Michael Munsch, Schuh and Wuttke, p. 104; Christian Paul

## Arbitrability of patent validity disputes

The bifurcated patent litigation system in Germany has traditionally been used to explain its reluctance to accept patent validity arbitration.<sup>95</sup> At present, 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, a new debate has sparked with patent validity arbitration being increasingly recognised.<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.*

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, therefore, be arbitrated. Patents, as exclusive exploitation rights granted to a patent

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and Gerd Jaekel, 'Closing The "Injunction Gap": Overhaul Of German Patent Act Speeds Up Litigation', Mondaq, 16 May 2022. See also UPC, 'The Provisional Application Phase and the UPC's expected timeline', [www.unified-patent-court.org/news/provisional-application-phase-and-upcs-expected-timeline](http://www.unified-patent-court.org/news/provisional-application-phase-and-upcs-expected-timeline) (accessed 27 October 2022).

95 See, for example, different positions under Richard Zöller (ed.), *Zivilprozessordnung*, §1030, 31st edn., 2016, (Zöller), Paragraphs 7 and 14.

96 See Smith et al., pp. 333–334. Zöller, Paragraph 14; Friedrich Stein and Martin Jonas (eds.), *Kommentar zur Zivilprozessordnung*, §1030, 22nd edn., 2002 (Stein and Jonas), Paragraph 3; Nadine Haubner, 'Patentstreitigkeiten und Schiedsgerichtsbarkeit', *Zeitschrift zum Innovations- und Technikrecht*, No. 4/14, 2014 (Haubner), p. 241.

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, Paragraph 1; 'Final Report on Intellectual Property Disputes and Arbitration', p. 37, Paragraph 2.17; Haubner, p. 240.

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 1030(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 find a patent validity dispute to be admissible, the annulment or enforcement courts may reach a different conclusion.<sup>101</sup>

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98 See footnote 82. 'Final Report on Intellectual Property Disputes and Arbitration', p. 37, Paragraph 2.17. Zöller, Paragraph 1; Haubner, p. 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, p. 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. Federal Ministry of Justice, Commission for the Reform of the Arbitration Law, 'Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO', 1994, pp. 91–92; draft law of the federal government, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, p. 34.

100 Zöller, Paragraph 1a; Joachim Musielak and Wolfgang Voit, *Zivilprozessordnung*, §1030, 17th edn., 2020 (Musiak and Voit), Paragraphs 2–3; Steffen Pabst Münch, *Münchener Kommentar zur Zivilprozessordnung*, §1030, 5th edn., 2017 (Münch), Paragraph 33; Volkert Vorwerk and Christian Wolf, *Beck'scher Online-Kommentar ZPO*, §1030, 37th edn., 2020, Paragraphs 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 Articles V(1)(e), V(2)(a) and V(2)(b) of the New York Convention. So far, 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 FPC 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 GPA, which they consider to be an explicit exclusion provision within the meaning of Section 1030(3) of the GCCP.<sup>102</sup> While admitting that an 'exclusive jurisdiction' provision alone is not sufficient to reject arbitrability, a different consideration would apply when a special court (e.g., 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 exclusive jurisdiction would remain arbitrable.<sup>103</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>104</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>105</sup>

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102 See, for example, Musielak and Voit, Paragraph 3; Münch, Paragraph 33. See generally Smith et al., p. 306.

103 Draft law of the federal government, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, p. 35. See also Zöller, Paragraphs 4, 7 and 14; Smith et al., pp. 335–336.

104 Federal Ministry of Justice, Commission for the Reform of the Arbitration Law, 'Bericht mit einem Diskussionsentwurf zur Neufassung des Zehnten Buchs der ZPO', 1994, p. 92; Haubner, pp. 241–242; Zöller, Paragraphs 7 and 14; Smith et al., pp. 306–307.

105 Draft law of the federal government, Entwurf eines Gesetzes zur Neuregelung des Schiedsverfahrensrechts, BT-Drucksache 13/5274, 1996, p. 35. See generally Smith et al., pp. 306–307. See also BGH (Xth Civil Senate), Judgment dated 25 January 1983 – X ZR 47/82.

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, therefore, 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 before the competent authority.<sup>106</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 stress that 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. The same would, therefore, 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) is competent to revoke a patent.<sup>107</sup>

While recognising the above, the opposing view counters that arbitral awards generally only have *inter partes* effect and leave the FPC’s competence to an *erga omnes* patent revocation intact.<sup>108</sup> Arbitral awards on patent validity could, therefore, be handled in two ways:

- First, tribunals 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>109</sup>
- Alternatively, a tribunal may examine the patent validity issue incidentally. The resulting award would therefore be for damages, specific performance or otherwise. No finding on patent validity would be made. Any incidental conclusion

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106 See Sections 20, 58 and 64 of the GPA. Haubner, p. 24; Jochen Pagenberg, ‘The Arbitrability of IP disputes in Germany’, *Worldwide Forum on the Arbitration of Intellectual Property Disputes*, Geneva, Switzerland, 3–4 March 1994; Smith et al., pp. 306–307.

107 See, for example, Musielak and Voit, Paragraph 3.

108 See, for example, Stein and Jonas, Paragraph 3; Haubner, pp. 242–243; Smith et al., p. 307 and pp. 336–337; ‘Final Report on Intellectual Property Disputes and Arbitration’, Paragraph 2.17.

109 Smith et al., pp. 335–336; Peter G Picht, ‘Einheitspatentsystem: Die Kompetenzreichweite des Mediations- und Schiedszentrums’, *GRUR International*, Vol. 67, No. 1, 2018, p. 4; ‘Final Report on Intellectual Property Disputes and Arbitration’, Paragraph 2.17.

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>110</sup>

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

Against this background, and while case law has yet to provide more guidance, the higher regional court in Munich (Landgericht Munich I (the Munich court)) recently issued a noteworthy judgment in which it adopted a pro-arbitration approach.<sup>111</sup> While, strictly speaking, the case concerned a claim for the assignment of a patent application, the Munich court confirmed in *obiter dictum*, that revocation actions (i.e., disputes about the validity and existence of patents) were also arbitrable.

The plaintiff, based in France, specialised in the production of blow moulds for polyethylene terephthalate bottles. The defendant, based in Germany, supplied production lines for the food and beverage industry, including machinery to produce blow moulds. The parties had conducted tests on the plaintiff's base moulds with the defendant's production lines. The plaintiff alleged that, following the tests, the defendant had unlawfully applied for patents using certain technical details of the plaintiff's blow moulds and requested the assignment of such patents plus damages. The defendant objected to the Munich court's jurisdiction, noting that the parties had concluded a non-disclosure agreement (NDA), according to which any related disputes would be settled by way of arbitration.

In its judgment, the Munich court upheld the defendant's jurisdictional objection. It ruled that the NDA's arbitration clause was sufficiently broad to cover the dispute at hand and dismissed the claim.<sup>112</sup> In the court's view, the dispute was arbitrable both under Swiss law (i.e., the law governing the NDA) and German law (i.e., the *lex fori*).

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110 Schäfer, p. 913 and p. 916 and footnote 101. Contrary to the German law concept of *Rechtskraft*, the common law understanding of resclusion or *res judicata* is wider.

111 LG München I, Final judgment dated 5 May 2021 – 21 O 8717/20 (LG München I). See also Dr Gerrit Niehoff, 'District Court of Munich confirms arbitrability of patent validity disputes', *Global Arbitration News*, 27 June 2022.

112 The arbitration clause provided as follows: 'All disputes arising out of or in connection with this Agreement and any amending agreements and subsequent agreements shall be exclusively and finally settled under the Rules of Arbitration of the International Chamber of Commerce (ICC) by three arbitrators appointed in accordance with the said ICC Rules. The place of arbitration shall be Zurich, Switzerland. This Agreement shall be governed by and construed in accordance with the Laws of Switzerland and the Arbitration Tribunal shall



First, with regard to German law, the court held that the present dispute concerning the patent application assignment was arbitrable under Section 1030(1) of the GCCP since patents involve not only personal but also proprietary and pecuniary rights of inventors.<sup>113</sup> Further, the fact that a patent was granted by sovereign act would not prevent the inventor from freely assigning a patent application.

In its *obiter dictum*, the Munich court expanded on disputes concerning patent validity and existence, seemingly siding with the view whereby parties would not per se be precluded from arbitrating such disputes. The court based this view on two considerations: (1) the fact that inventors are free to waive their rights to a patent; and (2) while arbitral tribunals might not be empowered to render *erga omnes* decisions on patent validity, an award could order a party to relinquish a patent by applying to the competent patent authority.<sup>114</sup>

Second, the Munich court was equally convinced that the dispute was arbitrable pursuant to Swiss law. In particular, it saw no indication of a breach of Swiss public policy and noted that Section 177(1) of the Swiss International Private Law did not set any stricter limitations on arbitrability than German law did.

The Munich court's judgment has been generally welcomed and is particularly timely in light of the increasing number of IP-related arbitrations in Germany. It remains to be seen how other courts will handle similar disputes in the future.

## EU developments

Recent developments in the European Union also support the view that patent validity disputes are arbitrable. Specifically, the European Union is in the process of revamping its patent system with the unitary patent (UP) and the UPC.<sup>115</sup> The

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apply the Laws of Switzerland including the International Law of Switzerland. The language of the proceedings shall be English.'

113 LG München I, Paragraph 69.

114 LG München I, Paragraphs 70–71.

115 The unitary patent and the UPC are expected to be operative by the end of 2022 or early 2023 but has suffered setbacks following Brexit and several constitutional battles involving Germany's ratification bill. In February 2020, the German Federal Constitutional Court (BVerfG) had declared void Germany's ratification of the UPC project for formal reasons. Upon remedying the identified lack of form, the German legislature adopted the ratification bill in November 2020, but the ratification was held up a second time by two applications to the BVerfG for an interim injunction. It was not until June 2021 that the court dismissed the applications as inadmissible, which allowed Germany to eventually ratify the Agreement on a Unified Patent Court (the UPC Agreement) in August 2021. While the UPC Agreement's institutional, organisational and financial provisions have been provisionally applicable since January 2022, the agreement will enter into force fully

new system reaches beyond the existing European patent (EP) and is intended to harmonise the protection of EPs and UPs within the European Union. In other words, under the new system, EPs may be granted and therefore protected and enforceable with unitary effect. In the future, national patents will coexist with EPs and UPs, but under separate systems.

Admittedly, the European Union's focus appears to lie in the promotion of patent litigation rather than arbitration. The UPC will have exclusive competence to settle disputes concerning EPs and UPs, including infringement and revocation claims.<sup>116</sup>

Based on the Agreement on a Unified Patent Court (the UPC Agreement), the UPC is designed to be a court for participating EU Member States, comprising a Court of First Instance and a Court of Appeal. The Court of First Instance has numerous divisions, including a central division located in Paris and Munich, and several local divisions set up in individual Member States (or, alternatively, regional divisions if the participating Member States prefer to establish divisions jointly). The Court of Appeal is based in Luxembourg.

In principle, the local or regional divisions will hear infringement claims, while the central division is competent to hear revocation actions.<sup>117</sup> Where an infringement claim is pending, a revocation action must be filed with the same

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once Germany deposits its ratification instrument, which will take place once the UPC Member States are confident that the UPC is operational. For more detailed background information, see: European Patent Office (EPO), 'Unitary Patent & Unified Patent Court', [www.epo.org/applying/european/unitary.html](http://www.epo.org/applying/european/unitary.html) (accessed 27 October 2022); the UPC website, [www.unified-patent-court.org](http://www.unified-patent-court.org) (accessed 27 October 2022). See also: BVerfG, 'Act of Approval to the Agreement on a Unified Patent Court is void', Press Release No. 20/2020, 20 March 2020, [www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2020/bvg20-020.html](http://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2020/bvg20-020.html) (accessed 27 October 2022); EPO, 'German Bundestag approves ratification bill on the Unified Patent Court Agreement', 26 November 2020, [www.epo.org/news-events/news/2020/20201126b.html](http://www.epo.org/news-events/news/2020/20201126b.html) (accessed 27 October 2022); EPO, 'German Court decision paves the way for implementation of Unitary Patent and UPC', 13 July 2021, [www.epo.org/news-events/news/2021/20210713.html](http://www.epo.org/news-events/news/2021/20210713.html) (accessed 27 October 2022); BVerfG, 'Erfolgreiche Eilanträge gegen das Abkommen über ein Einheitliches Patentgericht', Press Release No. 57/2021, 9. July 2021, [www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/DE/2021/bvg21-057.html](http://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/DE/2021/bvg21-057.html) (accessed 27 October 2022); Munsch, Schuh and Wuttke, p. 104.

116 However, the UPC will not have jurisdiction over national patents, nor does the UPC Agreement apply to Spain, Croatia and Poland, who chose not to participate. Further, national courts will continue to be competent to settle cases, for example, involving European patents during a seven-year transitional period (extendable to 14 years). See Article 83 of the UPC Agreement.

117 Article 33(1) and (4), sentence 1 of the UPC Agreement.

local or regional division.<sup>118</sup> Conversely, if a revocation action is pending, an infringement claim may also (but does not need to be) filed before the central division.<sup>119</sup> Where an infringement claim is pending and a revocation counterclaim<sup>120</sup> is initiated, the local or regional divisions have discretion to:

- hear both infringement and revocation proceedings;
- refer the entire case to the central division, subject to the parties' agreement; or
- refer the revocation counterclaim to the central division, and suspend or continue with the infringement proceedings.<sup>121</sup>

It remains to be seen how the UPC will exercise its discretion; however, it is expected that the local or regional divisions will hear most infringement and revocation cases jointly, following the current practice in most Member States. The UPC system appears to go beyond the German model in that it allows alleged infringers to bring revocation counterclaims and ensures that infringement and revocation proceedings are more closely streamlined.<sup>122</sup>

Despite the European Union's focus on patent litigation, the UPC Agreement provides that an affiliated patent mediation and arbitration centre (the Centre) will be established.<sup>123</sup> As in the case of Germany, the applicable EU framework does not expressly prohibit patent validity arbitration. While the UPC Agreement stipulates that an arbitral tribunal or mediation panel may not revoke or limit a patent,<sup>124</sup> the UPC's draft Rules of Procedure indicate that an arbitral tribunal may order a party to surrender its patent and that the parties may request the UPC to confirm such arbitral award.<sup>125</sup> This provision seems to support the view that *inter partes* awards on EP and UP validity will be possible under the EU system.<sup>126</sup>

The Centre provides yet another opportunity to promote the use of arbitration and alternative dispute resolution in connection with IP-related disputes.

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118 Article 33(4), sentence 2 of the UPC Agreement.

119 Article 33(5) of the UPC Agreement.

120 Unlike the German bifurcated system, the UPC Agreement allows a revocation counterclaim to be filed in a pending infringement claim.

121 Article 33(3) of the UPC Agreement.

122 See also the section in this chapter entitled 'Germany – Introduction'.

123 Article 35 of the UPC Agreement.

124 Article 35(2), sentence 3 of the UPC Agreement.

125 Rule 11(2), Preliminary set of provisions for the Rules of Procedure ('Rules') of the Unified Patent Court, 18th draft, 1 July 2015 (as updated on 15 March 2017).

126 Schäfer, p. 915; Legler, pp. 294–295.

## Summary

In Germany, opinion seems to be shifting towards 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 the state's monopoly over the issuance of patents and protecting public interests.<sup>127</sup>

This is also the path the European Union 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 counterclaim or counterclaim. Future case law will tell which approach tribunals and courts will adopt.

## 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 system. As a result, Japan substantially eased the separation between infringement and validity proceedings, therefore distinguishing itself from the German model.<sup>128</sup> This, in turn, has had the interesting effect of potentially increasing the acceptance of patent validity arbitration that is 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>129</sup> Meanwhile, only the Japan Patent Office (JPO) in Tokyo has exclusive authority

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127 Some commentators argue that patent validity arbitration is contrary to public policy but have failed to explain why.

128 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), Munich, 23 September 2009, *GRUR International* 2020, p. 309.

129 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 the 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

to revoke an invalid patent.<sup>130</sup> This traditionally meant that an alleged infringer could not bring a revocation action or defence against an infringement claim, unless the JPO had first decided on patent validity. To correct the defects of the bifurcated system, Japanese infringement courts have 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>131</sup> The *Kilby* precedent was subsequently cast into law in 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:

*If it is found, in litigation involving the infringement of a patent right or the violation of 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>132</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

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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.

130 Articles 178(6) and 123 of the Japanese Patent Act. See website of the Japan Patent Office (JPO), [www.jpo.go.jp](http://www.jpo.go.jp) (accessed 27 October 2022). 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.

131 Judgment of the Supreme Court of Japan, 11 April 2000, *Minshu*, Vol. 54, No. 4 at p. 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.' An English translation of the judgment is available on the website of the Courts in Japan, [www.courts.go.jp/app/hanrei\\_en/detail?id=487](http://www.courts.go.jp/app/hanrei_en/detail?id=487) (accessed 27 October 2022).

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

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>133</sup>

Article 168 of the Patent Act reduces the risk of conflicting decisions but does not eliminate it. The JPO could still decide to revoke a patent after an infringement judgment (in favour of a patent holder) has become final and binding, and such conflict could not be 'corrected' with an action for retrial of the infringement judgment.

In the past, it was debated whether a JPO decision could potentially qualify as grounds for initiating a retrial of an infringement judgment;<sup>134</sup> however ever since the introduction of Article 104-4 of the Patent Act in 2011 this is now prohibited.<sup>135</sup> This may however lead to the somewhat unsatisfactory result that the JPO's revocation of a patent may not 'trump' an infringement court's judgment.<sup>136</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.<sup>137</sup>

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133 Article 168 of the Patent Act. The power of the JPO and the 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) to (6), however, was newly introduced in 2004.

134 Before 2011, a JPO decision determining patent invalidity was considered an 'administrative decision' modifying the original patent grant and could, therefore, qualify as valid grounds for an action for retrial pursuant to Article 338(1)(viii) of the Code of Civil Procedure; however, according to one 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, 24 April 2008, *Minshu*, Vol. 62, No. 5, p. 1262; judgment of IP High Court, 14 July 2008, *Hanrei-jiho*, No. 2050, p. 137.

135 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'.

136 See also Christopher Heath, "Two Decisions on Patent Law: "Seaweed Purifying Apparatus" and "Fuminosuke Original Ball Point Pen", *ZJapanR*, Vol. 17 No. 33, 2012, pp. 244-245.

137 According to some practitioners, so far, this potential deficiency in Japan's patent litigation system has not caused any serious negative impact. In most cases, it would be more likely than not that the infringement court and the JPO reach the same conclusion on a patent's validity. Furthermore, if both the infringement judgment and the JPO's decision were appealed, they could be handled by the same judges at the IP High Court, thereby preventing conflicting rulings.

### Arbitrability of patent validity disputes

Japan is generally recognised as an arbitration-friendly jurisdiction, although it still lags 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>138</sup> which has led to the establishment of various arbitration and mediation facilities, including the Japan International Dispute Resolution Centre in Osaka and Tokyo, the Japan International Mediation Centre in Kyoto and the International Arbitration Centre in Tokyo for IP disputes.<sup>139</sup> Meanwhile, Japan is in the process of amending its Arbitration Act of 2003.<sup>140</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').*

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138 For an introduction to the 2003 Arbitration Act, see Hiroyuki Tezuka, 'New Arbitration Act and International Commercial Arbitration' in Koichi Miki et al. (eds.), *International Arbitration and Corporate Strategy*, Yuhikaku, 2014.

139 Separately, the Japan Intellectual Property Arbitration Centre (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 International Arbitration Centre in Tokyo (IACT) is more globally oriented than the JIPAC and focuses on international IP disputes (e.g., standard-essential patents), with an international panel of arbitrators. See JIPAC's website, [www.ip-adr.gr.jp](http://www.ip-adr.gr.jp) (accessed 27 October 2022); the IACT's website, [www.iactokyo.com](http://www.iactokyo.com) (accessed 27 October 2022). See also Lars Markert and Anne-Marie Doernenburg, 'Japan's dawn of a new era - also in international arbitration?', International Bar Association, 2019.

140 See Law 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, [www.jurists.co.jp/sites/default/files/tractate\\_pdf/ja/13711.pdf](http://www.jurists.co.jp/sites/default/files/tractate_pdf/ja/13711.pdf) (accessed 27 October 2022); Hiroyuki Tezuka and Yutaro Kawabata, 'New Trends of International Commercial Arbitration and Further Modernisation of Arbitration Law', *Jiyu to Seigi*, Vol. 67, No. 7, 2016, pp. 14–20.

*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.*

Article 13(1) allows a civil dispute to be arbitrated if the parties can freely dispose of it.<sup>141</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>142</sup> While no express restrictions exist in relation to infringement or patent validity arbitrations,<sup>143</sup> only infringement claims have regularly been considered to be arbitrable.<sup>144</sup> Patent validity arbitration remains 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 therefore 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>145</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>146</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*.

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141 Takashi Inomata, 'Arbitration Agreement: Its Purpose and Arbitrability', *JCA Journal*, Vol. 53, No. 7, 2006, pp. 3–4. Article 13(1) is in line with the French Civil Code (see footnote 67) but differs from German law in that under the latter, the disposability criterion now only applies to non-pecuniary claims. See footnote 132.

142 Masaaki Kondo et al (eds.), 'Arbitration Act: a Commentary', 2003, p. 48. See also Article 4 of the Supplementary Provisions of the Arbitration Act.

143 Smith et al., p. 352.

144 Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, pp. 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, pp. 623–624. See, for example, Smith et al., p. 352.

145 Shigetoshi Matsumoto, 'Intellectual Property and Arbitration', *Jurist* 1988, 924, p. 56, cited in Smith et al. 19.

146 Yoichi Okada, 'Arbitrability of Patent Validity', *Horitsu Ronso*, Vol. 89, No. 1, 2016, pp. 133–137.



### 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>147</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 patent validity, arbitral tribunals should be equally competent to do so.<sup>148</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 in the absence of any express statutory provisions to the contrary.

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 owing to Article 104-4 of the Patent Act,<sup>149</sup> no such prohibition exists under the Arbitration Act; therefore, 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>150</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

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147 See, for example, Naoki Idei and Takayuki Miyaoka, *Q&A New Arbitration Act*, p. 50; Takashi Kojima and Akira Takakuwa, *Arbitration Act: Commentaries and Issues*, 2007, p. 62; Takeshi Kojima and Takashi Inomata, *Arbitration Law*, 2014, p. 82.

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

149 See footnote 136.

150 Tatsuya Nakamura, *Issues on Arbitration Law*, Seibundo, 2017, p. 105.

efforts to reform their patent litigation systems, in the near future, patent holders and alleged infringers may have a broader spectrum of dispute resolution methods to choose from.

Some national courts seem to already recognise the arbitrability of infringement and revocation claims, particularly where the parties had agreed to arbitrate their dispute.<sup>151</sup> In this regard, it might also be worth citing an International Chamber of Commerce arbitral tribunal that, as early as 1989, equally confirmed that it saw no conflict between the jurisdiction of national courts and arbitral tribunals.<sup>152</sup> The case is particularly fitting in that it examines both the Japanese and German legal systems for patent dispute resolution.

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 make a finding 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 of 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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151 See for example, the recent judgment by the Munich court described above (LG München I).

152 Interim Award in Case No. 6097, *ICC International Court of Arbitration Bulletin*, Vol. 4, No. 2, 1993. See also 'Chapter 4: Arbitrability of IP Disputes', pp. 74–75. In fact, it appears that a German federal judge acted as presiding arbitrator in this case. See Schäfer, p. 914.

## CHAPTER 3

# Arbitrability of IP Disputes in Brazil

Marcelo Junqueira Inglez de Souza and Ana Carolina Nogueira<sup>1</sup>

### Introduction

Twenty-six years have passed since the enactment of the Industrial Property Law (LPI)<sup>2</sup> and the Arbitration Act (LA).<sup>3</sup> Despite the recognition of the constitutionality of arbitration by the Federal Supreme Court<sup>4</sup> and some favourable binding precedents from the Superior Court of Justice (STJ), Brazilian courts are still sceptical about the use of arbitration to resolve certain types of disputes in Brazil. This is the case with disputes concerning IP rights.

According to Article 1 of the LA, ‘persons capable of contracting may use arbitration to settle disputes relating to disposable property rights.’ Recent amendments have introduced Article 1(1) and (2) to affirm, respectively, that ‘the direct and indirect public administration may use arbitration to settle conflicts related to disposable property rights’ and that ‘the competent authority or body of the direct public administration for the conclusion of an arbitration agreement is the same one that is responsible for the performance of agreements or transactions’.

This means that the use of arbitration to settle disputes related to IP matters is available not only to individuals but also to the federal entity responsible for granting titles and keeping records of industrial property rights in Brazil: the National Institute of Industrial Property (INPI).

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2 Law No. 9,279 of 14 May 1996.

3 Law No. 9,307 of 23 September 1996, as amended by Law No. 13.129 of 26 May 2015 (LA).

4 Federal Supreme Court (STF), Ratification of Foreign Judgment No. SE 5.206-ES AgRg, Judge-Rapporteur Sepúlveda Pertence, Full Panel, 12 December 2001.

The advantages that lead a party or even a public administration body to opt for arbitration are widely known and are addressed in other chapters of this Guide: flexibility of the procedure, short duration of the process, expertise of the judge, confidentiality, among other things. For disputes to be settled before an arbitral tribunal – and outside the federal and state courts – it is usually sufficient for the parties to formalise their agreement in that regard using an arbitration agreement before a dispute has arisen or a submission agreement after a dispute has arisen.

Although IP claims derived from contractual matters are more commonly brought and associated with arbitration, there does not seem to be any obstacle – legal or practical – to the use of arbitration to settle extra-contractual disputes in Brazil.

As the law and the jurisprudence regarding intellectual property in Brazil has grown and become highly specialised over the past 26 years,<sup>5</sup> it is now advisable for parties and their attorneys to properly analyse what would be the best use of those two fora – arbitration and the Brazilian judiciary – to solve a given dispute, including in the cost-benefit analysis, with regard to not only choosing one over the other but also the possibility of combining the two.

In this chapter, we will explore the regulatory framework for regulating IP rights in Brazil, as well as the challenges to the arbitrability of certain IP rights under Brazilian legislation and jurisprudence, the mechanisms envisaged to counter those challenges and the relevant factors involved in determining when in practice it is worth opting for arbitration proceedings under the Brazilian legal system.

## IP rights protected within the Brazilian system

In Brazil, IP rights are protected by national legislation and international treaties, which are incorporated in the legal system in the form of decrees.

The main Brazilian legislative acts on the matter are:

- the LPI;
- the Copyright Law;<sup>6</sup>
- the Cultivars Law;<sup>7</sup>
- the Software Law;<sup>8</sup>

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5 Not only were sub-chambers and specialised courts created to deal with IP matters but important issues were also settled, such as the possibility of incidental declaration of nullity of an industrial property registration with *inter partes* effect, and the application of the *in re ipsa* modality to damages owing to the infringement of industrial property rights.

6 Law No. 9,610 of 19 February 1998.

7 Law No. 9,456 of 25 April 1997.

8 Law No. 9,609 of 19 February 1998.

- the Integrated Circuit Topography Law;<sup>9</sup>
- the Biodiversity Law;<sup>10</sup>
- the Civil Code;<sup>11</sup>
- the Code of Civil Procedure;<sup>12</sup>
- the Penal Code;<sup>13</sup>
- the Code of Criminal Procedure;<sup>14</sup> and
- the Federal Constitution.

The main international treaties on the subject in force within the Brazilian legal system are:

- the Agreement on Trade-Related Aspects of Intellectual Property Rights (1994);
- the Paris Convention for the Protection of Industrial Property (1883);
- the Berne Convention for the Protection of Literary and Artistic Works (1886);
- the Madrid Agreement Concerning the International Registration of Marks (1891);
- the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961);
- the Patent Cooperation Treaty (1970); and
- the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (1989).

Within this legal framework, three types of protected IP rights can be identified in Brazil:

- industrial property – trademarks, patents and utility models, industrial designs, geographical indications, trade secrets, trade dress, business name and domain names, and prohibition of unfair competition practices;
- copyright and related rights (e.g., software protection); and
- *sui generis* categories – varieties of plants, topography of integrated circuits and traditional knowledge.

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9 Law No. 11,484 of 31 May 2007.

10 Law No. 13,123 of 20 May 2015.

11 Law No. 10,406 of 10 January 2002.

12 Law No. 13,105 of 16 March 2015.

13 Decree-Law No. 2,848 of 7 December 1940.

14 Decree-Law No. 3,689 of 3 October 1941.

In general terms, protection of industrial property is governed by commercial law. As a rule, such protection requires registration with the competent federal entity and focuses on industrial activities and the prohibition of unfair commercial behaviour.

Protection of copyright and related rights is governed by civil law. It does not require registration and aims at protecting artistic or scientific creations, as well as preventing plagiarism, precisely as a way of protecting intellectual activity.

Protection of *sui generis* categories is governed by specific infra-constitutional legislation, in consideration of the political agenda and the goods produced and marketed by Brazil, especially in the wake of the policy of fostering technological innovation in the environment and other areas, such as agribusiness.

### Conflicts and consequences of IP infringement

Disputes over the ownership, authorship and paternity rights of a particular IP asset, especially in the case of co-authorship or collective works, as well as over the assignment and licensing of those assets (in particular, with regard to the restriction or return of those rights), are common in Brazil. Disputes can also arise in the case of counterfeiting by third parties with whom the IP owner does not have a contractual relationship.

Broadly speaking, IP disputes in Brazil can fall under one of three types:

- disputes over the ownership of an intangible IP asset created through the registration granted by the responsible authorities;
- conflicts arising from a contractual relationship, in which a particular contract will be primarily the law that governs the conflict; and
- conflicts arising from a non-contractual relationship, which will be regulated through the application of the relevant legislation.

In disputes related to patents and trademark registrations, it is necessary to have the INPI as co-defendant. This is because the granting of a registration is characterised as an administrative act issued by the INPI.<sup>15</sup> This particularity of the Brazilian system not only gives federal courts the competence to rule on such matters<sup>16</sup> but also generates additional discussion about the arbitrability of such disputes.

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15 Article 114, Code of Civil Procedure; and Binding Precedent No. 950 of the Superior Court of Justice (STJ).

16 Article 109, Federal Constitution.

Regarding the other two types of IP conflicts, disputes are usually related to the payment of royalties or indemnifications and will be tied to either contractual or extra-contractual circumstances.

Under Brazilian law, the IP asset is not only intended to ensure the individual rights or interests of its owner and licensors but also aimed at protecting the purchasers and consumers of products or services by providing them with the necessary elements to assess the origin and quality of those products or services. The law also aims to prevent the illegal diversion of customers and the practice of parasitic economic profit.

For this reason, the threshold for damages is usually lower in IP cases. The jurisprudence is clear and unified on the subject, and the exceptional rule of burden of proof applies in IP cases (*in re ipsa*): whereas in Brazil the principle of causality is the general rule, in IP matters once the IP right, its ownership and a violation is proven, damages are presumed. This exception applies to both pecuniary and non-pecuniary damages, since it is well-established in the jurisprudence that IP violations often negatively impact the reputation of the affected company (e.g., by discrediting and prejudicing the company's reputation in the market).<sup>17</sup>

### Arbitrability of IP issues in Brazil

As a general matter, the arbitrability of IP rights is accepted in Brazil; however, there is still resistance to the use of arbitration to resolve certain types of IP disputes. In this regard, we will analyse each set of arbitrability criteria within the specific IP rights framework.

IP disputes in Brazil generally take the form of:

- legal actions requiring a comparison between products and equipment to assess a possible violation of an industrial property asset, which if established results in the nullity of the relevant registration before the INPI, after the statutory period for administrative opposition, with *erga omnes* effect; or
- injunctive actions, which may or may not be combined with a claim for damages *in re ipsa*, based on the infringement of industrial property rights, for anticompetitive practices or for problems arising from contractual relationships (assignment, licensing, etc.), usually with a preliminary injunction to prevent further infringements pending resolution of the dispute or for the seizure of counterfeit products, combined with daily penalties that can exceed the value of the indemnity, with *inter partes* effect.

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17 STJ's Binding Precedent No. 227.

In the second type of action, the procedure takes place before the state courts, whereas in the first type of action, the procedure takes place before the federal courts as it requires the participation of the INPI (a federal agency) in the process.<sup>18</sup>

### Disputes that may be submitted to arbitration in Brazil

As already mentioned in this chapter, the wording of Article 1 of the LA means that not only can individuals use arbitration to settle disputes related to IP matters but the federal agency linked to the custody of those assets (INPI) can also participate in arbitration proceedings.

Further, to be arbitrable, IP matters must possess the objective characteristics that are attributable to matters that can be submitted to arbitration, namely the possibility to be owned and to be waived (these criteria being cumulative).

These criteria are usually present in IP disputes. Where there is no violation of public order, the arbitral tribunal has competence and jurisdiction to hear and decide the claim.<sup>19</sup>

### Objective arbitrability of IP disputes in Brazil

IP conflicts can be submitted to arbitration in accordance with Article 1 of the LA and to the extent that IP rights are, as a rule, susceptible to being owned and waived, insofar as they are subject to economic appreciation and can be freely traded.

There are certain exceptions related to the possibility of waiving and freely trading intellectual rights, such as the author's moral rights and other personality rights related to copyrights and related rights; however, such exceptions constitute a small portion of IP disputes and therefore do not affect the potential arbitrability of IP rights as a whole. It is, after all, possible to draft an arbitration clause or agreement that provides for the submission of a given dispute to arbitration, while excluding determinations regarding the protection of the author's moral rights or other personality rights.

Even if that were not the case, to the extent that disputes over moral rights and other personality rights are not related to the ownership aspect of such rights, but rather to losses and indemnifications related thereto, such disputes would be arbitrable as relating to the economic and not the ownership aspect of the underlying rights. When a claim for indemnification arising from the infringement of

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18 STJ Binding Precedent No. 950.

19 Under Brazilian law, the arbitral tribunal also has at least the prerogative to rule on whether it is competent to process an IP issue (competence–competence principle).



an author's moral rights or a claim for indemnification of non-pecuniary losses deriving from the violation of an IP right is at stake, the quantum due (loss of profits and emerging damages) is monetary in nature and arises from civil or criminal liability for contractual or legal tort.

Another point raised by critics of the objective arbitrability of IP disputes is the occasional claim for the declaration of nullity of an industrial property registration. Such criticism lies in the fact that any declaration of nullity of this type by the federal courts or by the INPI would have an *erga omnes* effect and, therefore, would be incompatible with the contractual – and *inter partes* – character of arbitration.

This criticism, however, is not an obstacle to the use of arbitration for IP matters, including for the purpose of obtaining a declaration of nullity of an industrial property registration granted by the INPI. This is because an incidental declaration of nullity, with a solely *inter partes* effect, is fully possible in the context of arbitration, as recently confirmed by the STJ.<sup>20</sup>

An *inter partes* declaration of nullity in the context of arbitration essentially amounts to an injunction against the infringing party, which is invariably a legal possibility in the field of arbitration.

On the subject, one scholar, Nathalia Mazzone, has provided the following clarification:

*In fact, assuming that the arbitration decision will produce effects only inter partes, according to part of the doctrine, there is no reason to deprive the arbitrator of the power to decide on any invalidity of rights, since [with this decision] he/she would not be attacking the act of the state or in breach of public order, but simply attesting to the invalidity of the right between those parties, without reaching the registration itself.*<sup>21</sup>

In the face of an arbitration award with an *inter partes* effect, what is at issue is the exploitation of the right (i.e., issues related to commercialisation, reproduction or imitation of the trademark by third parties, which depend solely and exclusively on the applicable ownership right) and what it would come to represent in relation to the parties that are present in the arbitration procedure. Such an

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20 STJ decision, 'Para Terceira Turma, ação de nulidade de patente é prejudicial externa apta a suspender ação de indenização', 27 February 2020.

21 Nathalia Mazzone, *Arbitragem e propriedade intelectual: aspectos estratégicos e polêmicos*. São Paulo, Saraiva, 2017, pp. 134–135.

arbitration award would not have an effect on the right itself, as established by the INPI in the context of industrial property registrations, which would remain valid and enforceable against third parties.

Furthermore, as ruled by the STJ,<sup>22</sup> as questions about trade dress, unfair competition and other similar claims do not involve registration before the INPI, and therefore do not affect the interest of the INPI, these claims can be brought before a private tribunal in the context of arbitration.<sup>23</sup>

Accordingly, within the Brazilian legal system, the requirement of objective arbitrability is met, provided that the parties' choice of arbitration is duly formalised, by virtue of an arbitration clause or agreement, and provided that the claims that are made subject to an arbitration procedure are duly limited within this agreement.

### Subjective arbitrability of IP disputes in Brazil

The subjective arbitrability of IP rights relates to the wording of Article 1 of the LA, which states that people capable of contracting may use arbitration to resolve disputes.

Although there may be criticism around arbitration proceedings involving public entities, in particular questioning the possibility of such entities entering into arbitration agreements in view of the relevant public interests they represent, the legislators of the LA have made a point of dismissing such doubts.

In a recent amendment to the LA, Brazilian legislators expressly included language making clear that 'the direct and indirect public administration may use arbitration to settle conflicts related to disposable property rights' and that 'the competent authority or body of the direct public administration for the conclusion of an arbitration agreement is the same one that is responsible for the performance of agreements or transactions'.<sup>24</sup>

In this context, provided that a public entity is legitimately entitled to analyse, grant and conclude agreements related to IP, it also has standing to participate in arbitration proceedings concerning IP rights.

Accordingly, what remains to be discussed is the capacity in which the entity would be integrated into the procedure, especially in cases where it is decided that the public entity has no direct interest in participating in the dispute.

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22 STJ, Special Appeal No. REsp 1.527.232 (Binding Precedent No. 950), Judge-Rapporteur Luis Felipe Salomão, Fourth Panel, 13 December 2017.

23 STJ Binding Precedent No. 950.

24 Article 1(1) to (2), LA.

From the outset, it should be clarified that even if an arbitration clause has been included in an agreement between private individuals, the relevant public entity (e.g., the INPI) could still spontaneously intervene in the case, pursuant to Article 3 of the LA. Accordingly, the effects of the arbitration clause would extend to the public entity.

In this regard, the intervention of third parties whose rights and interests are affected by the arbitration proceedings is explicitly permitted under the arbitration rules of several specialised chambers, including those pertaining to, for example, the Brazilian Intellectual Property Association.<sup>25</sup>

Furthermore, although a portion of the INPI's intervention before the courts takes place in the form of a mandatory joinder as a co-defendant in the procedure,<sup>26</sup> in arbitration, it is also possible for the arbitral tribunal to simply issue a letter to the INPI *ex officio*, informing it about the procedure and granting a deadline for the INPI to join the procedure or present an opinion on the case.

In this context, under Brazilian law, the INPI does not have the discretion to 'accept or not be bound by the arbitration procedure'. Although an arbitral tribunal does not have the power to make demands against the INPI, Brazilian law does have the power to impose obligations on the public entity, and Article 57 of the LPI expressly determines that the INPI 'will intervene' – and not 'may intervene' – in any procedure that deals with matters relating to the annulment of industrial property registrations.<sup>27</sup>

Consequently, if the INPI does not reply to the letter sent by the arbitral tribunal, it will be understood that there has been a tacit waiver of the exercise of these prerogatives by the INPI within the scope of the arbitration procedure, without this implying, in any way, a formal defect.

This means that, although the effects of the arbitration clause may touch upon the interests and prerogatives of the INPI, the continuation of the arbitration will not depend on the INPI's agreement to join the arbitration procedure.

The INPI is the entity responsible for safeguarding and registering industrial property rights in Brazil, and it has a direct interest in procedures that may result in a declaration of nullity of a registration. At the end of the day, the administrative act of granting – or denying – a request for registration by the INPI may

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25 Articles 38 and 62, Brazilian Intellectual Property Association's Arbitration Rules.

26 Mazzonetto, pp. 122–130.

27 STJ, Special Appeal No. REsp 1.281.448, Judge-Rapporteur Nancy Andrichi, Third Panel, 5 June 2014.

be at stake if the arbitration award contains determinations that directly impact its obligations regarding registration. This would give the INPI the interest and standing (or even the legal obligation) to intervene in the arbitration procedure.

However, the STJ has recognised that the INPI has an active co-defendant position<sup>28</sup> when it comes to an action that involves the possible declaration of nullity of a registration. In this sense, the INPI may join the proceedings at any time, and it will act impersonally and impartially, defending the validity of its own actions.

Since the INPI may not act as a party, but rather as an assistant to the arbitral tribunal, it can participate in the arbitration and is not restricted to disputes brought before state or federal courts.<sup>29</sup>

Finally, some have argued that matters that are dealt with before the state courts are subject to arbitration, whereas those that are dealt with before the federal courts are not. This, however, is not correct.

The separation of the roles and competences of the federal and state courts is an administrative organisation matter of the Brazilian judiciary that does not exist in the sphere of arbitration. This means that the arbitrator, in practice, would combine the competences and roles of the federal and state court judges in Brazil and be able to decide the same issues that any of those courts would decide, with or without the INPI present at the procedure.

Accordingly, provided that the relevant arbitration clause or agreement is duly signed by the parties, and that a third-party can intervene in the procedure, the requirement of subjective arbitrability for IP matters is also fulfilled under the Brazilian legal system. Whether the INPI is a signatory to the arbitration clause upon which the arbitration procedure is based is irrelevant, given the possibility of summoning the public entity to join the procedure or provide an opinion.

## Current challenges and applicable remedies

The challenges to the effective submission of IP disputes to arbitration in Brazil lie essentially in two arguments:

- the violation of public order, owing to the alleged extension of the subject matter of the arbitration clause or arbitration agreement to matters going beyond the *inter partes* effect of the contractual instrument; or

28 STJ, Special Appeal No. REsp 1.775.812, Judge-Rapporteur Marco Aurélio Bellizze, Third Panel, 19 March 2019.

29 Caio de Faro Nunes. 'IP Arbitration in Brazil: What is the Current Scenario?', *Kluwer Arbitration Blog*, 10 May 2020, <http://arbitrationblog.kluwerarbitration.com/2020/05/10/ip-arbitration-in-brazil-what-is-the-current-scenario> (accessed 2 November 2022).

- the subject matter, or at least a portion of it, being qualified as a non-disposable right (e.g., the author's moral rights and the exercise of other personality rights).

However, these arguments should not prevent the initiation of arbitration under Brazilian law.

Regarding the first point, the most recent jurisprudence of the STJ has confirmed that it is possible to incidentally declare the nullity of industrial property registrations, with an *inter partes* effect. Consequently, no violation of public order arises related to a possible request for a declaration of nullity of a given industrial property registration by an arbitral tribunal with *inter partes* effect.

Regarding the second case, it is possible for an arbitral tribunal to issue a partial award excluding from the arbitral jurisdiction the determination of rights that concern public policy or that do not qualify as disposable rights, such as the determination of the moral rights of the author.<sup>30</sup>

In practice, there should, therefore, be no obstacle to submitting IP disputes to arbitration in Brazil.

### International arbitration and exequatur

As an additional remark, an international arbitral award and its enforcement in Brazil may be challenged via a claim of violation of public policy as international arbitral awards depend on ratification by the STJ (exequatur).

The exequatur constitutes an authorisation granted by the STJ for an international arbitral award to be valid and effective in Brazil and is a necessary prerequisite to the enforcement of international arbitral awards in Brazil.

Although IP treaties facilitate a certain degree of standardisation and validation of decisions between signatory states, allegations of violation of public policy may be upheld, depending on what is considered as public policy in the specific case. This is because foreign law may differ from the Brazilian legislation, both in material and procedural aspects.

It is therefore key to consider, from the outset, in which countries the party that submits an eventual IP conflict to arbitration intends to execute the award and to give due consideration to the public policy criteria relevant to each specific case to avoid possible denial of exequatur and enforcement in the future.

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30 Article 23(1), LA.

## Convenience of submitting a specific conflict to arbitration

As a final note, it is necessary to assess in each specific case, and with due caution, whether it is appropriate to submit certain disputes to alternative dispute resolution methods, or to federal or state courts in Brazil.

Within this context, attorneys and parties submitting issues to arbitration or courts in Brazil should take into consideration the following seven variables:

- the parties involved (disputes between individuals versus the interests and compulsory participation of the INPI);
- the jurisdiction and applicable law (domestic contracts versus international contracts);
- confidentiality concerns (private procedure versus lawsuit under court secrecy);
- whether there will be a preliminary injunction (considerations regarding the efficiency of the preliminary injunction in arbitration proceedings);
- the degree of specialisation required (potential specialisation of arbitrators, or judges and courts);
- the duration of the process (considerations regarding the time that a dispute may take in arbitration proceedings or before the courts); and
- the budget (total cost of arbitration versus the cost of lawsuits before the courts, including the time spent in each proceeding).

## Conclusion

IP rights in Brazil are governed by commercial and civil law provisions, as well as several more specific pieces of infra-constitutional legislation<sup>31</sup> and several well-known international treaties that have been incorporated into the Brazilian legal system.

Industrial property rights, which are closely related to commercial law and depend on registration with the competent authority, present a greater challenge to arbitrability because of the necessary participation of the INPI in the arbitration procedure (subjective aspect) and of the possibility of a registration being declared null with *erga omnes* effects (objective aspect).

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31 In Brazil there are two higher courts, the STF and the STJ, which have different areas of competence and powers: the STF deals with issues related to the Federal Constitution, whereas the STJ deals with issues that pertain to other laws apart from the Federal Constitution, which are usually referred to as 'infra-constitutional legislation' (i.e., laws that are below the level of the Federal Constitution, as the Federal Constitution is considered the main piece of legislation in Brazil).

On the other hand, copyright and related rights, which are closely related to the field of civil law and do not depend on registration before the competent authority, present a greater challenge to arbitrability because, as a rule, they involve non-disposable (personal) rights.

Notwithstanding the above, with the exception of the limitations mentioned in this chapter, it is possible to use arbitration to obtain a final decision regarding an IP dispute in Brazil. It is equally possible, under the Brazilian legal system, for judicial and arbitral measures to coexist, in particular for the granting of an emergency or provisional measure, or for the judiciary to enforce an order from an arbitral tribunal.<sup>32</sup>

However, without prejudice to this possibility, it is always advisable to carry out a cost-benefit analysis of the possible alternatives (arbitral or judicial, or both), taking into consideration the elements relevant to the specific case.

In light of the growth of specialised jurisprudence on the matter and the existing limitations regarding the arbitrability of certain aspects of IP rights, it is generally faster and more effective in Brazil to resort directly to the courts to resolve extra-contractual issues, whereas it is generally faster and more effective to resort to arbitration to resolve contractual issues, especially highly technical and complex ones.

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32 STJ, Special Appeal No. REsp 1.586.383, Judge-Rapporteur Isabel Gallotti, Fourth Panel, 5 December 2017.

## CHAPTER 4

# 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, be effective and maximise 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 for his assistance with the research and drafting of this chapter. The information in this chapter was accurate as at December 2020.

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; therefore, 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>

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3 Two further requirements are found in Article 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' (Article II(2) of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (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, Article 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

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>

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:

*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.<sup>7</sup>*

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and thereby minimise a dispute down the road over whether the arbitration clause can be extended.

- 6 See, for example, the model clauses of the International Chamber of Commerce (ICC) (‘All disputes arising out of or in connection with the present contract . . .’); the London Court of International Arbitration (LCIA) (‘Any dispute arising out of or in connection with this contract, including . . .’); the International Centre for Dispute Resolution (ICDR) (‘Any controversy or claim arising out of or relating to this contract, or the breach thereof . . .’); the Singapore International Arbitration Centre (SIAC) (‘Any dispute arising out of or in connection with this contract, including . . .’); and the Hong Kong International Arbitration Centre (HKIAC) (‘Any dispute, controversy, difference or claim arising out of or relating to this contract, including . . .’). The model clause of the World Intellectual Property Organization (WIPO) 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.

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 those 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 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, a scenario can readily be imagined in which 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).

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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]'. (Article 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.

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

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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.

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>

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; therefore, 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

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

13 See, for example, *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: 'Any controversy or claim arising out of or relating to this contract, or the breach thereof, including any dispute relating 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).

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. 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>

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.

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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).

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

18 Pursuant to Article 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'.

Turning first to arbitrability, certain IP disputes are not arbitrable in many jurisdictions; therefore, 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>

## 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

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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: 'There 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, Article 18(1) of the UNCITRAL Arbitration Rules reserves this choice for the arbitral tribunal, while Article 18(1) of the ICC Arbitration Rules leaves it to the ICC Court.

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 intellectual property 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 the 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> therefore, 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.

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26 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.



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 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 arbitration. 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.

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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.

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).

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>

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

29 WIPO Arbitration Rules, Articles 51–53.

30 *id.*, Articles 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: (i) in the

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 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.

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possession of a party; (ii) not accessible to the public; (iii) of commercial, financial or industrial significance; and (iv) treated as confidential by the party possessing it'.

32 See, for example, AAA Supplementary Rules for the Resolution of Patent Disputes, Rule 3.

33 See, for example, ICC Arbitration Rules, Article 12; WIPO Arbitration Rules, Article 14; LCIA Arbitration Rules, Article 5; ICDR Arbitration Rules, Articles 11–12; SIAC Arbitration Rules, Rule 9; HKIAC Arbitration Rules, Article 6; and Swiss Arbitration Rules, Article 6.

34 See, for example, UNCITRAL Arbitration Rules, Articles 7–10.

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 arbitration, 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 provide for the appointment to be made by a competent national court.

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35 Lower-value disputes may also qualify for expedited or fast-track procedures. See, for example, ICC Expedited Procedural Rules; ICDR International Expedited Procedures; SIAC Arbitration Rules, Rule 5(1); Swiss Arbitration Rules, Article 42(2); and HKIAC Arbitration Rules, Article 42. 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, for example, ICC Arbitration Rules, Article 12(2); LCIA Arbitration Rules, Article 5(8); SIAC Arbitration Rules, Rule 9(1); WIPO Arbitration Rules, Article 14(b); ICDR Arbitration Rules, Article 11; and Swiss Arbitration Rules, Article 6(2).

37 See, for example, ICC Arbitration Rules, Article 12; WIPO Arbitration Rules, Article 19; LCIA Arbitration Rules, Article 5; ICDR Arbitration Rules, Article 12; SIAC Arbitration Rules, Rules 10–11; HKIAC Arbitration Rules, Articles 7–8; and Swiss Arbitration Rules, Articles 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.

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>

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.

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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.

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.

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.

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40 See, for example, ICC Arbitration Rules, Article 28; LCIA Arbitration Rules, Article 25; WIPO Arbitration Rules, Article 48; SIAC Arbitration Rules, Rule 30; HKIAC Arbitration Rules, Article 23; Swiss Arbitration Rules, Article 26; ICDR Arbitration Rules, Article 24; and UNCITRAL Arbitration Rules, Article 26.

41 See, for example, LCIA Arbitration Rules, Article 25.3; and SIAC Arbitration Rules, Rule 30.3.

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 arbitration 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>

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42 See, for example, LCIA Arbitration Rules, Article 30; Swiss Arbitration Rules, Article 44; HKIAC Arbitration Rules, Article 45; and SIAC Arbitration Rules, Rule 39.

43 WIPO Arbitration Rules, Articles 75–78.

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

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 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 has 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), Paragraphs 41–44.



# Part II

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## Considerations Once a Dispute Has Arisen

## CHAPTER 5

# Strategic Considerations After a Dispute Has Arisen

Peter A Sullivan and Richard Maidman<sup>1</sup>

The disputes that are amenable to arbitration are a small subset of all IP disputes. This is because most disputes involving intellectual property concern infringement of rights by another party with no pre-existing relationship with the rights holder.

This type of dispute has historically been adjudicated in the national court that has jurisdiction over the infringement at issue; however, substantial resources have been made available by the various arbitration centres to facilitate the arbitration of IP disputes. Nevertheless, it remains somewhat uncommon for parties to consent to arbitrate these types of disputes once they have arisen.

There are several reasons for this reluctance. The confidential nature of the typical arbitration process is sometimes a barrier. Many IP rights holders may prefer a public court decision that can serve as a warning to other potential infringers. Alleged infringers may also prefer litigating in the national courts, where they can take advantage of additional court-based and administrative-based options to challenge the validity of intellectual property, such as, in the case of patents, *inter partes* review in the US Patent and Trademark Office, and opposition practice before the European Patent Office.

One circumstance where arbitration may be an attractive option to resolve an infringement dispute is when an infringer is accused of infringing the same or similar intellectual property in multiple countries. The arbitration would be quite complicated in that it would need to address the differing standards for infringement, validity and damages. That said, consolidating a dispute in front of

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a trusted panel of arbitrators should provide the parties comfort that the dispute will be administered more efficiently than if the parties had to engage in far-flung parallel court and administrative proceedings around the globe.

Disputes concerning intellectual property that are amenable to arbitration are, therefore, typically limited to instances where there is a pre-existing contractual relationship concerning the intellectual property. Arbitration of IP disputes that are grounded in a contract with an arbitration clause are arbitrated largely in the same manner as other contract-based commercial disputes. There are, however, certain issues that arise in disputes concerning intellectual property that are more prevalent than in other commercial disputes. There are also strategic decisions unique to IP disputes that should be kept in mind and that are addressed throughout this chapter.

### **Strategies for preparing for arbitration**

Once a dispute has begun to crystallise, perhaps through a series of communications of escalating tone and scope, there are a few issues that should be considered.

#### **Ongoing business concerns**

It is critical that the parties understand their obligations pursuant to the underlying contract. Sometimes in disputes over agreements concerning intellectual property, there is a need for the parties to continue to cooperate with each other. For example, in a joint development agreement for the development of a medical treatment, there will likely be various provisions that require the cooperation of parties with respect to ongoing obligations to third parties, or in proceedings with administrative agencies. The agreement may require continued cooperation to develop intellectual property under the agreement through filing patent applications, among other things.

Similarly, in the example of a collaboration to develop medical treatments requiring regulatory approval, the agreement may include provisions requiring cooperation by the parties in activities before government agencies in the approval process. In this case, the agreement requires continued cooperation, even as the parties dispute other parts of the agreement (e.g., royalty payments).

Part of the brewing dispute may require interim measures to maintain the status quo concerning cooperation while the parties address the dispute. There may be deadlines regarding intellectual property or regulatory applications that cannot be missed without harming the value of the collaboration. These considerations must be taken into account, even as the areas of dispute begin to emerge.

## Effect of termination

When an agreement involving IP use is terminated, the termination can have a significant effect on the contract and the legal rights and remedies available. Termination may cut off the right to sell current products that use the intellectual property, transforming a prior permitted use into an infringement regarding future use. Triggering termination may, therefore, have the effect of expanding and complicating the dispute.

Infringement actions are based on national laws. Unless the scope of the arbitration agreement allows the arbitral tribunal to hear the infringement actions, the infringement disputes will need to be addressed in the relevant national courts. Parallel administrative procedures such as *inter partes* review or opposition practice must also be considered. These proceedings will likely be allowed to take place in parallel to an arbitration unless there is specific language in the arbitration clause prohibiting the parties from taking such actions.

Termination provisions may give rise to other forms of wind-down activities and return of confidential information that may require continued cooperation, or resort to interim measures may be made.

## Gathering evidence and identifying witnesses

A party should begin cataloguing relevant documents and identifying witnesses as soon as a dispute appears probable. This includes identifying persons with knowledge of the dispute that the party would want to have available for the hearing: because the time between the start of a dispute and the initiation of arbitration may be lengthy, employees with knowledge of the underlying facts may leave the company during this period. If a departing employee's cooperation in the impending dispute may be important, it would be advisable to include a cooperation clause in their departure documents that requires them to assist in any future litigation.

It is also advisable to interview potential witnesses regarding their recollections of the events in dispute and the documents underlying those events as soon as practicable. Comprehensive interviews with potential witnesses are most effective when their memories are fresh.

Documentary evidence should be preserved as soon as litigation appears reasonably foreseeable to ensure that any important documents are not accidentally destroyed. This process may include working with the client's information technology department to ensure that any automatic deletion policies that could affect relevant documents are limited or paused. Correspondence between collaborators and electronic design documents are often essential in IP disputes, and their preservation, or lack thereof, can make or break the case.

Although these considerations are applicable to arbitration generally, they may be particularly important in arbitration involving IP rights. For example, ownership of the intellectual property in dispute may be at the forefront. In the case of a scientific invention, laboratory notebooks and email communications between scientists, as well as inventor testimony, may be necessary to prove who contributed to an invention and in which respects.

### **Pre-arbitration and early arbitration phases**

There are also a number of strategic issues to consider just before arbitration commences and during the early stages of arbitration. Some of the major issues are discussed in this section.

#### **Escalation clauses**

As with other commercial agreements, agreements involving intellectual property sometimes contain escalation clauses requiring a series of dispute avoidance negotiations. These clauses require good faith meetings to take place between decision makers for the parties as a prerequisite for engaging in subsequent steps like filing suit or initiating arbitration proceedings.

#### **Mediation**

Some agreements include a mandatory mediation requirement. Sometimes, the choice of mediator is prescribed (e.g., a person with experience in the subject matter of the agreement). The process for selecting a mediator requires some level of cooperation with the opposing party.

Even if not required in the underlying contract, mediation can be an attractive option to resolve the dispute both prior to the commencement of arbitration and while the arbitration proceedings are ongoing. Whether mediation would be useful depends on the nature of the case and the relationship of the parties. If mediation is commenced, it is advisable to seek agreement that all statements, arguments and correspondence be confidential and may only be used for the purpose of the mediation.

#### **Arbitration rules**

It is critical that parties to a dispute understand the governing laws and rules. Most arbitration clauses specify the legal seat of the arbitration, the governing law and the arbitration rules governing the dispute. Where the arbitration clause does not specify one or more of those matters, there may be room for the parties

to negotiate them, guided by the law of the legal seat of arbitration. The party that best understands the advantages and disadvantages of the multitude of potential options is at a distinct advantage.

The law of the seat of the arbitration refers to the law that will apply to procedural aspects of the arbitration, including which national courts have supervisory authority over such matters as the set aside of or challenge to an award. This is separate and distinct from the hearing location, which can be agreed to in the contract or left to be decided once a dispute has arisen.

Even where a clause provides for specific rules, the legal seat and the place of arbitration, the parties are always able to deviate from those terms through a separate agreement effectively amending the arbitration clause.

Governing law can have a great influence on the outcome of IP arbitration. Licensing disputes may turn on contractual interpretation issues that involve mistakes, ambiguity, custom and parol evidence. Questions of IP law (patent law, trademark law, etc.) are decided based on the law of the jurisdiction that granted the IP right. Different jurisdictions vary on the evidence that can be presented to support a contractual interpretation and the persuasiveness of various types of evidence, so it is essential to understand the relevant law at the outset and tailor arguments during the arbitration accordingly.

It is also important to take into account the applicable arbitral rules in a given arbitration clause. Where a clause does not specify the applicable arbitral rules, should a dispute arise, the parties can seek to agree to a set of applicable rules and the governing arbitral institution or proceed with ad hoc arbitration. Among the most commonly used arbitral rules are those of the International Chamber of Commerce, the United Nations Commission on International Trade Law, the China International Economic and Trade Arbitration Commission, the International Centre for Dispute Resolution, the American Arbitration Association (AAA) and the Swiss Arbitration Centre. Some organisations and arbitral institutions, including the AAA,<sup>2</sup> the World Intellectual Property Organization<sup>3</sup> and the International Institute for Conflict Prevention and Resolution<sup>4</sup> provide IP-specific arbitration rules that may be employed.

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2 American Arbitration Association, Resolution of Patent Disputes Supplementary Rules, 1 January 2006.

3 World Intellectual Property Organization (WIPO), WIPO Arbitration Rules, 1 July 2021. See also WIPO Arbitration and Mediation Center, 'Commentary on WIPO Arbitration Rules', 2017.

4 International Institute for Conflict Prevention and Resolution, Patent & Trade Secret Arbitration Rules, 2005.

## Selection of arbitrators

As with all arbitration, the selection of arbitrators in IP disputes demands serious consideration. Questions that must be asked include the following:

- Is it more important that the arbitrator be steeped in knowledge of IP law or have experience in the industry in which the agreement operates?
- Is extensive general experience as an arbitrator more important than both IP and industry experience?

The answers to these questions may be informed by the extent to which IP issues will need to be addressed in detail in the dispute. In a situation concerning a termination that gives rise to patent infringement allegations and counterclaims for patent invalidity, it would be preferable to have an arbitration panel with experience dealing with those issues.<sup>5</sup> If, on the other hand, the IP issues are less extensive, the need for IP specialists as arbitrators is less important of a consideration.

The selection process may also depend on choosing a sole arbitrator or a party arbitrator for a three-person panel. In either case, it is important to conduct research into the candidate's past experience, and any awards they may have issued as an arbitrator. In the situation where one is selecting a party arbitrator, who in turn will choose a chair with the other party arbitrator, panel dynamics must be carefully considered.

## Considerations for the initial procedural conference

There are a number of ground rules that parties may wish to raise with tribunals at the initial procedural conference in cases involving intellectual property. These include the use of interim measures to coordinate parallel disputes and maintain the status quo, the handling of confidential information and bifurcation of certain issues, including damages.

## Interim measures

Interim measures may be essential to achieving a party's goals while the arbitration process unfolds. For example, in IP infringement disputes, the rights holder will seek an injunction prohibiting the alleged infringer from selling infringing products during the pendency of the arbitration. In the context of a dispute

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<sup>5</sup> Under US law, an issue of patent validity is arbitrable, and the award is final and binding between the parties. 35 USC Section 294. The patentee must provide notice of the award to the US Patent and Trademark Office, which is then entered into the prosecution record of the patent.

concerning a collaboration agreement, a party may seek injunctive relief requiring the other party to participate in patent office and regulatory filings, or otherwise advance commercial goals underlying the agreement.

It is important to assess both availability of the interim measures and whether there are adequate enforcement mechanisms, including under the law of the legal seat or a jurisdiction where a party is seeking to enforce the interim measure or interim award. To the extent that a tribunal issues an interim or partial award, the New York Convention could apply, and enforcement can be sought in a jurisdiction that is a party to the Convention, subject to the specific adopting legislation of a given state.

### Protection of confidential information

Disputes involving intellectual property often require attention to the protection of confidential information. In some cases, parties will seek the exchange of confidential information that is highly sensitive and that has not been previously disclosed to the other party.

In those situations, there may be occasion to use two-tiered protective orders that limit the disclosure of highly sensitive information even more tightly than ordinary confidential information. Commonly referred to as ‘attorneys’ eyes only’, this tier of protection limits disclosure to shield highly confidential information from the opposing party itself and allow use only by the opposing party’s attorneys and the retained experts working on the matter. Sometimes, there is also a carve-out in this tier of protection for the in-house counsel managing the case.

### Use of an expert witness on IP issues

Parties often consider the use of expert witnesses on IP issues. The experts may be particularly helpful where national IP filings or regulatory filings are involved.

An expert on the technical subject matter of the intellectual property may be invaluable where it is important to have an understanding of the underlying technology to resolve the legal dispute. Some technical background can be presented through fact witnesses, but a technical expert can often provide the background to the technology and weave the facts into a useful opinion on the legal issues.

Sometimes, tribunals may seek appointment of a tribunal expert on complicated issues of technology. In those cases, parties should also simultaneously engage their own technical expert to focus the tribunal and its appointed expert on the key parts of the technology that are important to the parties’ theories of the case.



## Damages

Determining damages in IP arbitration can be an exceedingly complex exercise. In cases involving infringement of IP rights, the rights holder typically seeks damages in the form of a reasonable royalty or lost profits. These basic damages concepts may be further complicated by subsidiary grounds for damages such as convoyed sales, where the infringement affected sales of an unpatented product that is closely related to the patented product.

The methodology for determining a reasonable royalty or lost profits may depend on the governing law of the arbitration. For example, US courts determine reasonable royalties in patent cases by considering a hypothetical licence to the patents-in-suit at the time of first infringement. In certain cases where a patent holder can demonstrate a capacity to supply replacements for the infringing sales, US courts can award lost profits. In some cases, the courts can also issue a permanent injunction on sales of infringing goods.

Patent damages that are measured based on a reasonable royalty, lost profit damages or a mix of both are available in many jurisdictions, and the tests for determining damages are jurisdiction-specific. Permanent injunctions may also be available, depending on the jurisdiction.

Where the dispute centres on the ownership of IP rights, the calculation of damages will likely involve IP valuation, which is a different exercise than calculating infringement damages. There are three main methods for calculating the value of an IP asset:

- The income method attempts to determine the income stream the intellectual property at-issue is expected to generate over the course of its useful life. A discount rate is used to determine the present value of the income stream.
- The market method values the IP asset by looking at transactional market data to determine the price paid for similar assets.
- The cost method values the IP asset through calculating the cost of developing the asset.

There are advantages and disadvantages to each of those damages approaches. It is important to give careful thought to which method to employ. For example, a claimant seeking damages based on a trademark valuation will likely opt to use the income or market methods because the cost of developing a trademark is usually low and it is difficult to incorporate the value of novelty into the cost method.

Given the complexities of calculating IP damages, expert economic testimony is very important. Some economic experts have more experience with infringement damages calculations than IP valuations, and vice versa, so it is important for parties to understand the basic damages theories applicable to their case when interviewing potential experts.

It is also important to be attuned to confidentiality considerations when settling on a damages strategy. If a party is seeking infringement damages, it will likely have to produce sensitive product and sales data, potentially to a competitor. Depending on the valuation method employed, the party may have to disclose documents and financial figures concerning product development. Confidentiality issues in the damages phase can be avoided by agreeing on a robust confidentiality order in the early stages of arbitration.

## **Other considerations**

### **Settlement strategies**

It is often prudent to keep a channel of communication open with opposing parties concerning the ultimate resolution of IP disputes. Because these disputes are often complicated by many of the issues already mentioned in this chapter, settling these matters themselves are often complicated affairs. Parties can avail themselves of an arbitration channel and a mediation channel during the arbitration so that there is opportunity in the run-up to a hearing to resolve the matter through a negotiated resolution.

### **Litigation finance**

Litigation finance is an option for a claimant to help prosecute a claim. There are also litigation finance products available for defendants in certain circumstances to hedge the cost of litigation against an expected outcome. In both cases, funding depends on the funder's assessment of the case, and sufficient time must be accounted for in the schedule to allow for the process if litigation funding is an option. It is also important to be attuned to jurisdiction-specific privilege issues that may arise when working with litigation funders.

## **Conclusion**

IP disputes involve unique considerations that must be weighed against each other. The benefits and detriments of litigating IP infringement disputes in national courts versus an arbitral forum demands careful consideration with regard to the factors discussed in this chapter. In a significant number of cases, arbitration can provide the most cost effective and efficient way to resolve complex IP disputes.

## CHAPTER 6

# Confidentiality in International IP Arbitration

Robert Wachter, Grace Yoon and Minjae Yoo<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. There are also 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 arbitration must 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 arbitration.

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<sup>1</sup> Robert Wachter, Grace Yoon and Minjae Yoo are members of Lee & Ko.

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 of the communications and submissions; however, 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 the proceedings.<sup>2</sup>

In contrast, the question of confidentiality generally concerns whether and under what circumstances a party or participant in 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 arbitration may have an obligation to make disclosures to its regulator. Or a third party in unrelated litigation proceedings might request discovery of confidential materials that a party came to possess because of arbitration. Or a government entity might request documents or other information as part of an investigation. In those circumstances,

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

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. Often, commercial parties are prepared to agree, at the time 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 arbitration proceedings at the International Court of Arbitration (ICC), 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.

Parties are under no obligation to agree on confidentiality after a dispute arises, and in many cases, 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. Alternatively, 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>

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

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

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

Another situation that sometimes arises is a multi-contract, multi-party dispute with back-to-back contracts, such as a licence and sub-licence. 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 separate proceedings 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 those 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> 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

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

7 UNCITRAL Arbitration Rules, Article 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.'

arbitral proceedings and documents produced therein. The UNCITRAL Notes on Organizing Arbitral Proceedings state that the question of confidentiality is subject to national legislation and that, in the absence of an express agreement on confidentiality, parties ‘cannot assume that all jurisdictions would recognize 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. Merret*<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. Stuart 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 separate proceedings. 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>

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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. Stuart J Mew* [1993] 2 Lloyd’s Rep. 243.

13 *id.*, at 247.

In a similar vein, 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, it 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.

In *Manchester City Football Club Ltd v. The Football Association Premier League Ltd and others*,<sup>16</sup> the English Court of Appeal found that a judgment dismissing challenges to an arbitral award could be published if there was a public interest in ensuring appropriate standards of fairness in the conduct of arbitration, even where the parties' wishes were to avoid public scrutiny.

## 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 (DIS) expressly provides for 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

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

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

16 *Manchester City Football Club Ltd v The Football Association Premier League Ltd and others* [2021] EWCA Civ 1110.



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>17</sup>

There are diverging scholarly views in Germany with regard to whether parties to arbitral proceedings 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>18</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>19</sup> As in England, the question of a general duty of confidentiality is deferred to the courts.

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>20</sup> and enforceable,<sup>21</sup> in the absence of such a confidentiality agreement, parties cannot expect the arbitration proceedings and the documents and information exchanged in arbitration to receive any special confidentiality protection.

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17 DIS Arbitration Rules, Article 44.

18 'Arbitration Guide: Germany', Arbitration Committee of the International Bar Association (updated February 2018).

19 The Revised Uniform Arbitration Act of 2000, Section 17(e).

20 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).

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

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>22</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>23</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>24</sup> The decision further stated that the defendant failed to 'point to any actual agreement of confidentiality, documented or otherwise',<sup>25</sup> effectively refusing to recognise an implied confidentiality obligation.

Other US courts have reached similar conclusions, denying an implied duty of confidentiality in the absence of an express agreement. In *Industrotech Constructors, Inc v. Duke University*,<sup>26</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>27</sup>

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. Given that US courts have held that a strong presumption of access

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

23 *id.*, at 350.

24 *id.*, at 349–350.

25 *id.*, at 350.

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

27 *id.*, at 274.

to judicial records applies to those of dispositive motions,<sup>28</sup> the parties' confidentiality agreement alone may not be sufficient for the court to order all arbitration information to be sealed in the court proceedings.

## 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 arbitration is now confidential unless the parties agree otherwise;<sup>29</sup> however, for international arbitration, there is no equivalent confidentiality provision, except the requirement that the arbitral tribunal's deliberations are to be kept secret.<sup>30</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>31</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 the 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>32</sup>

Similarly, in *Bleustein et al v. Société True North et Société FCB International*,<sup>33</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 arbitral proceedings without a legal obligation to report.

A more recent decision in *NAFIMCO v. Foster Wheeler Trading Company*<sup>34</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.

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28 *Kamakana v. City and County of Honolulu*, 447 F.3d 1172 (9th Cir. 2006).

29 French Code of Civil Procedure, Article 1464(4).

30 *id.*, Article 1469.

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

32 *id.*, at 283.

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

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

## 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>35</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>36</sup> In this regard, the Singapore High Court confirmed in the decision of *BBW v. BBX*<sup>37</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.

Although Singaporean statutory law does not codify a general duty of confidentiality in arbitration, the International Arbitration Act was amended in 2020 to include express provisions that authorise the arbitral tribunal to enforce existing confidentiality obligations between the parties.<sup>38</sup> Regarding whether a default obligation of confidentiality exists, Singapore courts have followed the English position and recognise a common law duty of confidentiality.

In *Myanma Yaung Chi Oo Co Ltd v. Win Win Nu*,<sup>39</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. It reasoned that as arbitration constitutes private hearings, the parties' expectation is that 'the proceedings are confidential'.<sup>40</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>41</sup>

In *CJY v. CJZ*,<sup>42</sup> the High Court noted that such exceptions to confidentiality permitting disclosures of arbitration proceedings could be relied upon by an employee of a party (in that case, the head of finance) to protect the party's

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35 Singapore International Arbitration Act, Section 22.

36 *id.*, Section 23.

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

38 Singaporean International Arbitration Act, Section 12(1).

39 *Myanma Yaung Chi Oo Co Ltd v. Win Win Nu* [2003] 2 SLR 547.

40 *id.*, at 17.

41 *id.*, at 19.

42 *CJY v. CJZ* [2021] 5 SLR 569.

interests. In the same case, the court also found that a court's exercise of case management powers fell under the category of another exception to confidentiality: that disclosure was in the interests of justice.

The decision of *International Coal Pte Ltd v. Kristle Trading Ltd and Another and Another Suit*<sup>43</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>44</sup> It 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>45</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.<sup>46</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'.<sup>47</sup>

Certain statutory exceptions exist.<sup>48</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.

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.<sup>49</sup> If arbitration-related proceedings are held in closed court proceedings, a party can request the court's direction with regard to what

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

44 *id.*, at 84.

45 *id.*, at 84–85.

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

47 *id.*

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

49 *id.*, Section 16.

arbitration information (if any) may be published.<sup>50</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.<sup>51</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>52</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.

### **ICC**

The ICC only expressly imposes confidentiality duties on members of the court<sup>53</sup> and does not extend similar duties to the arbitral tribunal or parties. Instead, the 2021 version of the ICC Rules, as with previous versions of the rules, defers to

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

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

52 See Hwang, Paragraphs 75–77.

53 ICC Arbitration Rules, Appendix I, Article 6 and Appendix II, Article 1.

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>54</sup>

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>55</sup> and no sanctions or potential remedies are prescribed under the rules for a breach of such an order.

Regarding the publication of awards, the ICC has confirmed that all awards made as of 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>56</sup> Such an approach reflects the ICC's ongoing efforts to introduce greater transparency in arbitration administered by the court; therefore, should parties to ICC proceedings wish to keep their award confidential, they must be mindful to expressly oppose publication of their award.

## LCIA

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 2020 version of the LCIA Arbitration Rules.

Under Article 30, the arbitral tribunal and the parties are bound to keep confidential all materials created for the purposes of arbitration and any documents produced during arbitration that is not in the public domain, as well as any award.<sup>57</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>58</sup>

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54 *id.*, Article 22(3).

55 *id.*, Article 22(5).

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

57 LCIA Arbitration Rules, Article 30.

58 *id.*

The high level of confidentiality imposed on the persons involved in 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 pending or completed LCIA arbitration.<sup>59</sup> The LCIA will also not publish arbitral awards in any form, partial or even redacted,<sup>60</sup> without the consent of the tribunal and the parties.<sup>61</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>62</sup> Given the broad nature of these exceptions, particularly the broad exception 'to protect or pursue a legal right,' further case law is needed to see whether the LCIA Rules provide any protection greater than the English common law duty of confidentiality.

## ICDR

The International Center for Dispute Resolution (ICDR) of the American Arbitration Association 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 40(1) of the 2021 version 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>63</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 40(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, provided that there is no party agreement to the contrary.<sup>64</sup> The tribunal's power to order

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<sup>59</sup> LCIA Notes for Parties (18 August 2017), Paragraphs 101–104.

<sup>60</sup> *id.*, Paragraph 103.

<sup>61</sup> LCIA Arbitration Rules, Article 30.

<sup>62</sup> *id.*

<sup>63</sup> ICDR Arbitration Rules, Article 40(1).

<sup>64</sup> *id.*, Article 40(2).



confidentiality measures is again confirmed in Articles 24(5) and 25 in connection with the exchange of information subject to commercial or technical confidentiality and documents subject to privilege.<sup>65</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.

Regarding awards, Article 40(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>66</sup> The award, as well as orders, decisions and rulings, may also be published or be made publicly available by the ICDR if they have already become public during the course of enforcement or through other means.<sup>67</sup> The ICDR may also publish or otherwise disclose awards and other decisions, provided that identifying information about the parties and the case is redacted, should no party object to such publication in writing within six months of the date of the award.<sup>68</sup>

## WIPO

Among the major institutional rules, the World Intellectual Property Organization (WIPO) arguably provides the most detailed confidentiality protections, in line with its focus on IP-related disputes. For instance, under Article 54 of the 2021 version of the WIPO Rules, trade secrets and other confidential information are given substantial protections from disclosure.<sup>69</sup> These include protections under an appropriate confidentiality undertaking that must be signed by any person who will have access to confidential information, should the tribunal deem it proper for such information to be disclosed.<sup>70</sup>

The tribunal may also make decisions on specific issues without the confidential information being disclosed to it or to the party from which the confidential information does not originate by appointing a confidentiality advisor to serve as an expert on those issues.<sup>71</sup>

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65 *id.*, Articles 24(5) and 25.

66 *id.*, Article 40(3).

67 *id.*

68 *id.*, Article 40(4).

69 WIPO Arbitration Rules, Article 54.

70 *id.*, Article 54(c).

71 *id.*, Article 54(e).

Despite these detailed protections, however, the WIPO Rules also carve out a number of exceptions, similar to those adopted by the institutions that have already been discussed in this chapter.

Specifically, parties must keep confidential all information concerning the existence of an arbitration under Article 75,<sup>72</sup> which includes, among other things, the cause of the action, the remedies sought, the IP rights at issue and the members constituting the arbitral tribunal.<sup>73</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 body’.<sup>74</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>75</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>76</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>77</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>78</sup>

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72 *id.*, Article 75.

73 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.

74 WIPO Arbitration Rules, Article 75(a).

75 *id.*

76 *id.*, Article 75(b).

77 *id.*, Article 76.

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

Likewise, the award must be kept confidential under Article 77.<sup>79</sup> Disclosure, however, is permitted under specified circumstances including, among other things, 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>80</sup>

Article 78 extends the same confidentiality duties stipulated for parties to members of WIPO and the tribunal, subject to similar exceptions.<sup>81</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>82</sup>

## SIAC

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

For instance, under Rule 24.4, all materials and other documents used in relation to a SIAC arbitration must be kept confidential unless otherwise agreed by the parties.<sup>83</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>84</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.

Under Rule 32, a SIAC award may only be published with the consent of the tribunal and the parties.<sup>85</sup> Even where there is consent, the award may only be published in redacted form, without any identifying information about the parties.<sup>86</sup>

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79 WIPO Arbitration Rules, Article 77.

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

81 WIPO Arbitration Rules, Article 78.

82 *id.*

83 SIAC Arbitration Rules, Rule 24.4.

84 *id.*, Rule 39.

85 *id.*, Rule 32.12.

86 *id.*

Like the LCIA Rules, the SIAC Rules also recognise exceptions. Disclosure of matters relating to the proceedings 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>87</sup> It remains unclear how frequently this rule has been invoked, and whether the rule has been effective in curbing confidentiality breaches.

### HKIAC

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 proceedings, which presumably includes any information or documents submitted or used during the arbitration.<sup>88</sup> The same confidentiality obligations are extended to the arbitral tribunal, HKIAC, as well as experts and witnesses under Article 45.2.<sup>89</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 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>90</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 is removed and no party objects to such publication.<sup>91</sup> In effect, HKIAC requires that parties proactively oppose the publication of any award, much like the ICC.

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87 *id.*, Rule 39.4.

88 HKIAC Administered Arbitration Rules, Article 45.1.

89 *id.*, Article 45.2.

90 *id.*, Article 45.3.

91 *id.*, Article 45.5.

## Conclusions and recommendations

Against this background, it should be clear that the legal and institutional framework regarding international arbitration will often not be sufficient, by itself, to protect all 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 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. In the absence of 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.

## Contractual agreements

Perhaps the most effective protection is the protection that 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. Institutions also often impose additional obligations on the arbitrators and employees of the institution. Notwithstanding those protections, in IP arbitration 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 the 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 may normally appear in the underlying contract, an arbitral tribunal may 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 may be reviewed *in camera*. The tribunal may also order measures restricting how highly confidential information may be shared with experts, or how such information may be used at the evidential 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 those 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.

## CHAPTER 7

# Disclosure Issues in International IP Arbitration

Alexander Blumrosen<sup>1</sup>

### Introduction

When parties choose arbitration to resolve their IP disputes, there are certainties 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 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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- 1 Alexander Blumrosen is a partner at Polaris Law. Nour El Ghadban assisted with research for this chapter.
  - 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



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. 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 International Bar Association 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. 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. 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.

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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). 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 discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit' (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). See also, Commentary on the revised text of the 2010 IBA Rules on the Taking of Evidence in International Arbitration (2013), IBA Working Party (hereafter, the Commentary on the IBA Rules).

5 See, for example, Rules on the Efficient Conduct of Proceedings in International Arbitration (2018), proposing a more inquisitorial approach with the arbitral tribunal taking a more active role.

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; otherwise, the ultimate arbitration award could be at risk of annulment by a party dissatisfied with the outcome.<sup>7</sup> Accordingly, setting the rules of 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’, 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 focus on unresolved matters.

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

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<sup>6</sup> ICC Arbitration Rules (2017), Article 25(1).

<sup>7</sup> 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 because of 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).

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>8</sup> and the IBA Rules,<sup>9</sup> but they do not fully resolve the issue.

In 2010, the European Court of Justice (ECJ) declared in the *Akzo Nobel* case<sup>10</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 because they are bound to their client by an employment relationship.<sup>11</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>12</sup> although each EU Member State may adopt more generous privilege rules.<sup>13</sup> This is the case in Spain, for example, where the rules do not distinguish between

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8 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 rule to all parties, giving preference to the rule that provides the highest level of protection.’

9 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’.

10 *Akzo Nobel Chemicals Ltd and Akcros 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 European Court of Justice (ECJ) ruling confirmed the trial court decision that the documents were not protected by privilege.

11 *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).

12 *Supra* note 10, Para. 41, p. 8,381.

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

external and internal counsel.<sup>14</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>15</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>16</sup> as did the IBA, the Association of Corporate Counsel, the European Company Lawyers Association and the Council of Bars and Law Societies of Europe.<sup>17</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>18</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 arbitration of which the seat is in the European Union, creating further uncertainty for the parties.<sup>19</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

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14 See: Article 27.4 of the Spanish General Regulation of the Legal Profession.

15 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.

16 Supra note 10, Para. 12, p. 8,372.

17 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 15, p. 50.

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

19 Hogan Lovells, 'Can US attorneys provide privileged advice in Europe?', Lexology, 8 October 2013.

preparing their patent, while the French party does the 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 those documents, whereas because 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>20</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 those issues early in the proceedings; this is the type of issue that can and should be raised at the start of proceedings,<sup>21</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 this case, the US rule), which would mean that, by tribunal order, the French parties' otherwise non-privileged documents that, if produced, could affect the outcome of the case cannot be disclosed.

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20 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.

21 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.

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 the scope of the privilege rules early in the proceedings before any dispute has arisen, and to obtain the parties' consent to those rules.<sup>22</sup>

### **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 arbitration, and the outcome can be greatly influenced by documents or witness testimony exchanged during the proceedings. Parties often commence arbitration without having marshalled all 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>23</sup> however, 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 (e.g., 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

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22 But see Ibrahim Shehata, 'Attorney-Client Privilege & International Arbitration', *Cardozo Journal of Conflict Resolution*, May 2019, p. 369.

23 *Supra* note 4.

person or entity found in the district in which the court sits. For years, however, the availability of this kind of discovery in international arbitration proceedings depended on which court the request was made to, as there were different interpretations of the statute on this point among the federal circuits.

The Supreme Court took up this question in *ZF Automotive US, Inc v. Luxshare, Ltd*;<sup>24</sup> and *AlixPartners, LLP v. The Fund for Protection of Investors' Rights in Foreign States*,<sup>25</sup> which involved two separate cases in which a party to an arbitration applied for discovery assistance under Section 1782 in aid of the arbitration proceeding.

In a unanimous decision, the Supreme Court held that the term 'foreign or international tribunal' in Section 1782 refers only to governmental or intergovernmental bodies and not to private arbitration panels and, accordingly, Section 1782 may not be used to obtain discovery in aid of private arbitration. In *ZF Automotive*, it found that private arbitration held under the rules of the German Arbitration Institute further to a contractual arbitration agreement could not be considered a tribunal under Section 1782.

Similarly, in *AlixPartners*, the Supreme Court held that the arbitration panel could not be considered a tribunal in respect of Section 1782 discovery as the parties had agreed to resolve their dispute using ad hoc arbitration under the UNCITRAL Rules: it considered that the tribunal was not 'imbued . . . with governmental authority', even though the arbitration panel was one of several fora available to the parties under the applicable bilateral investment treaty between Lithuania and Russia.

Not expressly resolved by the Supreme Court is whether Section 1782 discovery is available to investment treaty arbitration panels that draw their authority directly from international investment treaties such as the ICSID Convention; however, it is likely that those panels will be considered foreign or international tribunals under the analytical framework provided by the Supreme Court.

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

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24 *ZF Automotive US, Inc v. Luxshare, Ltd*, No. 21-401.

25 *AlixPartners, LLP v. The Fund for Protection of Investors' Rights in Foreign States*, No. 21-518, 596 U.S. \_\_ (2022).

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>26</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 proceedings 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 the 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.

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>27</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>28</sup>

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26 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.

27 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).

28 Article R153-1 of the Commercial Code.



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. There is also no prohibition on such evidence being used in arbitration, whether in France or abroad. Importantly, the French Supreme Court has confirmed that this procedure may be used to obtain evidence from non-parties.<sup>29</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 resort by parties 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 proceedings that they might use such discovery tools, it is recommended that the tribunal include a reference to this type of discovery request if the 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, those rules do provide the following:

- ‘The arbitral tribunal and the parties shall make every effort to conduct the arbitration in an expeditious and cost-effective manner.’<sup>30</sup>
- ‘The arbitral tribunal shall proceed within as short a time as possible to establish the facts of the case by all appropriate means.’<sup>31</sup>

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 the 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

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

30 Article 22.

31 Article 25.

tribunal even more control of its proceedings if the parties were required not only to notify the tribunal of recourse to national courts, but also if such recourse had to be approved by the tribunal (although in practice this is rarely done).

Although this might seem to be 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>32</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>33</sup> and in Europe to the 1995 Directive.<sup>34</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>35</sup> and EU<sup>36</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. Several US courts have appointed a privacy monitor in the context of international discovery to oversee compliance by the parties with the EU privacy rules, showing some measure of judicial respect for the EU rules.<sup>37</sup>

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32 Regulation (EU) 2016/679 of the European Parliament and of 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, 2016 O.J. L 119/1 (GDPR).

33 Law No. 78-17 of 6 January 1978.

34 The European Data Protection Directive 95/46/EC.

35 Deliberation 2009-474 of 23 July 2009.

36 European Commission, 'Working Document 1/2009 on pre-trial discovery for cross border civil litigation'.

37 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.*

The GDPR brought new protective requirements and new sanctions relating to the management of personal data within its broad territorial scope.<sup>38</sup> It applies to all covered personal data; it is not industry- or sector-dependent. As a result, anyone who manages or processes personal data is potentially subject to the GDPR, including in international litigation (as had been indicated in the 2008 EU guidance) and in international arbitration.<sup>39</sup>

There is not yet any detailed GDPR guidance specific to international arbitration; however, it is clear from the detailed landmark analysis by Kathleen Paisley,<sup>40</sup> and by the final guidance offered by the ICCA Working Group in 2022,<sup>41</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>42</sup> but there remains great uncertainty regarding who should be taking the lead on this issue, who will ultimately be responsible should there be any sanctions, and what consequences non-compliance might have on the final arbitration award.<sup>43</sup>

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*Bank of America Corp., et al.*, (S.D.N.Y. 2020) 18 Civ. 10364 (LGS) (SDA) (2020) and *Glass Egg Digital Media v. Gameloft, Inc. et al.* (N.D. Cal.).

38 See Article 3 of the GDPR. 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)).

39 But see the 'Tribunal's Communication to the Parties' in *Tennant Energy LLC v. Canada*, 24 June 2019, 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').

40 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).

41 ICCA-IBA Roadmap to Data Protection in International Arbitration, ICCA Reports No. 7, 2022.

42 See ICC, Note to Parties and Arbitral Tribunals on the Conduct of the Arbitration 2019, Para. 80, p. 12; 2020 Privacy Policy of the German Arbitration Institute; and Vienna International Arbitration Centre Arbitration Privacy Policy.

43 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).

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 arbitral proceedings 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>44</sup>

Both arbitration institutions and tribunals have their role to play in compliance, although 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 institutional liability under the data protection laws.

It will fall, then, to the tribunal to address the issue on a case-by-case basis, upon consultation with the parties regarding 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 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 are frequently 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

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44 Paisley, *supra* note 40, 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.

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>45</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, 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;
- consider steps to minimise the personal data contained in the discovery (through pseudonymisation or anonymisation); and
- consider appointing a data protection monitor to verify compliance with applicable data protection regulations in advance of document productions by the parties to avoid having the tribunal or the institution be deemed a co-controller of the personal data.

The tribunal could also encourage parties to undertake a data protection impact analysis (DPIA) before producing any discovery containing personal data. The GDPR provides for DPIAs when a data controller is faced with new or unforeseen transfers of the personal data that have been collected; extensive production of documents would certainly qualify as an unusual event in the life of a company, or at least an event that may not have been anticipated at the time its data collection and retention rules were established. Requiring the parties themselves to

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45 Article 4(7) of the GDPR.

ensure GDPR compliance, through the establishment of DPIAs or otherwise, can effectively shift both the cost and the risk of compliance to the party that initially collected the personal data for their business purposes.

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 Harbour framework was annulled by the ECJ.<sup>46</sup> On 16 July 2020, the ECJ ruled that the Privacy Shield framework also violated EU law, owing to what the court considered overly intrusive US intelligence agencies. Accordingly, for transfers between the European Union and the United States, or between Switzerland and the United States, other safeguards must 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 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>47</sup>

The adoption of SCCs by the participants in 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>48</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).

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<sup>46</sup> *Maximilian Schrems v. Data Protection Commissioner*, ECJ, 2015 (*Schrems I*).

<sup>47</sup> See EDPB, Guidelines 2/2018 on derogations of Article 49 under Regulation 2016/679, 25 May 2018, p. 11.

<sup>48</sup> The ECJ in *Schrems II* (16 July 2020) confirmed that standard contractual clauses (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, [www.baden-wuerttemberg.datenschutz.de/orientierungshilfe-des-lfdi-bw-was-jetzt-in-sachen-internationaler-datentransfer](http://www.baden-wuerttemberg.datenschutz.de/orientierungshilfe-des-lfdi-bw-was-jetzt-in-sachen-internationaler-datentransfer/)).

SCCs are regularly used in US litigation to ensure compliance with the GDPR, and many US courts in litigation are open to accommodating foreign data privacy concerns, as notably recommended by the Sedona Conference,<sup>49</sup> though certain courts have refused to accept the GDPR as an excuse for non-compliance with the ordered discovery.<sup>50</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, although paradoxically there is a dearth of guidance for practitioners on how to proceed in those 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 that will provide an answer for every situation.

Arbitration participants should expect 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.

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49 The Sedona Conference: International Principles on Discovery, Disclosure & Data Protection in Civil Litigation, January 2017.

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

## CHAPTER 8

# 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 IP disputes. While IP arbitration is on the rise, there is still a tendency to view these processes as the only alternatives to one another. A much broader range of processes, however, 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. Such 'mixed mode' processes should be considered in all IP disputes.

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1 Jeremy Lack is an ADR neutral and attorney-at-law at Lawtech.ch. This article is contributed in memory of David Plant (1921–2012), a leading IP litigator, arbitrator and mediator and the author of the publication by the International Chamber of Commerce (ICC) *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.'



Despite the 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 despite being inherently unpredictable, costly and risky. 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 75 per cent when mediation is used on its own and above 80 per cent when mediation 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, in part, because of a lack of personal familiarity with such processes, misunderstandings regarding the enforceability of settlement agreements reached through them and a reticence to 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) first, IP litigators are unlikely to gain greater personal familiarity with such processes, recommend them or generate the benefits and 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, especially in IP disputes.

## 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> 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 and theragnostics<sup>4</sup>), and the situation is no different in this regard post-covid-19.

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 it 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, therefore, 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* disputes that started in 1907 and have still not been fully resolved)<sup>6</sup> and other IP disputes. This is not only because of the amorphous, technical and nationalistic nature of IP rights, but also because of 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.

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2 See Benchmarking IP Litigation in 2019, a study commissioned by Morrison Foerster. See also *Burford Quarterly* 2022, No. 1 (a review of legal finance). Neither of those studies mentions mediation or other non-adjudicative ADR proceedings as possible solutions to the problems identified in the reports, underscoring the paradox of the low use of ADR in IP proceedings by IP and litigation 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.

6 'Budweiser trademark dispute' (2022) Wikipedia, [https://en.wikipedia.org/wiki/Budweiser\\_trademark\\_dispute](https://en.wikipedia.org/wiki/Budweiser_trademark_dispute) (accessed 12 October 2022).

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 (e.g., assessments of scope or quantum/value, which are an art rather than a science) as well as determinations of whether something 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. Bringing several experts from different countries and fields of intellectual property together can lead to disparate or even inconsistent legal advice on how best to resolve an IP dispute.

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 inherently unpredictable.<sup>9</sup> Not only do the application of applicable norms vary from country to country (despite repeated attempts

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7 For example, copyrights versus designs versus trade secrets versus utility patents or models versus trademarks versus domain names versus *sui generis* database rights.

8 For a fairly 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).

9 For examples of recent publications on the variability and national subjectivity of patent disputes, see the ‘Global IP Project: Annual Global Patent Litigation Report 2014’, *Patent, Trademark & Copyright Journal* (2015); and the chapter in WIPO’s ‘World Intellectual Property Indicators 2018’ report entitled ‘An overview of patent litigation systems across jurisdictions’.

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 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, valuations or senses of justice can fuel conflict escalation and an adversarial system that would often benefit from a less positional or evaluative 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, and the outcomes of IP arbitration remain just as unpredictable as expert IP court proceedings. Furthermore, arbitral awards may be unenforceable in several jurisdictions if they are not carefully drafted to avoid public policy concerns (e.g., declarations of invalidity *erga omnes*).

Arbitration also entails high costs and significant timelines and is an unclear or risky value proposition, especially given the limited rights of appeal that apply to arbitral awards. Where the stakes remain high, large costs need to be sunk upfront, and reputations remain equally vulnerable. Relationships can also deteriorate during the course of 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 the same people tend to interact 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 an arbitral tribunal declared a registered IP asset to be invalid).

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 because of invisible cultural influences, different interpretations of laws or

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10 J Lack, 'National Intellectual Property Rights: The Importance of Mediation in an Increasingly Global and Technological Society', 72 *Arbitration* No. 4 (2006).

jurisprudence, unconscious biases or different original professional source trainings. The subjectivity and unpredictability of the relief and damages available, even in IP arbitration, combined with the costs, stress, complexity, lost management time, formality and length of the proceedings may render IP arbitration equally as unattractive as litigation before national courts – especially if an outcome is needed within a matter of months rather than years, if it is expected to have extraterritorial impact, or if the disputants cannot afford to spend the hundreds of thousands (not to mention possibly millions) of US dollars that full-blown arbitration may entail.

Furthermore, applying varying interpretations of the same legal concepts in each relevant jurisdiction can still lead to contradictory outcomes in arbitration, just as in multi-state 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.

The probability of winning any adjudicative process (whether litigation or arbitration) remains a gamble, with odds of only 60 per cent even in very strong IP cases.<sup>11</sup> There will always be evidential 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>

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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 the strongest possible 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 and L Freyer in 'CLS Bank v. Alice Leads to an Even Murkier Morass', (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)). They can also 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.' This confusing language led to the equally confusing and vague Protocol on the Interpretation of Article 69 EPC in November 2000 (see Article 1 of the Protocol). The

Even if an arbitral award is favourable, its extraterritorial effect and enforceability will remain uncertain, especially with regard 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 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 only 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 or deal with its root causes. 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. The use of ADR to mean appropriate dispute resolution, therefore, engenders 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.

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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. Hoechst Marion Roussel Limited et al.* (1999)). 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. 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 that have sought to harmonise and reduce national inconsistencies in this field. See European Commission, 'The EU copyright legislation', <https://ec.europa.eu/digital-single-market/en/eu-copyright-legislation> (accessed 12 October 2022).

13 FRAND licences create problems when trying to work out royalties in an industry where there may be thousands of industry-essential patents that need to be licensed for a single product to get to market.

This was the view proposed in 2016 by the Chief Justice of the Supreme Court of Singapore, Sundaresh Menon, at the opening ceremony of the Global Pound Conference Series (the GPC Series), an international series of 28 multi-stakeholder litigation 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. To quote the Honourable 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.<sup>14</sup>*

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14 See <https://imimediation.org/research/gpc>. The Hon. Chief Justice Menon's comments are particularly appropriate for this chapter, 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 Natasha Mellersh, 'Chief Justice Sundaresh Menon On Mediation And The Rule Of Law', International Mediation Institute, 9 May 2017, <https://imimediation.org/2017/05/09/mediation-and-the-rule-of-law> (accessed 27 October 2022).

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 intellectual property. 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 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> as well as the following four key drivers as defining what disputants are seeking:

- Efficiency: efficiency (in time and cost) is the key priority of disputants when seeking dispute resolution proceedings.
- Greater collaboration: disputants expect greater collaboration from their advisers (e.g., lawyers) in dispute resolution proceedings.
- Pre-dispute and mixed-mode options: there was evidence of a growing global interest in the use of pre-dispute protocols and mixed-mode dispute resolution (i.e., combining adjudicative and non-adjudicative processes).
- In-house counsel to drive proceedings: in-house counsel are viewed as the agents most capable of orchestrating changes with regard to the above three drivers (whereas external advisers are perceived – including by themselves – as potential obstacles to such changes), while encouragement by judges, arbitrators and other providers of dispute resolution services is needed as well.<sup>16</sup>

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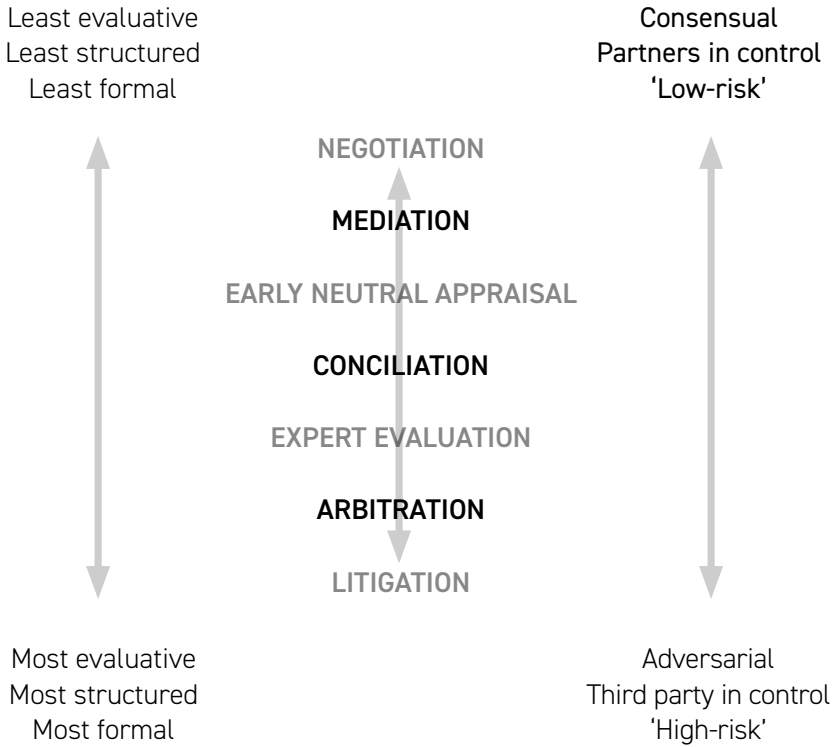
15 See International Mediation Institute, 'GPC Series Data and Reports', <https://imimediation.org/research/gpc/series-data-and-reports> (accessed 12 October 2022). For the GPC series' raw data, see [https://imimediation.org/wp-admin/admin-ajax.php?juwfpisadmin=false&action=wpfd&task=file.download&wpfd\\_category\\_id=907&wpfd\\_file\\_id=35505](https://imimediation.org/wp-admin/admin-ajax.php?juwfpisadmin=false&action=wpfd&task=file.download&wpfd_category_id=907&wpfd_file_id=35505) (accessed 12 October 2022).

16 The GPS Series Report, 'Global Pound Conference Series – Global Data Trends and Regional Differences' (2018), p. 3.



Figure 1: The range of procedural options available for IP disputes

**Appropriate dispute resolution: the options**



Source: J Kalowski, JOK Consulting

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 obvious choice if 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, which are distinct from one another. Each has its own benefits and inconveniences, as indicated in Figure 1.<sup>17</sup>

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.

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 respectively 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 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.

This distinction is an anathema to many common law practitioners, who prefer to think in terms of evaluative and non-evaluative mediation and are used to slipping seamlessly between these two forms of dispute resolution. It is often, however, a neutral-centric preference as opposed to a user-centric choice.

Nevertheless, to many civil law practitioners, the distinction between conciliation and mediation is very clear. While they are both amicable processes, they are very different from one another.

Conciliation in many civil law jurisdictions is a court-annexed process that is evaluative. It 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 innate patterns of social behaviour (e.g., ‘out-of-group’ or ‘in-group’ mental shortcuts or heuristics).

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18 Harvard Law School's Program on Negotiation offers a wide range of seminal publications on this topic, starting with R Fisher, W Ury and B 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).

When viewed as a social process, conciliation is a process where an evaluative ADR neutral helps the disputants to reach a mutually acceptable compromise between different positions, whereas a mediator is seen as a non-evaluative person who wishes to help the disputants to jointly consider new opportunities for settlement based on subjective considerations looking to the future 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 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;

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19 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?' in M Schonewille and F Schonewille (eds.) *The Variegated Landscape of Mediation: A Comparative Study of Mediation Regulation and Practices in Europe and the World*, the Netherlands, Eleven International Publishing 2014, pp. 19–44.

- what the learned doctrine and textbooks suggest; and
- what a likely outcome ought to be, based on the law and facts provided.

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 a primarily retroactive approach, seeking to analyse and understand facts that occurred in the past, who or what caused them, who is responsible or liable for a 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 key issues of fact and law 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), but also 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), which is usually litigation or arbitration.

Unlike an arbitrator, the IP conciliator can meet with the parties separately and provide opinions or recommendations before issuing a final proposal, because their personal view of the case 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, unless they have previously 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 is expected to give a recommendation.<sup>20</sup> In some jurisdictions, 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 process similar 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 be forward-looking: to help the disputants to look to the future and facilitate an interest-based negotiation rather than find a zone of compromise between different positions. While conciliators only have to consider a ZOPA, mediators also need to consider their zone of permitted evaluation (ZOPE).<sup>21</sup>

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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 evidential 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 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.

21 This is a new concept arising from the work of Working Group Three of the Tripartite Taskforce on Mixed Modes set up by the US College of Commercial Arbitrators, the International Mediation Institute (IMI) and the Straus Institute for Dispute Resolution, Pepperdine School of Law. For the Taskforce's global findings, see

IP mediators can help to reinstate a constructive dialogue that helps the disputants to gain a broader and deeper understanding of one another's future needs and interests as a basis for generating solutions, without having to focus on the merits of the parties' respective positions. The IP mediator is primarily there to help the parties exchange meaningful information as part of a joint problem-solving process, treating the disputants as partners seeking mutually acceptable solutions, where the outcome can be based on subjective considerations, such as the disputants' understandings, preferences, perceptions, emotions, interests, concerns, feelings, beliefs, values, needs and fears looking to the future as well.

Although private meetings with the parties may also occur, the purpose of such caucuses is different from IP conciliation insofar as the mediator is not there primarily to reality test or 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., situations in which: an alleged infringer cannot afford to pay anything; they may end up moving elsewhere or working with another competitor; and there are other mutually beneficial outcomes that can be generated without having to pay cash upfront).

While conciliation may seem to be ineffective for IP disputes where the IP rights are clearly valid or there is sufficient evidence of wilful infringement or pirated goods, mediation can still be beneficial to both parties in such cases, even with infringers who acted in bad faith, when viewed from a purely pragmatic perspective. Known IP offenders have ended up becoming key strategic allies as a result of mediation in some IP cases, where any form of dialogue was originally completely dismissed out of hand for fear of being considered as willing to compromise or weak.

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<https://imimmediation.org/about/who-are-imi/mixed-mode-task-force> (accessed 12 .October 2022). For the findings of Working Group Three, led by Véronique Fraser and Kun Fan, which came up with the concept of ZOPE, see 'Draft Report of Working Group 3: Practice Guidelines For Mediators Use Of Non-Binding Evaluations And Settlement Proposals', co-chaired by Veronique Fraser and Kun Fan.

### *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 assess their ZOPE and help the disputants exchange information about their subjective needs, interests concerns and motives, looking to the future rather than the past.<sup>22</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 and 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 they 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 or mutual professional interests into account and helping to build personal working relationships within 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 ways or countries. They can encourage the disputants to

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22 The Swiss Arbitration Centre, in its 2019 Swiss Rules of Mediation, succinctly defined 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).' This is an example of how mediation is distinguished from conciliation in some civil law jurisdictions, which can be useful for international IP disputes.

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 may be better served by working cooperatively rather than 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, 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 (although not to recommend 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 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 stages, initially focusing on confidence-building measures, to help each partner understand and gain trust in one-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 or in evaluative processes. The journey can be more important than the destination initially targeted. An acrimonious IP dispute (even in cases that are at an advanced stage of litigation or arbitration) may turn into a joint venture, a co-branding or a cross-licensing opportunity, allowing all the disputants to increase their revenues, decrease costs and strengthen their brands or reputations.



This happens more often in practice than traditional IP practitioners may 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 costs, time and complexities of reaching an outcome that will provide mutually acceptable closure. This is something a mediator can assist with as well, sometimes even bringing in an expert (with the participants' consent) to provide an opinion within mediation proceedings 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 based on different initial opinions or positions, as opposed to optimal outcomes that can be win-win by targeting subjective needs and interests. For IP disputes, the neutrals should usually 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 a conciliator, a mediator may seek 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, and 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 somewhat conceptual or puritanical to some IP neutrals who are comfortable working both as mediators and as conciliators, the choice of process must also be considered not only 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 plasticity and emotional heuristics, affecting the quality of the dialogue between the disputants and their ability to hear and connect with one-another.

The tendency to conflate mediation and conciliation is not only a semantic source of confusion; it 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>23</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 preconsciously 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 recent 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

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23 A good example of the confusion created by this conflation can be found in the 2018 UNCITRAL Model Law on International Commercial Mediation and International Settlement Agreements Resulting from Mediation. While the definition of 'mediation' in 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 something only 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).

compassion for one another). Different networks seem to 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>24</sup> This is a new area of science, and the results and their implications for commercial dispute resolution 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, which is 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 those 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

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24 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 Neurosciences*, Vol. 19, No. 5, 2015, pp. 466–73 and O Klimecki, 'The Role of Empathy and Compassion in Conflict Resolution', *Emotion Review*, Vol. 11, No. 4, 2019, pp. 1–16, which provide new insights into how mediation and conciliation may prime different heuristics and pro-social as opposed to antisocial patterns of behaviour. In 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. 302–317, neuroscientists studied romantic couples trying to resolve recurring disputes through negotiation and mediation. While negotiation was very effective, mediation provided even greater settlement rates and satisfaction ratings, with less perceptions of unresolved remaining issues. The presence of a non-evaluative mediator seemed to activate the nucleus accumbens, an area of the brain linked to reward circuits in the brain, including optimism and problem-solving. This may have significant implications for IP disputes as well.

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 better resolved by approaching outcomes cooperatively, rather 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, therefore, 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, and enhance reward circuitry and the ability to find new solutions. This also avoids more competitive or out-of-group heuristics from being activated, which can hijack conciliations, leading to lower settlement rates.

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 may not be consciously aware of.<sup>25</sup> Mediation is, therefore, particularly useful in highly emotional disputes or where profound cultural differences may be at play, which are common attributes in IP disputes.

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25 For further discussion of some of these considerations, see J Lack, 'A mindful approach to evaluative mediation', *Mfn Tijdschrift Conflictthering*, No. 3, 2014, pp. 18–23 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. It should be stated, however, that this field is still in its infancy, and great caution must 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.

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 comfortable addressing, and to take into consideration the participants' subjective needs and interests (which lawyers may be less experienced in focusing on). While one person could have the cognitive prowess to play both roles, swapping hats between the role of conciliator and mediator, there is likely to be a different impact on emotional and social plasticity when two separate 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 in a med-con process can, therefore, 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 or the legal norms. 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.

### **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>26</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 sequentially, in parallel or as integrated processes, as indicated in Figure 2. Independent 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>27</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 during 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 evidential 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 those initiatives.

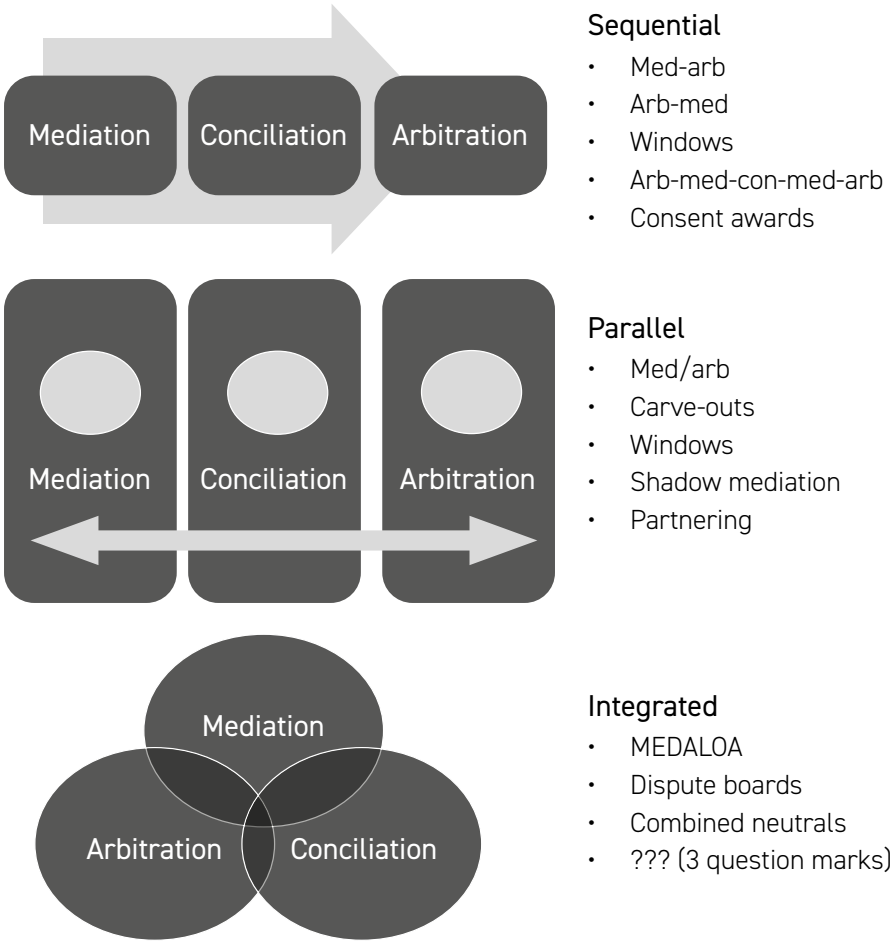
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26 R Dendorfer and J Lack, 'The Interaction Between Arbitration and Mediation: Vision v Reality', *Dispute Resolution International*, Vol. 1 No. 1 June 2007, pp. 73–98.

27 J Lack, 'Appropriate Dispute Resolution (ADR): The Spectrum of Hybrid Techniques Available to the Parties', Chapter 17 in A Ingen-Housz (ed.) *ADR in Business, Practice and Issues Across Countries And Cultures*, Kluwer Law International, 2011, pp. 339–79.

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

The data from 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 (IMI) and the Straus Institute for Dispute Resolution at the Pepperdine School of Law (the Mixed Mode Taskforce), comprising seven working groups.

The first report of the Mixed Mode Taskforce was reported in May 2021 and can be found on IMI's website.<sup>28</sup> Its seven working groups identified five key procedural drivers for resolving commercial disputes: costs, time, relationships, self-determination and enforceability.

This report is likely to be of interest to IP disputants, especially since the Singapore Convention on Mediated Settlement Agreements came into force in September 2020.<sup>29</sup> The Singapore Convention provides broad and far-reaching enforceability provisions for mediated settlement agreements. It has already been signed by 55 signatory states, including leading IP jurisdictions, especially in the field of new technologies (e.g., Brazil, China, India, Israel, Singapore, South Korea, Turkey and the United States).<sup>30</sup>

The Singapore Convention filled a gap that existed between the New York Convention on arbitration and the Hague Convention Judgments Convention. 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.

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 questions will be whether the settlement agreement was obtained with the help of a bona fide mediator and whether it is clear on its face.

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28 IMI, 'Mixed Mode Task Force', <https://imimediation.org/about/who-are-imi/mixed-mode-task-force> (accessed 12 October 2022).

29 The United Nations Convention on International Settlement Agreements Resulting from Mediation.

30 United Nations Commission on International Trade Law, 'Status: United Nations Convention on International Settlement Agreements Resulting from Mediation', [https://uncitral.un.org/en/texts/mediation/conventions/international\\_settlement\\_agreements/status](https://uncitral.un.org/en/texts/mediation/conventions/international_settlement_agreements/status) (accessed 12 October 2022). As of 11 September 2022, the Singapore Convention has been ratified by 10 countries, including Belarus, Ecuador, Fiji, Georgia, Honduras, Kazakhstan, Qatar, Saudi Arabia, Singapore and Turkey.



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 Arbitration Rules and Mediation Procedures of the American Arbitration Association (AAA), or in the case of the Singapore International Arbitration Centre, incorporating mediation as part of arbitration proceedings.<sup>31</sup>

Some other mediation organisations are setting up new mixed-mode advisory services. For example, in May 2022, the International Institute for Conflict Prevention and Resolution set up a new pilot programme for resolving business disputes based on the findings of the Mixed Mode Taskforce.<sup>32</sup> The International Chamber of Commerce (ICC) has also recently started to seriously examine mixed-mode dispute resolution services under a new working committee chaired by Christopher Newmark.<sup>33</sup> This is something that WIPO has been offering for many years, however, as discussed below.<sup>34</sup>

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31 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.

32 Press Release, International Institute for Conflict Prevention and Resolution, 'CPR Launches Pilot Program For Resolving Business Disputes', 26 May 2022, [www.cpradr.org/news-publications/press-releases/cpr-launches-pilot-program-to-resolve-business-disputes](http://www.cpradr.org/news-publications/press-releases/cpr-launches-pilot-program-to-resolve-business-disputes) (accessed 12 October 2022).

33 Private correspondence between the author and Christopher Newmark.

34 For model escalation clauses including mediation and arbitration, the following serve as good examples: WIPO ([www.wipo.int/amc/en/clauses/med\\_arb](http://www.wipo.int/amc/en/clauses/med_arb)); ICC model mediation clause D (<https://iccwbo.org/publication/suggested-icc-mediation-clause-english-version>); Swiss Arbitration Centre model mediation clause 1 ([www.swissarbitration.org/centre/mediation/mediation-clauses](http://www.swissarbitration.org/centre/mediation/mediation-clauses)); and AAA-ICDR ([www.adr.org/Clauses](http://www.adr.org/Clauses)). Rule 9 of the AAA's Rules provides that mediation shall always be started in parallel with 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. This provision was extended to the AAA's international ICDR International Arbitration Rules in 2021, where a new Article 6 was

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, cheaper and better outcomes, especially for IP disputes. This presupposes, however, understanding of 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.

Arbitration could also be combined with a med-con process 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 they do not attend caucuses) and can work 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

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added stating that 'Subject to (a) any agreement of the parties otherwise or (b) the right of any party to elect not to participate in mediation, the parties shall mediate their dispute pursuant to the ICDR's International Mediation Rules concurrently with the arbitration' The Singapore International Arbitration Centre and the Singapore International Mediation Centre have also combined to offer a joint arb-med-arb process (see [www.siac.org.sg/model-clauses/the-singapore-arb-med-arb-clause](http://www.siac.org.sg/model-clauses/the-singapore-arb-med-arb-clause)). All URLs accessed 12 October 2022.

discussions and determinations, or ensuring that information heard in caucus may only be relied upon if it was subsequently disclosed to all 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>35</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>36</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 intellectual property for entities of all shapes and sizes in low-income, middle-income and high-income countries, WIPO created the Mediation and Arbitration Center in 1994.<sup>37</sup> Since then, IP rights have become 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>38</sup> It has developed a variety of online case administration tools for IP disputes, including an electronic case facility system to facilitate online

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35 These considerations are well explained and set out by the consultation document issued by the Centre for Effective Dispute Resolution's Commission on Settlement in International Arbitration in 2009, chaired by Lord Wolf of Barnes and Professor Gabrielle Kaufmann-Kohler. See [https://utcle.org/conferences/IA09/get-asset-file/asset\\_id/14178](https://utcle.org/conferences/IA09/get-asset-file/asset_id/14178) (accessed 12 October 2022).

36 WIPO, 'Inside WIPO', [www.wipo.int/about-wipo/en](http://www.wipo.int/about-wipo/en) (accessed 12 October 2022).

37 WIPO, 'Development of WIPO's Dispute Resolution Services', [www.wipo.int/amc/en/history](http://www.wipo.int/amc/en/history) (accessed 12 October 2022).

38 WIPO, 'WIPO ADR Procedures', [www.wipo.int/amc/en/center/wipo-adr.html](http://www.wipo.int/amc/en/center/wipo-adr.html) (accessed 12 October 2022).

dispute resolution and videoconferencing services.<sup>39</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>40</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 (R&D), technology transfer, sports and trade fairs.<sup>41</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 those 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 nearly 900 mediation, arbitration and expert determination ADR cases, and more than 750 related requests of assistance, with average settlement rates of 70 per cent using mediation (rising to 75 per cent in 2021) and 33 per cent using arbitration.<sup>42</sup> 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), 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 higher satisfaction ratings.<sup>43</sup>

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39 WIPO, 'WIPO Online Case Administration Tools', [www.wipo.int/amc/en/eadr/index.html](http://www.wipo.int/amc/en/eadr/index.html) (accessed 12 October 2022).

40 The distinction between mediation and conciliation is something that may be worth thinking about when interviewing prospective neutrals for a WIPO mediation process.

41 WIPO, 'WIPO Alternative Dispute Resolution (ADR) Services for Specific Sectors', [www.wipo.int/amc/en/center/specific-sectors](http://www.wipo.int/amc/en/center/specific-sectors) (accessed 12 October 2022).

42 See footnote 38.

43 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 that have 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 America's

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>44</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.

**Average costs of arbitration versus mediation versus mixed-mode processes**

	<b>World Bank Data</b>	<b>ACB (NL) Data</b>	<b>McIlwrath &amp; Savage</b>		<b>McLaughlin &amp; Alexander</b>	<b>Average (unweighted)</b>
			<b>Civil Law (Ave)</b>	<b>Common Law (Ave)</b>		
Value of dispute (US\$)	200,000	5 million	10 million	10 million	20 million	N/A
Estimated global cost (arbitration) (US\$)	34,500	450,000	556,500	1,428,500	3,027,000	N/A
Arbitration cost (% of value)	17.3	9	5.6	14.3	15.1	12.2
Estimated global cost (mediation) (US\$)	9,488	65,000	150,000	325,000	266,000	N/A
Mediation cost (% of value)	4/7	1.3	1.5	3.3	1.3	2.4

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Small Business Development Network (America's SBDC) claims average settlement rates of 85 per cent, and claims that mandatory mediation is only 10 per cent less effective than voluntary mediation (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 J Lack, 'When to Use Negotiation, Litigation, Arbitration, Conciliation and/or Mediation For Commercial Disputes?' (presentation) and American's SBDC, 'Is Mediation Your Best Option?', 23 October 2013, <https://americassbdc.org/is-mediation-your-best-optio> (accessed 12 October 2022).

<sup>44</sup> For the data on which these numbers are based, see J Lack, 'When to Use Negotiation, Litigation, Arbitration, Conciliation and/or Mediation For Commercial Disputes?' (presentation) at slides 13-17. The data are based on the author's own calculations and estimates from the sources cited in that presentation.

	World Bank Data	ACB (NL) Data	McIlwrath & Savage Civil Law (Ave)	Common Law (Ave)	McLaughlin & Alexander	Average (unweighted)
Hypothetical combined costs (% 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 Policy (UDRP).<sup>45</sup> During that same period, the Mediation and Arbitration Center handled approximately 48,000 UDRP cases, including 3,693 UDRP cases in 2019 alone<sup>46</sup> as compared to 179 IP ADR requests that same year.<sup>47</sup> This disparity may reflect a different mindset when approaching IP disputes as compared to domain name disputes. UDRP disputants can obtain

45 The Uniform Domain Name Dispute Resolution Policy 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 WIPO, 'Domain Name Dispute Resolution', [www.wipo.int/amc/en/domains](http://www.wipo.int/amc/en/domains) (accessed 12 October 2022).

46 WIPO, 'WIPO Caseload Summary', [www.wipo.int/amc/en/center/caseload.html](http://www.wipo.int/amc/en/center/caseload.html) (accessed 12 October 2022).

47 *ibid.*

cost-effective dispute resolution solutions online in a matter of two months at a cost of US\$1,500.<sup>48</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>49</sup> Mediation appears to trigger not only different prosocial and in-group dynamics as discussed with respect to conciliation above, but, as also described above, 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>50</sup>

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48 This fee increases to US\$5,000 for a case involving 10 domain names, which is still remarkably low. The period remains two months. See WIPO, 'Schedule of Fees under the UDRP (valid as of December 1 2002)', [www.wipo.int/amc/en/domains/fees](http://www.wipo.int/amc/en/domains/fees) (accessed 12 October 2022) and WIPO, 'Guide to WIPO Domain Name Dispute Resolution'.

49 F Bogacz, T Pun and O Klimecki, 'Improved conflict resolution in romantic couples in mediation compared to negotiation', *Humanities and Social Sciences Communications*, Vol. 7, Article No. 131, 2020.

50 H Rafi et al., see footnote 24.

Another reason given for not trying ADR in IP disputes is that it 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 or 60:40 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 counterproductive. 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>51</sup>

This makes it increasingly difficult to shift to an interest-based dialogue as opposed to a positional debate as the case proceeds, except 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.

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51 For a list of 24 such biases, see [www.yourbias.is](http://www.yourbias.is) (accessed 12 October 2022).



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 intellectual property. 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 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>52</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>53</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.

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52 This provision has now been extended by the AAA to its ICDR Arbitration Rules as well. Article 6 (Mediation) of the ICDR's new 2021 International Arbitration Rules now also provides that: 'Subject to (a) any agreement of the parties otherwise or (b) the right of any party to elect not to participate in mediation, the parties shall mediate their dispute pursuant to the ICDR's International Mediation Rules concurrently with the arbitration.'

53 See the AAA's report "'Products of the Mind' Require Special Handling: Arbitration Surpasses Litigation for Intellectual Property Disputes', 2017.

## 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>54</sup> This is a process by which a mediator can be appointed early on in a complex commercial dispute to facilitate a discussion on procedural issues only (as opposed to substantive issues).

A guided choice process 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 that permits IP disputants 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

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54 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*.

- identifying and handling topics requiring expertise and evaluative input (binding or non-binding).<sup>55</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 comprise assisting prospective IP disputants with their procedural choices before deciding on any one type of ADR process provided by WIPO.<sup>56</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>57</sup>

There has been a marked increase in the use of these Good Offices requests in recent years (more than 85 cases per year since 2019).<sup>58</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>59</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 mediation followed by last-offer arbitration (MEDALOA). 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

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55 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*.

56 WIPO, 'WIPO Good Offices', [www.wipo.int/amc/en/goodoffices](http://www.wipo.int/amc/en/goodoffices) (accessed 12 October 2022).

57 See footnote 38.

58 See footnote 46.

59 Good Offices Services from WIPO can be requested by filling out the form available on its website at [www.wipo.int/amc-forms/adr/good-offices-services](http://www.wipo.int/amc-forms/adr/good-offices-services) (accessed 12 October 2022).

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>60</sup>

## Conclusion

It is dangerous to generalise. Each IP dispute must 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.

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.

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<sup>60</sup> 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.

# Part III

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## Key Issues in Arbitrating Particular IP Disputes

## CHAPTER 9

# Patent, Copyright and Trademark Disputes

Natalia Gulyaeva<sup>1</sup>

While preceding chapters have demonstrated that arbitration is, for many reasons, ideal for IP dispute resolution, each type of IP dispute has specific features and key issues that need 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.

- Creating an invention is a very time-consuming and costly process. For example, the research and development of one new pharmaceutical product may require investigating 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>
- Cross-border patent prosecution through international (e.g., Patent Cooperation Treaty<sup>3</sup>), regional (e.g., European Patent Convention<sup>4</sup> and Eurasian Patent Convention) and national patent prosecution mechanisms

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1 Natalia Gulyaeva is a partner at Hogan Lovells International LLP.

2 Britannica, 'Drug Discovery and Development', [www.britannica.com/technology/pharmaceutical-industry/Drug-discovery-and-development](http://www.britannica.com/technology/pharmaceutical-industry/Drug-discovery-and-development) (accessed 14 October 2022).

3 Patent Cooperation Treaty, amended on 3 October 2001.

4 European Patent Convention, 17th edn., November 2020.

remains lengthy and costly. It requires payments of official fees, patent attorneys' fees and, going forward, maintenance fees for the entire patent family covering the product.

- Successful commercialisation of patented products requires time and financial resources, including for obtaining regulatory authorisations.

Not surprisingly, patent rights 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 Arbitration and Mediation Center of the World Intellectual Property Organization (WIPO), 29 per cent of disputes dealt with by the Center are patent disputes.<sup>5</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 Resolution of Patent Disputes Supplementary Rules (for binding awards) and the National Patent Board Non-Binding Arbitration Rules (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). 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>6</sup> and the Silicon Valley Arbitration and Mediation Center<sup>7</sup> – have established, for the parties' convenience, a separate panel of arbitrators for IP and technology disputes.

Further, the expected establishment of the Arbitration and Mediation Centre of the Unified Patent Court, with seats in Lisbon and Ljubljana, demonstrates that the judicial institutions recognise the importance of arbitration in patent dispute resolution.

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5 World Intellectual Property Organization (WIPO), 'WIPO Caseload Summary', [www.wipo.int/amc/en/center/caseload.html](http://www.wipo.int/amc/en/center/caseload.html) (accessed 14 October 2022).

6 Hong Kong International Arbitration Centre, 'Panel of Arbitrators for Intellectual Property Disputes', [www.hkiac.org/arbitration/arbitrators/panel-arbitrators-intellectual-property](http://www.hkiac.org/arbitration/arbitrators/panel-arbitrators-intellectual-property) (accessed 17 October 2022).

7 Silicon Valley Arbitration and Mediation Center, 'The 2022 Tech List', <https://svamc.org/2022-tech-list> (accessed 17 October 2022).

## 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. The arbitrability of some patent disputes may, therefore, be excluded (e.g., patent validity disputes in Austria 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 attorney 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 claims of the patent in dispute;
- information on allegedly infringing products or the process of the respondent;
- information on the use of the asserted claims 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 claims 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 claims 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>8</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.

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8 Donald R Dunner and John M Williamson, 'Arbitration Rules for Patent Infringement Disputes', Finnegan, March 2016.

In certain other countries (e.g., the countries of the Eurasian Economic Union<sup>9</sup>), the state courts consistently decide against granting a preliminary injunction (PI) in patent disputes 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>10</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 intellectual property under the contract between the parties.<sup>11</sup>

The WIPO Rules also contain a provision on emergency relief proceedings, which applies to arbitration conducted under arbitration agreements entered into on or after 1 June 2014.<sup>12</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. The request for emergency relief must include a statement of the interim measures sought and the reasons why the relief is needed on an emergency basis. The Center informs the other party of the receipt of the request for emergency relief, and it will appoint a sole emergency arbitrator, usually within two days of the request.

The emergency arbitrator may conduct the proceedings in such manner as they consider appropriate, taking due account of the urgency of the request. They ensure that each party is given a fair opportunity to present its case and may provide for proceedings by telephone, videoconference or online tools, or through written submissions as an alternative to a hearing. The emergency arbitrator may

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9 Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia.

10 US Supreme Court, No. 17-1272, 8 January 2019, *Henry Schein, Inc, et al v. Archer & White Sales, Inc.*

11 Max Sound Corporation, *Max Sound Corporation v. VSL Communications Ltd.* See 'Max Sound Corporation Continues to Successfully Enforce Its Rights Against VSL', GlobeNewswire, 22 January 2016.

12 Article 49 of the WIPO Arbitration Rules, effective from 1 July 2021.

order any interim measure they deem necessary and may make the granting of such orders subject to appropriate security being furnished by the requesting party. Upon request, the emergency arbitrator may modify or terminate the order.

### *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 field of intellectual property.<sup>13</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 Kazakhstan (пайдалы 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>14</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>15</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>16</sup> but so far it has not seriously been tested in the countries of the Eurasian Economic Union. As patent

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13 Randy L Campbell, 'Global Patent Law Harmonization: Benefits and Implementation', 13 *Indiana Int. Comp. Law Rev.*, Vol. 3, No. 2, 2003.

14 Guidelines for Examination in the European Patent Office, March 2022 Edition, Part G (Patentability), Section 3.6.

15 Rachel Mumby and Chloe Dickson, 'The doctrine of equivalents – a late summer picnic of updates', Bristows, 9 October 2019.

16 Singh & Associates, 'India: Doctrine of Equivalents: Patent Infringement', Mondaq, 3 March 2020.

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 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.

As a rule, in the beginning of proceedings, the arbitral tribunal will require the parties to identify witnesses, the subject matter of the testimony and the relevance of the evidence. If the witness is called to provide oral testimony, the 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 remain 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>17</sup> Patent arbitration continues to attract high-value disputes.

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<sup>17</sup> See footnote 5.

In *Nokia Corporation v. Samsung Electronics Co*, the International Chamber of Commerce (ICC) tribunal awarded Nokia compensation estimated at US\$218 million annually for use of Nokia's phone patents.<sup>18</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>19</sup> In *InterDigital v. Samsung Technologies*, the ICC tribunal awarded InterDigital US\$134 million.<sup>20</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 2021,<sup>21</sup> the top 10 brand logos by value are:

- Apple (US\$408,251 million);
- Amazon (US\$ 249,249 million);
- Microsoft (US\$210,191 million);
- Google (US\$196,811 million);
- Samsung (US\$74,635 million);
- Coca-Cola (US\$57,488 million);
- Toyota (US\$54,107 million);
- Mercedes (US\$50,866 million);
- McDonald's (US\$45,865 million); and
- Disney (US\$44,183) million.

The brands' value indicates the importance of these IP assets for international businesses and the necessity of dealing with relevant trademark-related disputes in a manner that does not affect the brand's value.

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18 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> (accessed 17 October 2022).

19 id.

20 id.

21 Interbrand, 'Best Global Brands', <https://interbrand.com/best-global-brands> (accessed 17 October 2022).

Similarly to patent prosecution, cross-border trademark prosecution is available via international (e.g., the Madrid Agreement Concerning the International Registration of Marks and the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks), regional (e.g., the EU Trademark Regulations<sup>22</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>23</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>24</sup> which is a solid figure.

### 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. Additionally, 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>25</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

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22 Regulation (EU) 2015/2424 of the European Parliament and the Council amending the Community trademark regulation.

23 United States Patent and Trademark Office, 'Intent to use (ITU) forms', [www.uspto.gov/trademarks-application-process/filing-online/intent-use-itu-forms](http://www.uspto.gov/trademarks-application-process/filing-online/intent-use-itu-forms) (accessed 17 October 2022).

24 See footnote 5.

25 WIPO, 'WIPO Arbitration Case Examples', [www.wipo.int/amc/en/arbitration/case-example.html](http://www.wipo.int/amc/en/arbitration/case-example.html) (accessed 17 October 2022).

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 the parties efficiently avoided 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 in non-arbitrability of some trademark disputes, including relating to trademark oppositions and revocations, among other things; therefore, the 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 that recognise the arbitrability of all trademark disputes (e.g., Switzerland<sup>26</sup>).

There are disputes (particularly regarding the coexistence of trademarks) that cannot be satisfactorily resolved by national courts, such as situations in which litigation does not at all help the coexistence of the parties but rather separates them completely. Under those circumstances, a seasoned IP arbitrator is much better placed to assist the parties in finding a solution for their coexistence.

Domain name disputes are considered a separate category of IP disputes but, in practice, they are often based on a trademark conflict. WIPO has administered about 57,000 cases under the Uniform Domain Name Dispute Resolution Policy (UDRP), and these proceedings have involved parties from 183 countries and over 100,000 internet domain names, such as '.com', '.net', '.org', '.top', '.win' and '.xyz', and over 80 country top-level domains.<sup>27</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>28</sup>

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26 Robert Briner, 'The Arbitrability of Intellectual Property Disputes with Particular Emphasis on the Situation in Switzerland', *Worldwide Forum on the Arbitration of Intellectual Property Disputes*, 3–4 March 1994, [www.wipo.int/amc/en/events/conferences/1994/briner.html](http://www.wipo.int/amc/en/events/conferences/1994/briner.html) (accessed 17 October 2022).

27 See footnote 5.

28 WIPO, 'WIPO Domain Name Dispute Resolution Statistics', [www.wipo.int/amc/en/domains/statistics](http://www.wipo.int/amc/en/domains/statistics) (accessed 17 October 2022).

## Key issues in arbitrating trademark disputes

### *Composition of the arbitral tribunal*

Arbitrating trademark disputes generally requires an arbitral tribunal that is familiar with trademark law. No particular technical expertise is required as such, although 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 the 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;
- survey results confirming, for example, consumers' confusion, the similarity of the trademarks, the trademark's fame, etc.;
- trademark-related agreements concluded by the parties;
- expert opinions confirming, for example, the similarity of the trademarks;
- 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 the trademark's fame 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 (e.g., ownership, the relationship between the parties and the chronology of infringement) must be brought to the attention of the arbitral tribunal as early as possible so that the tribunal arrives at the evidential 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;
- dilution of the claimant's trademark, harming trademark perception by consumers and resulting in blurring and tarnishing; and
- a decrease in the distinctiveness of the claimant's trademark, which may serve as grounds for 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., the countries of Eurasian Economic Union) the state courts more 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 arbitration conducted under arbitration agreements entered on or after 1 June 2014.<sup>29</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. This is especially because in many trademark infringement disputes, the similarity of brands is often tested through consumer surveys and not on the basis of expert opinions.

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29 Article 49 of the WIPO Arbitration Rules, effective from 1 July 2021.

Still, experts in national trademark law 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 licensing or franchising agreements.

When it comes to trademark infringement and the issue of the 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., the results of consumer surveys) or linguistic experts' 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 the bigger picture (i.e., the perception of the trademarks by consumers).

When 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 perspective of consumers' confusion, 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, it is most often the persons involved in or servicing the contractual relationships who 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>30</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 damages assessments based on the number of trademark infringing products detected, the calculation based on, for example, the 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 the destruction of infringing goods, or the packaging or equipment used for the production of infringing products.

## **Copyright disputes**

### **Copyright as the subject matter of arbitration**

Copyright protects a wide range of literary and artistic works, including books, screenplays, choreography, paintings, sculptures, 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. 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 protection.

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.

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30 See footnote 25.

## 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, these days, the IT, media and entertainment industries work 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, 24 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>31</sup>

## 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., the WIPO Copyright Treaty, the WIPO Performances and Phonograms Treaty and the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations).<sup>32</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 copyright arbitration may include the following:

- the copyright (related right) in dispute;

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<sup>31</sup> See footnote 5.

<sup>32</sup> WIPO, 'WIPO-Administered Treaties', [www.wipo.int/treaties](http://www.wipo.int/treaties) (accessed 17 October 2022).

- 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 collaboration;
- 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 matters such as ownership of the copyright, the relationship of the parties and the chronology of infringement so that the arbitral tribunal arrives at the evidential hearing with a good understanding of the case.

### *Injunctive relief*

Provided that the parties have agreed to this, preliminary injunctive or interim relief is highly relevant for copyright arbitration and is a key tool to prevent or stop, among other things, distribution or assignment of rights to infringing copyrighted content, software, databases, etc.

Regarding 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>33</sup>

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33 Laura Kaster and Harrie Samaras, 'Arbitrating Trademark, Copyright and Trade Secret Cases', [www.ccarbitrators.org/industry-sector/trademark-copyright-and-trade-secret-disputes](http://www.ccarbitrators.org/industry-sector/trademark-copyright-and-trade-secret-disputes) (accessed 17 October 2022).

*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 differs if the copyrighted works in dispute are novels or movies. In those cases, the subject matter experts will likely be specialists in language who would compare the texts of the 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 and decisions on whether the experts present individually or in tandem) take place before the evidential hearing.<sup>34</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, who are also referred to as a group of co-developers if a software product is concerned. Regarding an employee's copyrighted work, the other employees (who need not even be 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 evidential hearing.

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34 id.

## *Remedies*

In copyright disputes, the parties typically seek injunctions and damages recovery. In copyright-related cases reported by WIPO,<sup>35</sup> damages recovery has been sought in, among other things, broadcast rights distribution agreement arbitration, expedited arbitration of a software dispute and expedited arbitration relating to a banking software dispute.<sup>36</sup>

In damages claims relating to copyright infringement, 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 damages 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; 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 the destruction of infringing goods, or the packaging or equipment used for the production of infringing products.

## **Conclusion**

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 the 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 counsel.

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35 See footnote 25.

36 *id.*

## CHAPTER 10

# When Intellectual Property Is the 'Investment': Arbitrating Against Sovereigns

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 arbitration in instances where the dispute involves licensees.

Further, the very same IP rights may, under certain circumstances, also give rise to disputes untethered from usual patent validity considerations and instead centred 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

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1 Christopher J Gaspar is a partner, and Kamel Aitelaj is a special counsel at Milbank LLP.

2 See, for example, S Burr, 'It's Time to Stand Up to Patent Trolls', *WIPO Magazine*, February 2015, [www.wipo.int/wipo\\_magazine/en/2015/01/article\\_0002.html](http://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, for example, R Feldman, 'May Your Drug Price Be Evergreen', *Journal of Law and the Biosciences*, Vol. 5, No. 3, December 2018: 590–647, <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').



very high stakes – instances, a patentee will seek compensation, or other remedies, from the sovereign state 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 arbitration 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 IP 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 therefore 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

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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 IP 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.', UN Conference on Trade and Development [UNCTAD] and International Centre for Trade and Sustainable Development [ICTSD], Project on IPRs and Sustainable Development, Issue Paper No. 5, June 2003, [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; Vol. 37, No. 2: 247–263, <https://journals.sagepub.com/doi/10.1111/j.1748-720X.2009.00369.x>.

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 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.

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8 id. Note that the mechanism of compulsory licences existed under the Paris Convention but was not as clearly defined and circumscribed.

9 id.

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*, Vol. 10, No. 4, 2007: 921–987, at 929.

11 See Reichman, *supra* at n.3.

12 See, for example, D Halajian, 'Inadequacy of TRIPS & the Compulsory License: Why Broad Compulsory Licensing is Not a Viable Solution to the Access Medicine Problem', *Brook. J. Int'l L.*, Vol. 38, No. 3, 2013, <https://brooklynworks.brooklaw.edu/bjil/vol38/iss3/7> (reporting on Egypt's use of compulsory licensing for Pfizer's Viagra to fight erectile dysfunction).

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 arbitration 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 North American Free Trade Agreement (NAFTA).<sup>13</sup>

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>

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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).

14 *Eli Lilly and Company v. The Government of Canada*, United Nations Commission on International Trade Law (UNCITRAL), ICSID Case No. UNCT/14/2, Final Award (16 March 2017).

15 See *AstraZeneca Canada Inc. v. Apotex Inc.*, 2017 SCC 36.

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 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 the 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 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

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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: 487 (reporting on threats proffered by Novartis against Colombia and Gilead against Ukraine).

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

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17 See, for example, H Mayer, 'Political Risk Insurance and Its Effectiveness in Supporting Private Sector Investment in Fragile States, LSE-Oxford Commission on State Fragility, May 2018, [www.theigc.org/wp-content/uploads/2018/05/Political-risk-insurance.pdf](http://www.theigc.org/wp-content/uploads/2018/05/Political-risk-insurance.pdf).

18 See, for example, 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 P Muchlinski, F Ortino and C Schreuer (eds.), *The Oxford Handbook of International Investment Law*, 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', *ICSID Review*, Vol. 28, No. 1, 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').

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>

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 ("expropriation"), 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 and 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.*<sup>22</sup>

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20 See *Eli Lilly and Company v. The Government of Canada*, UNCITRAL, ICSID Case No. UNCT/14/2, Final Award (16 March 2017), Paragraphs 181–182.

21 Article 6(1), 2012 US Model Bilateral Investment Treaty, <https://ustr.gov/sites/default/files/BIT%20text%20for%20ACIEP%20Meeting.pdf>.

22 *ibid.*, Article 6(5).

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, 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 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>23</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>24</sup> – concepts in investment treaties is that a foreign investor must be given fair and

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23 *L.F.H. Neer and Pauline Neer v. United Mexican States*, United Nations, Reports of International Arbitral Awards, 1926, IV, p. 60 ff.

24 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 the North American Free Trade Agreement (NAFTA) or the US Model Bilateral Investment Treaty (BIT).

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, therefore, 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>25</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>26</sup> Although there is no comprehensive definition regarding 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>27</sup> or in the event of a miscarriage of justice.<sup>28</sup>

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>29</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.

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25 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.

26 Article 9(1) of the 2019 Netherlands Model BIT, available at <https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/5832/download>.

27 See, for example, Potestà, *op. cit.*, at 30 et seq.

28 See, for example, McLachlan et al., *op. cit.*, at 7.80 et seq.

29 See, for example, K Yannaca-Small, 'Fair and Equitable Treatment Standard', in K Yannaca-Small (ed.), *Arbitration under International Investment Agreements*, Oxford University Press, 2010 at 385, 399 (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').



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 fair and equitable treatment and shall enjoy full protection and security in the territory of the other Contracting Party.*<sup>30</sup>

Like FET, FPS is a non-contingent standard of protection,<sup>31</sup> but unlike FET, it is absolute in nature (was the investment fully protected by the state or not?). It should therefore 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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30 Article 2(2), 2008 UK Model BIT, <https://investmentpolicy.unctad.org/international-investment-agreements/treaty-files/2847/download>.

31 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>32</sup> Be that as it may, investment treaties often expressly include IP rights within the scope of the definition of the term ‘investment’<sup>33</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>34</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>35</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>36</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).

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32 See, for example, Article 1, 2012 US Model BIT; and Article 1(a), 2019 Netherlands Model BIT.

33 *id.*; see also, Article 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”).

34 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 Article 1139, NAFTA, at (g).

35 *Apotex*, *op. cit.*, at Paragraph 235.

36 *Apotex*, *op. cit.*, at Paragraph 244.

## 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 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>37</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>38</sup>

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37 Article 7, 2008 UK Model BIT.

38 Article 18, 2012 US Model BIT.

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 arbitration).<sup>39</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).

### 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>40</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>41</sup>

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39 See generally, A Bjorklund, 'Emergency Exceptions: State of Necessity and Force Majeure,' in P Muchlinski, F Ortino and C Schreuer (eds.), *The Oxford Handbook of International Investment Law*, Oxford University Press, 2008, at 459-523.

40 See, generally, J Paulsson, 'Arbitration Without Privity,' *ICSID Review*, Vol. 10, No. 2, 1995: 232.

41 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, for example, *CME Czech Republic B.V. (The Netherlands) v. The Czech Republic (UNCITRAL)*, Partial Award, 13 September 2001, at Paragraph 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 Paragraph 204.

Because the state has given advance consent to arbitrate, proceedings may commence at the investor's election, subject 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 and 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 evidential 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 the jurisdiction of ICSID under the Washington Convention.<sup>42</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

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42 The 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States, <https://icsid.worldbank.org/resources/rules-and-regulations/convention/overview>.

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'; therefore, 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 has 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>43</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>44</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, therefore, 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.

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43 See, for example, 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*, Vol. 1, No. 1, 25 January 2011: 99–129.

44 See Exelbert, op. cit.

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, 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 the possible benefits of the ISDS system as an alternative forum for an IP owner seeking relief – or structuring its legal protections.<sup>45</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>46</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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45 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.

46 See, for example, W Ross, 'Commerce Department Prohibits WeChat and TikTok Transactions to Protect the National Security of the United States', 18 September 2020, [www.commerce.gov/news/press-releases/2020/09/commerce-department-prohibits-wechat-and-tiktok-transactions-protect](http://www.commerce.gov/news/press-releases/2020/09/commerce-department-prohibits-wechat-and-tiktok-transactions-protect).

## CHAPTER 11

# 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 misappropriated, 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, although 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>

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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.



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 regard to damages related to IP.

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 goods or services that generates value for those goods or services. 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;
- a trademark that is associated with certain attributes of a brand, such as Disney;
- copyrighted material that reflects creative effort, such as a musical score; or
- a patent that protects the exclusivity of access to a disclosed product or technology, such as the patent on a prescription pharmaceutical.

IP does not tend to be consumed in the production process, and its use for one purpose may not preclude or limit its use for others. Accordingly, when IP is misappropriated, 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 misappropriation 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 unauthorised 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 unauthorised use of IP does not lead to lost sales for the claimant, 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 (e.g., 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 unauthorised use of the claimant's IP? To the extent that the respondent's unauthorised 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 those 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:<sup>3</sup>

- that the respondent would not have made the sale but for the unauthorised use of the claimant's IP (demand);
- that the claimant otherwise had the ability to make the sale (capacity); and
- the 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 the claimant's share of competing sales. For example, if there were three companies competing in the market segment, with the claimant

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3 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).

4 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.

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 the typical assumption is that half of the respondent's sales would otherwise have been sales made by the claimant;<sup>5</sup> therefore, 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 may be 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, 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. Those 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 may not be able to collect damages based on lost sales, because it may be that 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 lost sales but rather lost profits due to a lost payment from the respondent for its unauthorised use of IP.

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 may also 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, consideration must be given to 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 unauthorised use of the IP. To the extent that the respondent had an available alternative to unauthorised use of the IP such that the respondent

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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).

still would have made the sale, then the unauthorised use of the IP cannot be the primary reason for the respondent making the sale.<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 unauthorised use of IP.

Regarding 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.

## 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, the claimant may have needed labour to work overtime or acquire additional raw materials at higher costs. If so, those 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 unauthorised 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 would have never 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 would have never made those sales because it had not been marketing the product for that use or to that sector of the economy.

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<sup>7</sup> See, as a US example, *Grain Processing Corp. v. American Maize-Products Co.*, 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).

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.

Consequently, 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 it otherwise would have never 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 regard 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.

However, capacity costs should also 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.

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, 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 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 generates value. The payment that results from the negotiation, therefore, 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 would have never licensed the IP to the respondent. There may even have been negotiations between the parties for access to the IP that were ultimately unsuccessful. Nonetheless, damages in the arbitration must be determined; if liability has been found, the respondent made inappropriate use of the claimant's IP, regardless of whether 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, 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 the 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 the 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-expectations of the potential value of the technology and by the then-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 has already 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.

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8 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.



Within those ranges, a determination must be made with regard 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. 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 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 regard 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, that would increase the value of the IP with regard to the respondent's expected use.

### *Relative bargaining power*

Similarly, regarding 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 regarding 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 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, 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. 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 the outcome towards the upper end of the range, 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 the outcome towards the lower end of the range, 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. That case 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.<sup>9</sup>
- 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, therefore, a royalty rate of 11.7 per cent.

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<sup>9</sup> 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.

**Determining the outcome of a hypothetical negotiation involving the rights to IP**

<b>Factor</b>	<b>Factor significance</b>	<b>Factor value</b>	<b>Effect on royalty</b>	<b>Points</b>
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 rate</b>			5%	
<b>Maximum royalty rate</b>			15%	
<b>Resulting royalty rate</b>			11.7%	

**Conclusion**

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 unauthorised 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 unauthorised use of the claimant’s IP, the damages should be the claimant’s lost profits due to those lost sales. Second, for all other unauthorised uses of the claimant’s IP, the 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.

## CHAPTER 12

# Recent Trends in WIPO Arbitration and Mediation

Ignacio de Castro, Heike Wollgast and Justine Ferland<sup>1</sup>

### Introduction

In today's economy, IP rights represent valuable business assets. The commercial exploitation of IP rights through international licensing, patent pooling, technology transfer and research and development (R&D) agreements, branding, copyright and design strategies can trigger substantial benefits.

Conversely, however, growth in such international transactions has multiplied the potential for cross-border IP disputes. Global challenges – such as the digital environment, rapid technological developments, access to healthcare and climate change issues – may create new types of IP disputes.

While IP disputes can involve a variety of subject matters and parties, they also have common features: they are often international, concern technical or specialised subject matter, involve trade secrets and regularly arise in the context of business relationships. In this regard, alternative dispute resolution (ADR) procedures, such as arbitration and mediation, can be a useful option to resolve those disputes owing to their flexibility, practicality and confidentiality.

International ADR is well suited for cross-border IP disputes because it provides a single and neutral forum for settlement. While mediation is often seen as a valuable and generally successful option, international arbitration has become particularly attractive because of its finality and general ease of international

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enforcement, and it has recently been identified as the preferred method of resolving cross-border disputes, either on a stand-alone basis or in conjunction with other forms of ADR.<sup>2</sup>

This chapter will highlight some recent IP ADR trends observed by the WIPO Arbitration and Mediation Center (the WIPO Center), based on its experience in administering both mediation and arbitration proceedings for IP and technology disputes. It will also discuss the practices developed by the WIPO Center in light of those trends.

## WIPO Center

Founded in 1967, the World Intellectual Property Organization (WIPO) is an agency of the United Nations that aims to promote the development of a balanced and accessible international IP system through cooperation among states.<sup>3</sup> Within this larger framework, the WIPO Center was established in 1994<sup>4</sup> as a neutral, independent and non-profit dispute resolution provider.<sup>5</sup> It is the only international provider of specialised ADR services for IP disputes and the leading global provider of mechanisms to resolve internet domain name disputes.<sup>6</sup>

## Role of the WIPO Center

In its role as administering institution, the WIPO Center administers mediation, arbitration, expedited arbitration and expert determination procedures conducted under the WIPO rules.<sup>7</sup> Developed by leading experts in cross-border dispute settlement, the procedures offered by the WIPO Center are recognised as particularly appropriate for international IP and technology disputes; the WIPO rules contain specific provisions that are particularly suitable for those disputes, such as

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2 Queen Mary University of London and White & Case LLP, '2021 International Arbitration Survey Report: Adapting arbitration to a changing world'.

3 Convention Establishing the World Intellectual Property Organization, Article 3.

4 WIPO Arbitration and Mediation Center (the WIPO Center), 'Alternative Dispute Resolution'.

5 Ignacio de Castro, Heike Wollgast and Andrzej Gadkowski, 'Review of the World Intellectual Property Organization's Arbitration and Mediation Center', in H A Grigera Naón and P E Mason (eds), *International Commercial Arbitration Practice: 21st Century Perspectives*, Matthew Bender Elite Products, 2017.

6 WIPO Center, 'Domain Name Dispute Resolution'.

7 WIPO Center, 'WIPO Mediation, Arbitration, Expedited Arbitration and Expert Determination Rules'. For the latest version of the WIPO rules, see [www.wipo.int/amc/en/rules](http://www.wipo.int/amc/en/rules) (accessed 5 September 2022).

rules concerning confidentiality<sup>8</sup> and technical evidence (including experiments, site visits and agreed primers and models).<sup>9</sup> Nevertheless, the WIPO rules can be, and have been, successfully applied in the context of any commercial dispute.

Once a case is filed, the WIPO Center engages in active case management by facilitating communication between parties and neutrals, enforcing timelines, coordinating finance-related issues and arranging (online) meetings and other support services, including interpretation or secretarial services.

The WIPO Center may also assist parties in the selection and appointment of mediators, arbitrators or experts. It maintains to that effect a database of over 2,000 dispute resolution practitioners and experts from more than 100 jurisdictions.<sup>10</sup> As the effectiveness of ADR depends largely on the quality of the appointed neutrals, the members of the WIPO List of Neutrals range from highly specialised practitioners and experts with knowledge in the areas of patents, trademarks, copyright, designs or other forms of intellectual property to seasoned commercial dispute resolution generalists.

Further, as a non-profit organisation, the WIPO Center offers a competitive schedule of fees and costs for the administration of ADR proceedings<sup>11</sup> and ensures that all fees charged are appropriate in light of the circumstances of the dispute.

In addition to its case administration activities, the WIPO Center works as a resource centre to raise awareness of the valuable role ADR can play in different sectors. It provides ADR advice to interested private and public entities, as well as training in IP-related ADR through workshops and conferences.

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8 WIPO Mediation Rules, Articles 15 to 18; WIPO Arbitration Rules, Articles 75 to 78; WIPO Expedited Arbitration Rules, Articles 67 to 70. In addition, Article 54 of the WIPO Arbitration Rules and Article 48 of the WIPO Expedited Arbitration Rules empower the arbitral tribunal, if certain requirements are met, to order protective measures in respect of information that it considers confidential, such as trade secrets. In practice, such confidentiality measures take the form of protective orders issued by the arbitral tribunal and may include restricting access to confidential information to selected individuals or the redaction of documents. For more information on confidentiality under the WIPO rules, see Phillip Landolt and Alejandro Garcia, 'Commentary on WIPO Arbitration Rules', 2017, pp. 100–103.

9 WIPO Arbitration Rules, Articles 50 to 53; WIPO Expedited Arbitration Rules, Articles 44 to 47.

10 WIPO Center, 'WIPO Neutrals'.

11 The 'WIPO Mediation, Arbitration, Expedited Arbitration and Expert Determination Schedules of Fees and Costs' and a fee calculator are available at [amc.wipo.int/adr-fee-calculator](http://amc.wipo.int/adr-fee-calculator) (accessed 5 September 2022).



The WIPO Center further advises parties on the use and drafting of contractual dispute resolution clauses and provides procedural guidance to facilitate the submission of an existing dispute to WIPO ADR.<sup>12</sup> In particular, it makes available recommended mediation, arbitration, expedited arbitration and expert determination contract clauses and submission agreements,<sup>13</sup> as well as an online clause generator<sup>14</sup> that proposes additional elements based on the WIPO Center's case experience.

The WIPO Center has also developed tailor-made dispute resolution procedures and services for specific industries,<sup>15</sup> such as information and communications technology (ICT) – including for the determination of fair, reasonable and non-discriminatory (FRAND) licensing terms – life sciences, R&D and technology transfer, and digital copyright and content. In this context, the WIPO Center collaborates with stakeholders from the relevant sectors and provides targeted adaptations of the standard WIPO rules, specific model clauses and fees and separate lists of neutrals with expertise in those areas.<sup>16</sup>

Finally, the WIPO Center collaborates with the IP offices and courts of Member States to promote ADR methods through awareness-raising activities, case administration assistance and drafting of model R&D agreements that include ADR options.<sup>17</sup>

## Caseload

With its extensive network of IP and ADR experts, and WIPO's international neutrality, the WIPO Center stands at the forefront of ADR for IP disputes. As at mid 2022, more than 900 mediation, arbitration and expert determination cases with values ranging from US\$15,000 to US\$1 billion have been administered by

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12 The WIPO Center is available to assist parties through its 'Good Offices' services. This could take the form of facilitating direct settlement between parties, advising parties on WIPO model contract clauses and submission agreements and assisting parties in submitting disputes to WIPO ADR, including through the WIPO 'Unilateral Request for Mediation'.

13 WIPO Center, 'Recommended WIPO Contract Clauses and Submission Agreements', [www.wipo.int/amc/en/clauses/index.html](http://www.wipo.int/amc/en/clauses/index.html) (accessed 5 September 2022).

14 WIPO Center, 'WIPO Clause Generator', [www.wipo.int/amc-apps/clause-generator](http://www.wipo.int/amc-apps/clause-generator) (accessed 5 September 2022).

15 A list of ADR services provided by the WIPO Center for specific sectors is available at WIPO Center, 'WIPO Alternative Dispute Resolution (ADR) Services for Specific Sectors'.

16 For more information on recent developments in some of these specific sectors, see the section in this article on 'Recent Developments in Specific Sectors'.

17 WIPO Center, 'WIPO Alternative Dispute Resolution (ADR) for Intellectual Property Offices and Courts'.

the WIPO Center, most of which have been administered in the past five years.<sup>18</sup> Approximately 29 per cent of the cases administered involved patent-related issues, followed by copyright (24 per cent), trademarks (20 per cent), ICT (14 per cent) and other commercial areas, including franchising and distribution disputes (12 per cent).

The WIPO Center's ADR services have been used by multinational corporations, small and mid-sized enterprises (SMEs), R&D centres, universities, collective management societies and individuals from more than 60 countries. Although most of the disputes administered by the WIPO Center were international (68 per cent), 32 per cent of those disputes were of a domestic nature.

As at the time of writing, parties to disputes submitted to the WIPO Center are most often located in Europe (43 per cent), North America (22 per cent) and Asia (21 per cent); however, in the past few years, the WIPO Center has also received an increasing number of disputes involving parties from Latin America and Africa.

WIPO proceedings are mainly conducted in English (69 per cent) but have also been conducted in other languages, including, in order of frequency, Spanish, Chinese, French and German.

The majority of claims in WIPO cases relate to monetary relief; however, specific remedies have been requested in some cases, including requests for specific performance, declarations of infringement or non-performance of contractual obligations, further safeguards for the preservation of confidentiality of evidence, the provision of a security, the production of data, the delivery of goods and the conclusion of new contracts (including determination of licensing terms).

### Latest update to the WIPO rules

In 2021, the WIPO Center updated its mediation, arbitration, expedited arbitration and expert determination rules to reflect a number of developments in global mediation and arbitration practice. The updates are threefold.

First, to reflect the increasingly digitalised practice of ADR and the global switch to paperless practices, the updated rules now expressly permit, and foresee as the default option, the electronic filing of new WIPO ADR cases and the

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18 This number does not include domain name disputes administered by the WIPO Center under the Uniform Domain Name Dispute Resolution Policy (UDRP) and related policies. For statistics concerning WIPO domain name cases, see WIPO Center, 'WIPO Domain Name Dispute Resolution Statistics', [www.wipo.int/amc/en/domains/statistics](http://www.wipo.int/amc/en/domains/statistics) (accessed 5 September 2022).

electronic submission of any case communication.<sup>19</sup> Remote WIPO mediation and arbitration meetings and hearings are also expressly permitted and encouraged by the updated rules, including the preparatory conference, emergency arbitrator proceedings, mediation meetings and arbitration hearings.<sup>20</sup> To that effect, the WIPO Center provides to interested parties a series of online case administration tools, including an online docket (WIPO eADR) and videoconferencing facilities.<sup>21</sup>

The updated WIPO arbitration and expedited arbitration rules further introduced certain disclosure requirements concerning the identity of third-party funders at an early stage of the proceedings. More specifically, the identity of any third-party funder must now be disclosed in the request for arbitration or the answer to the request, as applicable. If a funding agreement is concluded at a later stage of the proceedings, the identity of the third-party funder must be promptly disclosed.<sup>22</sup>

This change reflects the marked increase of third-party funding in international commercial arbitration in the past few years.<sup>23</sup> It aims to prevent conflicts of interest between parties to the proceedings or between parties and an arbitral tribunal, thus further ensuring the enforceability of awards.

Finally, with the aim of facilitating access to ADR, the updated Schedule of Fees and Costs<sup>24</sup> introduced a 25 per cent reduction in the applicable WIPO Center fees if one or both parties to a dispute is an SME, which is defined as an entity with less than 250 employees. Through this update, the WIPO Center aims to meet the specific needs and challenges of SMEs, which currently represent 41 per cent of users of its arbitration and mediation services.

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19 WIPO Mediation Rules, Article 3(a); WIPO Arbitration Rules, Article 4(a); WIPO Expedited Arbitration Rules, Article 4(a); WIPO Expert Determination Rules, Article 3(a).

20 WIPO Mediation Rules, Article 10; WIPO Arbitration Rules, Articles 40, 49 and 55; WIPO Expedited Arbitration Rules, Articles 34, 43 and 49; WIPO Expert Determination Rules, Article 14(f).

21 WIPO Center, 'WIPO Online Case Administration Tools', [www.wipo.int/amc/en/eadr](http://www.wipo.int/amc/en/eadr) (accessed 5 September 2022).

22 WIPO Arbitration Rules, Articles 9(vii) and 11(b); WIPO Expedited Arbitration Rules, Articles 9(v) and 11(b).

23 Hussein Haeri, Clàudia Baró Huelmo and Giacomo Gasparotti, 'Third-Party Funding in International Arbitration', in Amy C Kläsener (ed), *The Guide to M&A Arbitration*, 3rd edn, London, Law Business Research, 2020, pp. 76–99.

24 See footnote 11.

## Recent trends in WIPO ADR

In recent years, the WIPO Center has observed various trends and developments in relation to the ADR of IP disputes.

### Trends in caseload

#### *Caseload increase*

Although the WIPO Center's caseload steadily increases every year, the WIPO Center has seen a marked increase in its caseload in the past two years: it administered 24 per cent more cases in 2020 and 45 per cent more cases in 2021.<sup>25</sup> This illustrates the growing awareness, understanding and acceptance of IP ADR and its benefits among users worldwide.

The increase may be seen as a collateral result of the covid-19 pandemic, during which court backlogs escalated considerably, making ADR a more attractive option for litigants. It may also be explained by the WIPO Center's growing collaboration with courts worldwide for the development and implementation of ADR-related services,<sup>26</sup> which has led to heightened awareness of ADR options and benefits by courts, which, in turn, refer an increasing number of cases to WIPO ADR or encourage parties to consider it.

Also of interest are the various ADR incentives and promotion schemes put in place by national IP offices in the past years – many of which are the result of collaboration with the WIPO Center<sup>27</sup> – and recent legislative initiatives that encourage and sometimes mandate ADR as a first step in parties' dispute resolution process.<sup>28</sup>

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25 Not including domain name case filings. For statistics concerning WIPO domain name cases, see WIPO Center, 'WIPO Domain Name Dispute Resolution Statistics', [www.wipo.int/amc/en/domains/statistics](http://www.wipo.int/amc/en/domains/statistics) (accessed 31 August 2022).

26 For example, the WIPO Center collaborates with the Supreme People's Court of China to promote the use of mediation for IP disputes in China and with the Munich Regional Court in the area of patent disputes and disputes related to fair, reasonable and non-discriminatory (FRAND) matters.

27 See footnote 17.

28 In the area of copyright, for instance, see Article 17(9) of Directive (EU) 2019/790 (the DSM Directive). Another example can be found in England, where a party's silence in response to an invitation or a refusal to participate in ADR may be considered unreasonable by the court and could lead to the court ordering that party to pay additional court costs (see Article 11 of the UK Ministry of Justice, 'Practice Direction – Pre-Action Conduct and Protocols'). A similar approach can be found in Australia (see Federal Court of Australia, 'Mediation').

The covid-19 pandemic has also led to an increase in the online conduct of ADR proceedings and the use of online case administration tools, such as video-conferencing and electronic submissions. This, in turn, has had a positive impact on the time and cost efficiency and flexibility of the arbitration and mediation processes, leading to more frequent recourse to those proceedings. For instance, without the constraints and costs of travel, parties located in different jurisdictions may be more inclined to participate in ADR proceedings.

### *Increased submission of non-contractual disputes to ADR*

While WIPO ADR cases are predominately based on contract clauses, a growing number of cases are being submitted to WIPO ADR procedures as a result of a submission agreement concluded after the dispute has arisen (e.g., non-contractual infringement of IP rights). This indicates that parties are increasingly aware of the benefits of mediation and arbitration over court litigation, notwithstanding the nature of their dispute and even after the dispute has arisen.

Further, in the context of non-contractual IP infringement disputes where time is often of the essence, the possibility of fast resolution combined with the availability of provisional measures<sup>29</sup> and emergency relief<sup>30</sup> make arbitration and expedited arbitration appealing options for claimants.

## Trends in settlement

### *Increased settlement rates*

WIPO ADR procedures stimulate positive opportunities for party settlement. In mediation proceedings, for example, the WIPO Mediation Rules allow the mediator to promote the settlement of the issues in dispute between the parties in any manner that the mediator believes to be appropriate.<sup>31</sup>

Historically, 70 per cent of WIPO mediation cases concluded in a settlement between the parties. In 2021, the WIPO Center observed that the settlement rate in mediation cases increased to 75 per cent.

These improved mediation settlement rates may partially be the result of the increasing use of WIPO online case administration tools; the flexibility of online mediation appears to encourage settlement opportunities. For instance,

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29 WIPO Arbitration Rules, Article 48; WIPO Expedited Arbitration Rules, Article 42.

30 WIPO Arbitration Rules, Article 49; WIPO Expedited Arbitration Rules, Article 43.

31 WIPO Mediation Rules, Article 14(a).

remote participation makes it easier for the parties' decision makers to be present throughout the mediation and, therefore, increases the chances of a successful outcome.

Schedules can also be more easily adapted to pursue the mediation if unexpected delays arise. In a recent WIPO trademark opposition case held entirely online, for example, the parties needed an additional day for mediation. Since no travel plans were involved, another session was easily set up the next day, and the parties reached an agreement. Had this situation occurred in an in-person context, the second session would likely have been significantly postponed, potentially compromising the relationship dynamic that had developed between the parties.<sup>32</sup>

Even in arbitration, 33 per cent of WIPO cases have settled before any formal decision was issued. Arbitrators appointed under the WIPO rules can suggest that parties explore settlement, including by commencing mediation, at such times as they may deem appropriate,<sup>33</sup> as shown in the following case example.

### **Case: WIPO arbitration of biotech and pharma dispute**

A French biotech company, a holder of several process patents for the extraction and purification of a compound with medical uses, had entered into a licence and development agreement containing a WIPO arbitration clause with a large pharmaceutical company.

Several years after the signing of the agreement, the biotech company terminated the contract, alleging that the pharmaceutical company had deliberately delayed the development of the biotech compound. The biotech company filed a request for arbitration claiming substantial damages.

The appointed arbitrator held a three-day hearing for the examination of witnesses. This not only served for the presentation of evidence but also allowed the parties to re-establish a dialogue. In the course of the hearing, the arbitrator began to think that the biotech company was not entitled to terminate the contract and that it would be in the interest of the parties to continue to cooperate towards the development of the biotech compound.

On the last day of the hearing, the parties accepted the arbitrator's suggestion that they should hold a private meeting. As a result of that meeting, the parties agreed to settle their dispute and continued to cooperate towards the development and commercialisation of the biotech compound.

32 For further thoughts on online mediation in the IP and technology sectors, see Heike Wollgast and Margarita Kato, 'Online mediation in the IP and tech sectors', *The Law Society Gazette*, 11 November 2020.

33 WIPO Arbitration Rules, Article 67(a); WIPO Expedited Arbitration Rules, Article 60(a).

If the parties agree on a settlement of the dispute before the award is rendered, arbitrators may terminate the arbitration and record the settlement in the form of a consent award, if requested by the parties.<sup>34</sup> Those awards may then be recognised and enforced under the New York Convention.

Two WIPO arbitration cases illustrate the relevance of those provisions.

### **Case: WIPO software trademark arbitration**

A North American software developer had registered a trademark for communication software in the United States and Canada. A manufacturer of computer hardware based elsewhere registered an almost identical trademark for computer hardware in a number of Asian countries.

Both parties had been engaged in legal proceedings in various jurisdictions concerning the registration and use of their trademarks. Each party had effectively prevented the other from registering or using its trademark in the jurisdictions in which it held prior rights.

To facilitate the use and registration of their respective trademarks worldwide, the parties entered into a coexistence agreement that contained a WIPO arbitration clause. When the North American company tried to register its trademark in a particular Asian country, the application was refused because of a risk of confusion with the prior trademark held by the other party. The North American company requested that the other party undertake any efforts to enable it to register its trademark in that Asian country and, when the other party refused, initiated arbitration proceedings.

In an interim award, the sole arbitrator (a leading IP lawyer) gave effect to the consensual solution suggested by the parties, which provided for the granting by the hardware manufacturer of a licence on appropriate terms to the North American company, including an obligation to provide periodic reports to the other party.

### **Case: WIPO arbitration regarding an artist promotion dispute**

A European art gallery concluded an exclusive cooperation agreement with a European artist to promote the artist in the international market. The agreement contained a WIPO arbitration clause.

Three years after the signing of the agreement, the parties' relationship began to deteriorate, and the artist sent a notice terminating the agreement. At that point, the art gallery initiated WIPO arbitration proceedings.

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34 WIPO Arbitration Rules, Article 67(b); WIPO Expedited Arbitration Rules, Article 60(b).

Following consultations between the parties and the WIPO Center, the WIPO Center appointed three arbitrators who were experienced in art law issues. After studying the parties' pleadings, the tribunal considered that there was potential for settlement.

With the agreement of the parties, the tribunal issued a preliminary case assessment encouraging the parties to resume settlement negotiations, which the parties had attempted at an earlier stage. The parties reached a settlement and asked the tribunal to render a consent award, incorporating the parties' settlement agreement. The terms of the settlement included the termination of the cooperation agreement and the provision of a number of works by the artist to the gallery in final settlement.

### *Beneficial effects of escalation clauses on settlement opportunities*

Combining ADR procedures by having, for example, a first mediation phase followed, in the absence of settlement, by (expedited) arbitration, may present considerable advantages to parties to IP disputes as it can help parties avoid an increase in costs while combining the benefits of different procedures, where necessary. Approximately 30 per cent of cases referred to the WIPO Center are the result of such escalation clauses.

In light of the settlement rates in WIPO mediation, these escalation clauses help maximise settlement chances early while still keeping the risk for the parties low as either party can terminate the mediation proceedings at any stage, should they realise that the adjudicative and binding nature of arbitration better suits their needs.

Even if mediation is unsuccessful, this combined procedure allows parties to be better prepared for the subsequent arbitration proceedings, leading to more efficiency, lower costs and fewer delays. WIPO case experience has also shown that previous mediation efforts may allow more settlement opportunities to materialise during the arbitration phase. This is owing to different factors, including the narrowing of the areas in dispute in the mediation phase and the escalation of costs and time, as illustrated by the following WIPO case example.

#### **Case: WIPO IT mediation followed by expedited arbitration**

A publishing house entered into a contract with a software company for the development of a new web presence. The project included a clause submitting disputes to WIPO mediation followed by WIPO expedited arbitration.



After 18 months, the publishing house was not satisfied with the services delivered by the developer, refused to pay, threatened rescission of the contract and asked for damages. The publishing house filed a request for mediation.

Although the parties failed to reach a settlement, the mediation enabled them to refine the issues that were addressed in the ensuing expedited arbitration proceedings.

Following the termination of the mediation, the publishing house initiated expedited arbitration proceedings. The WIPO Center appointed a practising judge as sole arbitrator, who had been agreed upon by the parties.

The arbitrator conducted a one-day hearing during which the parties expressed their desire to settle their case, asking the arbitrator to prepare a settlement proposal. The parties accepted the arbitrator's proposal and requested the arbitrator to issue a consent award. In addition to confirming the terms of the settlement, the consent award made reference to a press release that was to be published by the parties announcing the settlement of their dispute.

## Trends in the online conduct of ADR proceedings

In line with the growing interest of ADR practitioners in online case management and the online conduct of proceedings, a number of stakeholders have recently issued protocols on these topics.<sup>35</sup> The WIPO Center has published guidelines for the online conduct of mediation and arbitration proceedings<sup>36</sup> and encourages neutrals to issue further guidance in that regard as necessary.

In WIPO cases, such protocols issued by neutrals have addressed issues relating to:

- videoconferencing platforms (e.g., choice of platform, functionality and identification of the host);
- backup options in the event of dysfunctionality;
- the format and communication of digitised documentation;
- the establishment of timelines for meetings;

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35 See for instance Hogan Lovells, 'Hogan Lovells Protocol for the use of technology in virtual international arbitration hearings', April 2020; Kevin Kim, Yu-Jin Tay, Ing Loong Yang and Seung Min Lee, 'Seoul Protocol on Video Conferencing in International Arbitration'; Working Group on LegalTech Adoption in International Arbitration, 'Protocol for Online Case Management in International Arbitration'.

36 WIPO Center, 'WIPO Checklist for the Online Conduct of Mediation and Arbitration Proceedings', [www.wipo.int/amc/en/eadr/checklist/index.html](http://www.wipo.int/amc/en/eadr/checklist/index.html) (accessed 5 September 2022).

- undertakings from the parties not to allow the presence of other participants at their location;
- undertakings from witnesses not to access any communication platform or application during their testimony;
- the display of images of all participants at meetings;
- recording meetings; and
- data protection.

In arbitration cases, these protocols are usually included in a procedural order, although there is no formal obligation in that regard.

### **Recent developments in specific sectors**

In addition to its general ADR services, the WIPO Center provides ADR services for specific sectors. Certain areas of IP transactions may benefit from targeted adaptations of the standard WIPO ADR framework, including in relation to rules, fees and clauses. Such adaptations promote efficiency gains through ADR processes that reflect legal and business standards and the needs of the area. The following section addresses recent trends and developments in some of those specific sectors.

#### **Life sciences**

Fifteen percent of arbitration and mediation cases filed with the WIPO Center relate to life sciences. Parties include a wide range of stakeholders, including generic and originator pharmaceuticals, diagnostics and biotech companies, industry associations, funding bodies, government agencies, insurance companies, research institutions and universities.

The disputes often arise from technology transfers, product designs, financing, R&D agreements, licensing and cross-licensing agreements, settlement agreements, marketing, supply chain or distribution agreements, and related non-disclosure agreements negotiated or concluded by parties.

In this context, the WIPO Center maintains an open-ended list of experts specialised in life sciences, who may be appointed as mediators or arbitrators in life sciences disputes.

While the covid-19 pandemic has created opportunities for the life sciences sector, it has also placed significant operational, financial, legal and political strains on existing and new collaborations, which continue to disrupt the sector and, in

turn, access to global health. Against that backdrop, several pharmaceutical and life sciences stakeholders have recognised the benefits of ADR and have incorporated ADR procedures in their licensing agreements concerning covid-19 treatments.<sup>37</sup>

Facilitation of contract negotiation and dispute resolution may be particularly useful during this period given the entry of new actors in the sector and the conflicts that are likely to arise out of those collaborations.

In this regard, the WIPO Center has recently developed three new tailored WIPO ADR options to facilitate contract negotiation and dispute resolution specifically in the context of life sciences disputes.<sup>38</sup> The options are intended to assist parties in the licensing, manufacture, supply and distribution of critical medical products (e.g., vaccines, tests and therapies) and may be used separately or in conjunction with other options:

- *WIPO mediation for contract negotiation and dispute management*: This option includes the appointment of an experienced mediator to assist parties in their contractual negotiations. Once the contract is concluded, the mediator can remain available to assist parties with disputes that may arise during the collaboration (standing mediator). This option may be particularly useful in long-term collaborations to help bridge parties' expectations or protect proprietary, confidential information, and know-how or show-how without the risk of adverse publicity.
- *DRB*: Dispute resolution board (DRB) procedures, which are designed, in particular, to manage long-term collaborations, allow parties to request the establishment of a WIPO DRB whose role is to assist parties in managing minor or more significant disputes as and when required. Having lived through the journey of the parties' collaboration, the DRB facilitates speedy dispute resolution by drastically reducing the time to familiarise themselves with the issues at hand while also preserving confidentiality.

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37 See for example, Medicines Patent Pool press release, 'Pfizer and The Medicines Patent Pool (MPP) Sign Licensing Agreement for COVID-19 Oral Antiviral Treatment Candidate to Expand Access in Low- and Middle-Income Countries', 16 November 2021; Medicines Patent Pool press release, 'Afrigen signs grant agreement with MPP to establish a technology transfer hub for COVID-19 mRNA vaccines', 3 February 2022; Medicines Patent Pool press release, '35 generic manufacturers sign agreements with MPP to produce low-cost generic versions of Pfizer's oral COVID-19 treatment', 17 March 2022.

38 WIPO Center, 'WIPO Alternative Dispute Resolution (ADR) for Life Sciences', [www.wipo.int/amc/en/center/specific-sectors/lifesciences](http://www.wipo.int/amc/en/center/specific-sectors/lifesciences) (accessed 5 September 2022).

- *Expert determination for IP valuation*: Under the WIPO Expert Determination Rules, parties may appoint a neutral with strong expertise in IP asset valuation to determine the monetary value of the IP assets forming the subject matter of a contract or dispute. The IP valuation option can be used before the finalisation of a commercial transaction between the parties, during contract negotiations or in the course of mediation, arbitration or court proceedings, where the subject matter of the dispute includes the economic value of the intellectual property involved in the transaction.

Those WIPO ADR options are available to parties through a model mediation submission agreement, a model mediation clause, a model DRB clause (including an escalation clause to refer unsettled matters to arbitration) and a model expert determination for IP valuation submission agreement.<sup>39</sup>

## FRAND

Technical standards play an increasing role in today's economy. Standard development organisations (SDOs) typically require their members to license standard essential patents (SEPs) on FRAND terms.

Because of their advantages, ADR mechanisms are increasingly used as flexible tools for parties wishing to conclude a FRAND licensing agreement, including SMEs. This has been recognised by some SDOs that include ADR procedures in their IP policies.<sup>40</sup> Arbitration, including WIPO arbitration, has also been identified by some authorities in the United States and Europe as a suitable option to facilitate the determination of FRAND licensing terms.<sup>41</sup>

In recent years, the WIPO Center has seen a surge in requests for WIPO mediation in the context of unsuccessful licensing negotiations between a patent pool administrator and implementers. These 60 or so cases included parties

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39 *id.*

40 Digital Video Broadcasting, 'Memorandum of Understanding further amended and restated for the development of harmonized Digital Video Broadcasting (DVB) services based on European specifications', 3 January 2014; Open Mobile Alliance, 'Open Mobile Alliance IPR Procedural Guidelines For OMA Members', 4 February 2004. The European Telecommunications Standards Institute (ETSI) Guide on ETSI's Intellectual Property Rights Policy (the IPR Policy) invites parties to mediate where a dispute arises relating to the application of the IPR Policy.

41 See, for example, reference to WIPO ADR in *Motorola Mobility LLC and Google Inc* (Federal Trade Commission File No. 1210120) and Section 3.4 Alternative Dispute Resolution of the Communication by the European Commission 'Setting out the EU Approach to Standard Essential Patents' (COM(2017) 712 final).

from 19 jurisdictions (50 per cent of cases involved parties based in Asia, including China, India, Japan and the South Korea), and, as a result, prompted renewed licensing negotiations.

Parties also seem to be increasingly interested in referring SEP and ICT patent infringement disputes to ADR in the context of pending court procedures. For instance, in the course of litigation before a court in an EU Member State, a large Asian manufacturer submitted a unilateral request to WIPO mediation concerning its SEP infringement litigation against a large European SEP holder. In addition, IP courts in China recently referred 10 ICT patent infringement cases to WIPO mediation, seven of which involved claimants from Europe.

Bearing in mind the high settlement rates in WIPO mediation and arbitration, these examples show that referral to ADR procedures may serve as a catalyst to facilitate FRAND licensing negotiations. Referral to expert determination can also be particularly useful during FRAND licensing negotiations as this procedure may be used for technical determinations or to determine whether one or more patents are essential. Further, expert determination may also be used for the determination of FRAND royalty rates, which may assist FRAND licensing negotiations.

To facilitate the submission of FRAND-related disputes to WIPO ADR, the WIPO Center has recently updated its Guidance on WIPO FRAND ADR.<sup>42</sup> The WIPO Center also maintains a special list of mediators, arbitrators and experts for patent standards who may be appointed in those cases.

In addition, the WIPO Center has developed and makes available tailored FRAND model submission agreements that may be used to refer standards-related disputes involving telecoms patents in multiple jurisdictions to WIPO mediation or arbitration.<sup>43</sup> Developed in consultation with patent law, standardisation and arbitration experts from a number of jurisdictions, the WIPO model submission agreements are designed to enable cost and time effective determination of FRAND licensing terms.

Two arbitration model submission agreements are proposed: WIPO FRAND arbitration and WIPO FRAND expedited arbitration. The latter has been designed for less complex cases, notably where the number of SEPs that will be referred to arbitration is limited and where parties place particular emphasis on time and cost efficiency.

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42 WIPO Center, 'Guidance on WIPO FRAND Alternative Dispute Resolution (ADR)', 2021, [www.wipo.int/amc/en/center/specific-sectors/ict/frand](http://www.wipo.int/amc/en/center/specific-sectors/ict/frand) (accessed 5 September 2022).

43 *id.*

Both options can be preceded by WIPO FRAND mediation or include WIPO FRAND expert determination if the parties so wish. WIPO mediation can also be agreed by parties as a stand-alone procedure or initiated unilaterally by one party in the absence of a mediation agreement. Similarly, WIPO FRAND expert determination can be agreed by parties as a stand-alone procedure or initiated unilaterally.

Parties are free to adapt the model submission agreements in accordance with their needs.

### Disputes involving content and online platforms

The past two decades of the internet have revolutionised the way content is consumed. Copyrighted assets cross borders, are permanently accessible and are shared around the world at unprecedented speeds. The emergence and multiplication of social media platforms, online streaming services and non-fungible tokens are some examples of this constantly changing environment.

This dynamism has brought an increase in copyright and content disputes in the digital environment. The reasons for this are manifold and include:

- an increased number of stakeholders;
- ambiguity and uncertainty about the scope of content-related rights and associated limitations and exceptions;
- the increasing or indeterminate value of digitised assets;
- legal gaps or uncertainties (e.g., concerning ownership); and
- the potential application of foreign laws.

As reflected by the recent increase of copyright and content-related cases at the WIPO Center, ADR is seen as an appropriate means to resolve those disputes.

Some national legislation also supports recourse to ADR in this field, such as the EU DSM Directive,<sup>44</sup> which encourages parties to negotiate access to content and to distribution channels with the help of a third party (i.e., a mediator) when they are having difficulties reaching an agreement<sup>45</sup> and, once licences are in place, encourages parties to use ADR to resolve disputes concerning transparency obligations and contract adjustment.<sup>46</sup>

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<sup>44</sup> See footnote 28.

<sup>45</sup> See, for example, DSM Directive, Article 13.

<sup>46</sup> See, for example, DSM Directive, Article 21.

In the WIPO Center's case experience, parties can benefit from the use of specialised ADR mechanisms, such as WIPO mediation and arbitration, to resolve the following types of disputes:

- negotiation of licensing agreements for distribution of content in video-on-demand platforms;
- breach of scope of licensing terms;
- existing licensing terms that do not include new distribution channels;
- existing licensing terms that include a transparency obligation by online platforms to rights holders regarding the exploitation of works and revenues generated;
- adjustment of existing licensing terms concerning remuneration from online platforms to right holders;
- criteria to determine tariffs between collective management organisations (CMOs) and right holders;
- determination of reasonable remuneration terms between online platforms and right holders;
- determination of ownership of unpaid or unclaimed royalties by CMOs or online platforms;
- ownership over software improvements or updates in software development agreements;
- delivery and quality of works or content in film co-production or advertising agreements; and
- disputes related to the blocking or removal, or reinstatement of works or content from a platform owing to alleged copyright infringement.

### **Case: WIPO arbitration regarding determination of licensing terms**

Following a two-year negotiation of a licence agreement, a US company and European CMOs decided to submit their dispute to WIPO arbitration. The submission agreement provided that the national law of a particular European country would apply. A three-member tribunal was requested to decide the terms of the proposed licence, including the royalty rate.

Eight months after the appointment of the tribunal, the parties requested the suspension of the proceedings to facilitate direct settlement negotiations during which they decided to settle all matters that were subject to the arbitration. The order for termination was issued by the tribunal within 11 months of the commencement of the arbitration.

### **Case: WIPO mediation of a TV copyright royalty dispute**

A group of European CMOs and a number of digital cable operators were involved in a dispute concerning the remuneration for national and foreign TV stations offered by cable operators based on an established common tariff. The parties agreed to refer the dispute to WIPO mediation by subscribing a submission agreement.

In the agreement, the parties named a WIPO mediator and a copyright expert they wanted to assist them with the technical discussions on tariffs and national and international copyright law. The parties reached a settlement agreement within four months.

In this context, the WIPO Center has recently developed model WIPO mediation and arbitration submission agreements for digital copyright and content-related disputes, including sample descriptions of scope.<sup>47</sup> It has also adapted, in collaboration with copyright stakeholders, the WIPO Expert Determination Rules as a global procedure to reflect best international practice for the resolution of user-uploaded content disputes by online content-sharing service providers.<sup>48</sup>

### **Conclusion**

Owing to the growing complexity and internationalisation of IP transactions, the WIPO Center has experienced a considerable increase in IP, technology and related commercial cases in recent years, together with a continued rise in demand for adapted ADR services in specific industry sectors, including life sciences, standards in patents and online content and platforms.

The WIPO Center's experience demonstrates that the WIPO mediation, arbitration, expedited arbitration and expert determination rules provide particularly appropriate procedures for various IP and technology disputes, by leaving ample space for the parties, with the help of the neutrals appointed, to settle their case and to obtain remedies tailored to the special circumstances of their relationship.

At the same time, the WIPO Center continues to promote further efficiency gains through dedicated ADR dispute resolution schemes specially reflecting current IP dispute resolution needs and techniques.

<sup>47</sup> WIPO Center, 'WIPO ADR for Digital Copyright and Content Disputes', [www.wipo.int/amc/en/center/copyright/digitalcopyright/index.html](http://www.wipo.int/amc/en/center/copyright/digitalcopyright/index.html) (accessed 5 September 2022).

<sup>48</sup> *id.*



# Part IV

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## Future Directions

## CHAPTER 13

# A Look to the Future of International IP Arbitration

Thomas Legler<sup>1</sup>

### Introduction

Traditionally, disputes concerning IP rights were mainly heard before national courts. In recent years, however, there has not only been a general increase in IP-related disputes but also a significant shift towards the resolution of IP disputes through arbitration.<sup>2</sup> For example, the number of cases decided under the World Intellectual Property Organization (WIPO) Arbitration and Mediation Rules increased from 31 in 2012 to 182 in 2020 and to 263 in 2021, showing an increase of approximately 45 per cent over only one year.<sup>3</sup> The IP-related caseload of established arbitral institutions is rising, as is the number of IP-related arbitral institutions around the globe.<sup>4</sup>

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1 Thomas Legler is a partner at Pestalozzi Attorneys at Law Ltd. The author would like to acknowledge the contribution of attorney-at-law Severin Etzensperger to this chapter.

2 Thomas Halket, *Arbitration of International Intellectual Property Disputes*, Huntington, 2021. Jonathan DeFosse, Hwan Kim and Natalia Szlarb, 'The Growing Importance of International Arbitration for Intellectual Property Disputes', *The National Law Review*, Vol. X, No. 73, 13 March 2020.

3 Among these cases, patent disputes have been most common, followed by copyright, trademark, ICT and other commercial disputes. See World Intellectual Property Organization (WIPO), 'WIPO Caseload Summary', [www.wipo.int/amc/en/center/caseload.html](http://www.wipo.int/amc/en/center/caseload.html) (accessed 18 October 2022).

4 Historically, WIPO was one of the first institutions in this field, having set up its Arbitration and Mediation Center in 1994. In recent years, the Singapore International Arbitration Centre (SIAC) and the Hong Kong International Arbitration Centre (HKIAC) have both established panels of arbitrators for IP disputes. In the US, the Silicon Valley Arbitration and Mediation Centre provides various services related to tech arbitration.

There are many reasons for this trend towards arbitrating IP disputes. Primarily, this trend is because of the territorially limited scope of state court proceedings. This feature of state court litigation no longer meets the requirements of complex cross-border economic processes and transactions, and related disputes arising from a more globalised world.<sup>5</sup>

The move towards arbitration is a logical shift because arbitration is particularly suitable as a more efficient process to resolve international IP disputes involving multiple jurisdictions.<sup>6</sup> Arbitration not only brings advantages to solving international disputes but its confidential nature is also especially valuable for IP disputes in general because of the sensitive nature of confidential information and know-how regularly involved in such disputes. In addition, specialist knowledge is often required to resolve technical IP disputes efficiently – a difficulty that can be addressed by appointing suitably qualified arbitrators. All these advantages contribute to the rise of and the trend towards using international IP arbitration.

Based on the conclusion that international IP arbitration continues to grow in popularity, certain crucial questions arise regarding the future of arbitration and its role in IP dispute resolution:

- What do trends show and where should arbitration professionals focus their efforts?
- Can arbitration keep pace with innovation and technological advancements? And how should it adapt and prepare for upcoming trends?
- What additional advantages can arbitration bring in the future compared to other methods of dispute resolution?

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5 IPDR Forum: Munich IP Dispute Resolution Forum, 'IPDR Forum: Mission', [www.ipdr-forum.org/mission](http://www.ipdr-forum.org/mission) (accessed 18 October 2022).

6 American Arbitration Association, "'Products of the Mind' Require Special Handling: Arbitration Surpasses Litigation for Intellectual Property Disputes', [www.adr.org/sites/default/files/document\\_repository/AAA192\\_Intellectual\\_Property\\_Disputes.pdf](http://www.adr.org/sites/default/files/document_repository/AAA192_Intellectual_Property_Disputes.pdf) (accessed 18 October 2022). 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 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 Queen Mary University of London, 'Pre-empting and Resolving Technology, Media and Telecoms Disputes: International Dispute Resolution Survey', 2016. See also Thomas Legler, 'Arbitration of Intellectual Property Disputes', *ASA Bulletin*, 2019, p. 290.

## Latest trends

### Arbitrability and enforceability

It is well established that arbitral proceedings cannot take place in the absence of a valid arbitration agreement, which generally results from an existing contractual relationship.<sup>7</sup> In the absence of a contract containing an arbitration agreement, parties may still agree to enter into an arbitration agreement after a dispute has occurred, taking into account the advantages that arbitration brings compared to state court proceedings; this is, however, rather rare.<sup>8</sup>

Because disputes over ownership,<sup>9</sup> validity or infringements of IP rights generally do not involve a previous contractual relationship between the parties, these disputes are most often handled by state courts.<sup>10</sup> In addition, many countries reserve disputes about the validity of IP rights for state courts (arbitrability) and do not recognise or enforce foreign arbitral awards on the question of validity (enforceability).<sup>11</sup> Accordingly, parties do not have any interest in agreeing to arbitration if the enforcement of the award would have to take place in such a country.

This does not mean that international arbitral tribunals are always prevented from deciding disputes over the validity of IP rights. While the legislation or case law of many countries does not allow arbitral tribunals to declare IP rights to be invalid with *erga omnes* effect (and, respectively, does not allow enforcement of such awards<sup>12</sup>), arbitral tribunals may require the owner to withdraw its IP right from the respective registries if a country acknowledges that the award establishing the invalidity may have *inter partes* effect.<sup>13</sup>

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7 Legler, p. 291.

8 *ibid.*

9 Disputes about the ownership of patents or patent applications are, however, sometimes handled by arbitral tribunals based on an arbitration clause contained, for example, in a research and development agreement, a licence or a distribution agreement. See Andrea Mondini and Raphael Meier, 'Patentübertragungsklagen vor internationalen Schiedsgerichten mit Sitz in der Schweiz und die Aussetzung des Patenterteilungsverfahrens', *sic!*, Vol. 5, 2015, p. 289 ff.

10 Legler, p. 291.

11 *ibid.*

12 The arbitrability of IP disputes and the enforceability of awards goes hand in hand: countries that do not provide for the arbitrability of certain IP disputes usually also do not enforce awards on disputes rendered by arbitral tribunals seated in other countries.

13 This is, for example, the case in the United States, Canada, Singapore and France.

In general, there appears to be an international trend towards extending the arbitrability and enforceability of any type of IP dispute, including disputes on ownership, validity and infringement, making the question of whether a dispute is arbitrable less relevant.

Singapore, for example, enacted the Intellectual Property (Dispute Resolution) Act 2019. This law strengthens Singapore's position as a choice venue for the arbitration of international IP disputes because it explicitly states that any type of IP dispute, including those regarding ownership, infringement and validity, may be arbitrated and enforced in Singapore with *inter partes* effect.<sup>14</sup>

Hong Kong has passed similar legislation. Whereas Hong Kong's Arbitration Ordinance did not expressly address the question of arbitrability of IP disputes in the past, an amended ordinance (which came into force in 2018) now clarifies that parties can use arbitration to resolve any type of IP dispute.<sup>15</sup> Arbitral tribunals seated in Hong Kong now have the power to award any remedy or relief that could also be ordered by the Hong Kong state courts in civil proceedings.<sup>16</sup>

An arbitral award, whether it was made within or outside Hong Kong, for any type of IP dispute can consistently be enforced in Hong Kong.<sup>17</sup> The enactment of the amended ordinance coincided with the Hong Kong International Arbitration Centre's launch of a new Panel of Arbitrators for Intellectual Property Disputes, which comprises experts with experience in IP disputes. This initiative was aimed at further strengthening Hong Kong as an international IP arbitration venue.<sup>18</sup>

There is not only a trend in legislation but also in case law in favour of wider recognition of the arbitrability of validity cases. In Germany, the Landgericht München recently expressed in a decision an *obiter dictum* according to which it doubts that validity disputes should not be arbitrable at all.<sup>19</sup> It saw no reasons why an arbitral tribunal should not be able to decide such a matter with *inter partes* effect. In the present case, the court held that a claim for an assignment of a

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14 See Sections 52A and 52B of the Intellectual Property (Dispute Resolution) Act No. 17/2019

15 Hong Kong Department of Justice, 'Frequently asked questions on IP arbitration in Hong Kong', [www.doj.gov.hk/en/legal\\_dispute/pdf/arbitration\\_faq\\_e.pdf](http://www.doj.gov.hk/en/legal_dispute/pdf/arbitration_faq_e.pdf) (accessed 18 October 2022).

16 *ibid.*

17 *ibid.*

18 HKIAC, 'HKIAC Introduces a Panel of Arbitrators for Intellectual Property Disputes', 14 March 2016, [www.hkiac.org/news/panel-arbitrators-intellectual-property-disputes](http://www.hkiac.org/news/panel-arbitrators-intellectual-property-disputes) (accessed 18 October 2022). See also SIAC's panel of arbitrators for IP disputes (SIAC, 'SIAC Panel', <https://siac.org.sg/siac-panel-of-arbitrators#ip> (accessed 18 October 2022)).

19 Judgment of 5 May 2021, 21 O 8717/20, <https://openjur.de/u/2383560.html> (accessed 18 October 2022).

patent application is arbitrable as parties can agree on the assignment of a patent at any time (disposable monetary claim); therefore, this can also be subject to a decision of an arbitral tribunal.

There are also countries with legislation or case law recognising arbitral awards on the validity of IP rights with *erga omnes* effect. In Switzerland, every aspect of IP disputes may be subject to arbitration with *erga omnes* effect. Belgium also has a relatively liberal approach, but the arbitrability of validity disputes depends on the nature of the right involved (disputes about the validity of copyrights and patents are generally arbitrable, but those related to trademarks and designs are not).<sup>20</sup>

Whereas it might be simple to find a place of arbitration providing for the arbitrability of all kinds of IP disputes, the question of enforceability remains relevant. One of the main reasons parties prefer an arbitral award over a state court judgment is because of the New York Convention, which allows for a simple enforcement of foreign arbitral awards in more than 169 jurisdictions.<sup>21</sup> The enforcement of awards on the validity of IP rights is, however, still limited in numerous countries.

Article V(2)(a) of the New York Convention enables the courts of a contracting state to refuse recognition and enforcement of an award if they find that the subject matter of the dispute that led to the award is not capable of settlement by arbitration under the law of the country where recognition and enforcement is sought. Accordingly, even if a dispute is arbitrable in a certain jurisdiction, the advantage of arbitration is lost if the award cannot be enforced in countries where it should have its effects. Continuation of the trend towards increased international arbitrability and enforceability of any IP dispute is, therefore, to be welcomed.

### Integration of ADR in state court proceedings

The fundamental shift away from ordinary proceedings towards alternative dispute resolution (ADR) in the field of intellectual property is not only evident from the trend towards arbitration; ADR is also becoming more integrated in

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20 Flip Petillion, Jan Janssen and Diégo Noesen, 'Arbitration Procedures and Practice in Belgium: Overview', Thomson Reuters Practical Law, 1 January 2021.

21 A list of all member states can be found at New York Convention, 'Contracting States - List of Contracting States', [www.newyorkconvention.org/list-of-contracting-states](http://www.newyorkconvention.org/list-of-contracting-states) (accessed 18 October 2022).

IP-related state court proceedings.<sup>22</sup> Among other things, over 50 countries have cooperated with WIPO to develop or enhance their ADR services, especially with respect to mediation.<sup>23</sup> The number and ways of collaboration with WIPO are manifold and constantly increasing.

Various countries require mandatory mediation proceedings in commercial cases, including in IP disputes. While in the past, mandatory mediation schemes were typical for some common law jurisdictions (e.g., Australia), an increasing number of countries with different legal traditions have decided to implement the same types of schemes (e.g., the Philippines, Argentina, Greece, Romania, India and Turkey).<sup>24</sup> Turkey, for example, introduced in 2019 mandatory civil mediation for commercial cases including monetary IP disputes.<sup>25</sup> In the Philippines, mediation is mandatory for certain types of IP disputes administered by the Intellectual Property Office.<sup>26</sup> There have been similar institutional developments in Singapore, where the Intellectual Property Office developed a mediation option for trademark and patent proceedings under its collaboration with WIPO, and an expert determination option for patent proceedings.<sup>27</sup>

This trend towards integrating ADR is also apparent in Europe. Greek legislation made mediation mandatory in all civil and commercial disputes of a monetary claim of €30,000 and more, as well as for non-monetary claim disputes (e.g., claims for prohibiting IP infringement).<sup>28</sup> Portugal has even implemented mandatory arbitration proceedings for certain cases of infringement disputes

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22 Leandro Toscano and Oscar Suarez, 'An expanding role for IP offices in alternative dispute resolution', *WIPO Magazine*, February 2019, p. 40.

23 For a full list of all collaborations, see WIPO, 'WIPO Alternative Dispute Resolution (ADR) for Intellectual Property Offices and Courts', [www.wipo.int/amc/en/center/specific-sectors/ipoffices](http://www.wipo.int/amc/en/center/specific-sectors/ipoffices) (accessed 18 October 2022). See also Toscano and Suarez, p. 44.

24 Prof Nadja Alexander, 'PP 10 Global trends in IP Mediation', *EUIPO IP Mediation Conference*, Alicante, 2019.

25 Hasan Kadir Yilmaztekin, 'Turkey introduces mandatory civil mediation for commercial cases including IP rights', *Journal of Intellectual Property Law & Practice*, *Journal of Intellectual Property Law & Practice*, Vol. 14, No. 6, June 2019, pp. 432–437; and Dogan Alkan, 'Turkey: Turkey introduces mandatory mediation for money-related IP disputes', *Managing IP*, 4 February 2019.

26 WIPO, 'WIPO Mediation Proceedings Instituted in the Intellectual Property Office of the Philippines (IPOP HL)', [www.wipo.int/amc/en/center/specific-sectors/ipophl](http://www.wipo.int/amc/en/center/specific-sectors/ipophl) (accessed 18 October 2022).

27 Toscano and Suarez, p. 41.

28 Marina Perraki, 'Mandatory mediation in Greece – the saga continuous', *Kluwer Trademark Blog*, 3 December 2019, <http://trademarkblog.kluweriplaw.com/2019/12/03/mandatory-mediation-in-greece-the-saga-continuous> (accessed 18 October 2022).

concerning patents and supplementary protection certificates.<sup>29</sup> In England and Poland, there is an optional cooling-off period by means of mediation in trademark opposition proceedings. This trend towards ADR was supported by a decision of the Court of Justice of the European Union (CJEU) from 2017 (Case C-75/16). The CJEU concluded that mandatory mediation as a pre-condition to litigation is not inadmissible under the EU legislative framework, provided that the parties are not prevented from exercising their rights of access to the judicial system.<sup>30</sup>

In light of the fact that international commercial disputes (including IP disputes) are increasingly being heard in arbitration, some countries are seeking to retain their state courts' appeal by establishing specific courts or chambers for international commercial dispute resolution. In the past few years, many new courts or chambers have been established around the globe, for example: 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. In Switzerland, there are plans to establish an International Commercial Court in Zurich and Geneva.

## Future developments

### UPC

One of the most notable projects in Europe related to IP dispute resolution is the establishment of the Unified Patent Court (UPC). The establishment of the UPC goes along with the introduction of the unitary patent, which makes it possible to obtain a European patent with unitary effect in the EU Member States participating in the UPC system. The UPC will have exclusive competence

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29 Nuno Ferreira Lousa and Raquel Galvão Silva, 'Arbitrating Intellectual Property Disputes in Portugal: A Case Study', *Kluwer Arbitration Blog*, 14 July 2022, <http://kluwerarbitrationblog.com/2015/11/13/arbitrating-intellectual-property-disputes-in-portugal-a-case-study> (accessed 18 October 2022).

30 Rafal Morek, 'To compel or not to compel: Is mandatory mediation becoming "popular"?', *Kluwer Mediation Blog*, 19 November 2018, <http://mediationblog.kluwerarbitration.com/2018/11/19/to-compel-or-not-to-compel-is-mandatory-mediation-becoming-popular> (accessed 18 October 2022).



in the participating Member States in respect of unitary patents and (subject to exceptions during transitional periods) European patents. The start of operations of the UPC is expected to be in early 2023.<sup>31</sup>

In addition to the UPC (comprising a court of first instance, a court of appeal and a registry), the UPC Agreement also provides for the establishment of a Patent Arbitration and Mediation Centre. It is intended that this centre will provide facilities for mediating and arbitrating patent disputes falling within the scope of the UPC Agreement. Accordingly, ADR is to become a standard feature in this UPC system.

The jurisdiction of the arbitration centre is, however, rather limited as a patent may not be revoked or limited in mediation or arbitration proceedings. There remains a certain margin of interpretation regarding the wording of the UPC Agreement, and some suggest that an award on the validity of a patent should at least have an *inter partes* effect.<sup>32</sup>

## SEP/FRAND

ADR in technology-related disputes is a matter of growing interest and is by no means a new phenomenon. It is, therefore, unsurprising that the importance of ADR has also increased in the context of the licensing of standard-essential patents (SEPs) on fair, reasonable and non-discriminatory (FRAND) terms.<sup>33</sup>

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31 Unified Patent Court, 'The Administrative Committee takes significant steps towards the setting up of the Unified Patent Court', [www.unified-patent-court.org/news/administrative-committee-takes-significant-steps-towards-setting-unified-patent-court](http://www.unified-patent-court.org/news/administrative-committee-takes-significant-steps-towards-setting-unified-patent-court) (accessed 18 October 2022).

32 Jacques De Werra, '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*, 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 standard-essential patents where an arbitral tribunal may decide whether a licence is 'fair, reasonable and non-discriminatory'. See also Sam Granata, 'The Unified Patent Court: A One-Stop-Shop IP Dispute Resolution Entity, the Patent Mediation and Arbitration Centre (PMAC)' in Gerold Zeiler and Alexander Zojer (eds.), *Resolving IP Disputes*, Vienna/Graz, 2018, p. 75 ff.

33 See also Peter Picht and Gaspare Loderer, 'Arbitration in SEP/FRAND Disputes: Overview and Core Issues', *Journal of International Arbitration*, Vol. 36, No. 5, 2019, p. 575; John Rhie and Harold Noh, 'Resolving IP Disputes through International Arbitration', *Korean Arbitration Review*, Issue 7, 2016, p. 12; Joff Wild, 'Despite the difficulties, it is time to embrace arbitration as the best way to resolve licensing disputes', IAM, 31 August 2019, [www.iam-media.com/article/embrace-arbitration](http://www.iam-media.com/article/embrace-arbitration) (accessed 18 October 2022); Mihir Chattopadhyay, 'Recent Event: The Case for Arbitration of Patent Disputes', *Kluwer Arbitration Blog*, 25 February 2016, <http://arbitrationblog.kluwerarbitration.com>.

Technical standards play an increasing role in the modern world, and FRAND disputes have been addressed by state courts in several jurisdictions, resulting in the determination of FRAND licensing terms under different applicable laws and different approaches and methodologies.<sup>34</sup> Because multi-jurisdictional litigation has several drawbacks, there has been a trend in recent years towards arbitration for such disputes.

Standards setting organisations, such as the Institute of Electrical and Electronics Engineers, nowadays support the use of arbitration (e.g., by including arbitration agreements in their IP policies) for, among other things, the determination of royalties respecting FRAND principles.<sup>35</sup>

Several large SEP/FRAND arbitration proceedings have already been conducted,<sup>36</sup> and different initiatives have been launched to further strengthen the importance of arbitration. In 2017, WIPO developed and published the Guidance on WIPO FRAND Alternative Dispute Resolution (ADR), which aims to facilitate submissions of FRAND disputes to WIPO mediation and arbitration.<sup>37</sup> The Guidance, among other things, 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.<sup>38</sup> In 2018, the WIPO guidance was followed by the FRAND ADR Case Management Guidelines of the Munich IP Dispute Resolution Forum.<sup>39</sup> While the WIPO guidelines focus closely on the services provided by the WIPO Center, the guidelines of the Munich IP Dispute Resolution Forum expand on FRAND ADR in general and, as such, may work in synergy with the WIPO guidelines.<sup>40</sup>

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com/2016/02/25/recent-event-the-case-for-arbitration-of-patent-disputes (accessed 18 October 2022); Raymond Bender, 'Arbitration – An Ideal Way to Resolve High-Tech Industry Disputes', *Dispute Resolution Journal*, Vol. 65, No. 4, 2011, p. 9; and Piergiuseppe Pusceddu, 'Are we FRAND now?', *Kluwer Arbitration Blog*, 26 August 2021.

34 WIPO, 'Guidance on WIPO FRAND Alternative Dispute Resolution (ADR)', [www.wipo.int/publications/en/details.jsp?id=4232&plang=EN](http://www.wipo.int/publications/en/details.jsp?id=4232&plang=EN) (accessed 18 October 2022).

35 Legler, p. 302.

36 For example, *BlackBerry v. Qualcomm*, see Todd Haselton, 'BlackBerry awarded \$815 million in arbitration case against Qualcomm', CNBC, 12 April 2017. For further examples, see Picht and Loderer, p. 576.

37 Legler, p. 302.

38 *ibid.*

39 Picht and Loderer, p. 576.

40 Pusceddu.

The response from authorities and the public to resolving SEP/FRAND conflicts through ADR has been positive. The advantages of arbitration for SEP/FRAND disputes are manifold:

- it is more effective in terms of settling disputes over a large number of jurisdictions with simpler enforcement;
- there are specialised arbitrators with the necessary expertise, both in a legal sense and from a technical point of view;
- there is more flexibility in setting the process rules regarding, for example, issues of confidentiality in this highly competitive field;
- there may be consideration of certain restrictions in the interest of other market participants and the general public.<sup>41</sup>

Accordingly, the trend towards arbitration in this area is expected to continue.

### Trade fairs

During the peak of the covid-19 pandemic, most trade fairs around the globe were cancelled. Currently, such events have been rescheduled, and in certain areas there seems to be a need to catch up on the missed opportunities in prior years. Consequently, dispute resolution mechanisms related to trade fairs are again returning to the spotlight. ADR at trade fairs is widely used around the world because it offers a fast and efficient dispute resolution mechanism, which is required to resolve the dispute and to stop infringements with immediate effect during a trade fair.<sup>42</sup>

Trade fair organisers have an interest in supporting their trade fair exhibitors and IP rights holders in dealing with IP disputes to minimise such disputes and the disturbance of the trade fair. There are, in principle, three different ways<sup>43</sup> for them to do so:

- Trade fair organisers may inform the exhibitors about IP protection and include IP clauses in their trade fair terms and conditions that are aimed at preventing IP disputes by obliging exhibitors to follow IP laws.

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41 See in particular: Legler, pp. 301 et seq; and Picht and Loderer, p. 576 et seq.

42 Michèle Burnier, 'La resolution des litiges dans les foires' in Laurent Hirsch and Christophe Imhoos (eds.), *Arbitrage, médiation et autres modes pour résoudre les conflits autrement*, Geneva, 2018, p 413.

43 Marketa Trimble, 'Enforcement of Intellectual Property Rights at Trade Shows: A Review and Recommendations', *Ohio State Journal on Dispute Resolution*, Vol. 34, No. 2, 2019, p. 18.

- Trade fair organisers may provide legal support for IP rights holders. This is, for example, done by the Consumer Technology Association, which runs the International Consumer Electronics Show in Las Vegas and which supports IP rights holders if they want to visit exhibition booths where they believe that the exhibitor displays infringing products.<sup>44</sup>
- The most sophisticated form of trade fair organiser involvement in IP enforcement consists of the establishment and maintenance of ADR mechanisms that address IP rights violations that have allegedly occurred at trade fairs.<sup>45</sup>

IP rights holders usually want to immediately stop any infringing activity at a trade fair. Local law may provide for emergency relief proceedings in national courts. In the United States, for example, courts may award a temporary restraining order (TRO), which it may order *ex parte*, without hearing the alleged infringer.<sup>46</sup> As a result of the US Supreme Court decision in *eBay v. MercExchange*,<sup>47</sup> the applicability of TROs in connection with trade fairs in the United States is limited because TRO motions require a showing of evidence of a likelihood of irreparable harm, which is unlikely to be collectible in the short time frame of a trade fair.<sup>48</sup>

Some national courts have noted that the requirements for proceedings in connection with the infringement of IP rights at trade fairs are different from ordinary proceedings in which infringement of IP rights is alleged. Thus, some national courts have deliberately adjusted to the needs of trade fair participants offer standby services for trade shows.<sup>49</sup>

If a national court system does not provide suitable avenues for relief, ADR offers alternative mechanisms. For example, Palexpo Trade Fairs in Geneva, Switzerland (based on the former Baselworld watch fair) offer ADR mechanisms

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44 Consumer Technology Association, 'Procedures for Requests by IP Owners to Visit CES® Exhibit Booths', [www.ces.tech/Exhibitors/Show-Planning/Procedures-for-Requests-by-IP-Owners.aspx](http://www.ces.tech/Exhibitors/Show-Planning/Procedures-for-Requests-by-IP-Owners.aspx) (accessed 18 October 2022); and Trimble, p. 14. Similar procedures were available in connection with the former Baselworld trade show in Basel, Switzerland and the International Hospitality Exhibition in Milan, Italy.

45 Trimble, 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.

46 *eBay Inc v. MercExchange, LLC*, Fed. R. Civ. P. 65(b)(1); see Trimble, p. 10.

47 *eBay Inc v. MercExchange, LLC*, 547 U.S. 388 (2006).

48 Trimble, p. 15.

49 This is the case, for example, with the District Court in Braunschweig, Germany, which has territorial jurisdiction over Hannover (a major trade show centre), and the Commercial Courts of Barcelona, Spain. For further information, see Trimble, p. 26.

for IP disputes.<sup>50</sup> The fast-track procedure, established together with WIPO, grants exhibitors and non-exhibitors a cost- and time-efficient legal mechanism to protect their IP rights and related commercial interests at the trade fair within 24 hours. Likewise, in Singapore, SingEx offers a fast-track IP dispute resolution procedure for SingEx trade and consumer fairs in collaboration with the WIPO Center.<sup>51</sup>

ADR procedures are likely to become more important if trade fairs increasingly take place online. ADR procedures are more flexible and can provide for online dispute resolution. It will be interesting to watch whether the pandemic will have a lasting impact on the manner in which trade fairs are conducted and on related opportunities for ADR.

### Blockchain and smart contracts

In recent years, there has been an increase in blockchain-related technologies in commercial contracts and the proliferation of smart contracts.<sup>52</sup> In essence, blockchain technology is a transparent, secure information storage and transmission technology that operates without a central control body.<sup>53</sup> Blockchain can be described as a shared database filled with entries (the 'blocks' in the 'chain') that must be confirmed and encrypted and that contain the history of all exchanges between its users since its creation.<sup>54</sup> The database is secure and distributed; it is shared by its different users, without intermediaries, which allows everyone

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50 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); and WIPO, 'Palexpo Trade Fairs – Fast-Track Intellectual Property Dispute Resolution Procedure', [www.wipo.int/amc/en/center/specific-sectors/tradefairs/rules/index.html](http://www.wipo.int/amc/en/center/specific-sectors/tradefairs/rules/index.html) (accessed 18 October 2022).

51 WIPO, 'WIPO Fast-Track Intellectual Property Dispute Resolution Procedure for SingEx Trade and/or Consumer Fairs', [www.wipo.int/amc/en/center/specific-sectors/tradefairs/singex](http://www.wipo.int/amc/en/center/specific-sectors/tradefairs/singex) (accessed 18 October 2022); and CONSTELLAR, [www.constellar.co](http://www.constellar.co) (accessed 18 October 2022).

52 Pedro Lacasa, 'Can Blockchain Arbitration become a proper "International Arbitration"? Jurors vs. arbitrators', *conflictoflaws.net*, 22 May 2022, <https://conflictoflaws.net/2022/can-blockchain-arbitration-become-a-proper-international-arbitration-jurors-vs-arbitrators> (accessed 18 October 2022).

53 Legler p. 302; and Andreas Sasing and Jonas Baumann, 'Automatisierung von Vertragsbeziehungen in der Industrie 4.0', *InTeR*, 2020, p. 137.

54 Legler, p. 302; and Nevena Jevremović, '2018 In Review: Blockchain Technology and Arbitration', 27 January 2019 (accessed on 17 July 2022, <http://arbitrationblog.kluwerarbitration.com/2019/01/27/2018-in-review-blockchain-technology-and-arbitration> (accessed 18 October 2022).

to check the validity of the string and which makes it difficult or impossible to change, hack or cheat the system.<sup>55</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>56</sup> On those grounds, combined with other technologies, blockchain has many useful applications.

A key example of a blockchain application are smart contracts. These are stand-alone programmes stored on a blockchain that, once started, automatically execute the predetermined terms and conditions of a contract (input or ‘oracles’) without requiring human intervention.<sup>57</sup> By using blockchain technology for smart contracts, a series of coded contractual clauses sit on the blockchain and enable self-enforcement of the rights and obligations of the parties.<sup>58</sup>

Blockchain technology may have many applications in the field of intellectual property. For example, it may be used:

- in smart contracts to automatically execute IP contracts, such as licensing contracts;
- in proving the creation or ownership of IP rights;
- in copyright management, particularly in the field of online music distribution;
- in the transmission of payments in real time to rights holders;
- in the authentication of goods; and
- in the detection of counterfeits.<sup>59</sup>

The internet court in Hangzhou, China has admitted evidence that was authenticated by blockchain in an online copyright infringement case.<sup>60</sup>

How could the use of blockchain technology potentially change arbitration? As a stand-alone tool, blockchain technology may be used to simplify and improve existing processes in the administration of arbitration proceedings.<sup>61</sup> This means, on the one hand, that an arbitration clause could be included in the code of a

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55 Sesting and Baumann, p. 137; Blockchain France, [www.blockchainfrance.net](http://www.blockchainfrance.net) (accessed 18 October 2022).

56 Sesting and Baumann, p. 137; and Riccardo de Caria, in Larry A DiMatteo, Michel Cannarsa and Cristina Poncibò, (eds.), *The Cambridge Handbook of Smart Contracts, Blockchain Technology and Digital Platforms*, 2020, p. 19, 35.

57 Andreas Furrer, ‘Die Einbettung von Smart Contracts in das schweizerische Privatrecht’, *Schweizer Anwaltsrevue*, 3/2018, p. 103 ff.; and Legler, p. 302.

58 Jevremović.

59 Legler, p. 303.

60 Kim Lu and Dong Ning, ‘China patent: Courts respond positively to blockchain evidence’, *Managing IP*, 18 September 2019.

61 Jevremović.

smart contract (e.g., an IP licensing or exclusive distribution contract).<sup>62</sup> In that event, an arbitration clause would need to become a smart arbitration clause.<sup>63</sup> In the event of a dispute, a predefined arbitration process would follow.<sup>64</sup> On the other hand, blockchain could also affect the analogue nature of arbitration proceedings themselves, which could be automated via blockchain.

Apart from the arbitration clause in a smart contract, various stages of the arbitration proceedings could also potentially be affected. For example, the submission and taking of evidence and the enforcement of arbitral awards could each potentially use the benefits of the technology to enhance the efficiency of proceedings.<sup>65</sup>

Even if technical, legal and practical questions still exist regarding the implementation of blockchain-based arbitration dispute resolution mechanisms (e.g., whether a smart arbitration clause meets the requirements of Article II of the New York Convention), this is no longer the realm of science fiction; there are already various blockchain-based platforms on the market (e.g., Juripax, Kleros, Codelegit, Aragon, Mattereum and Sagewise).<sup>66</sup> Kleros, for example, describes itself as a decentralised court system allowing for the arbitration of smart contracts by crowdsourced jurors relying on economic incentives.<sup>67</sup> The smart contract must specify the dispute resolution mechanisms, such as which court (of the Kleros system) will be used, how many jurors will hear the case, what are the options for jurors to vote, and what the consequences on the contract will be after the ruling is made.<sup>68</sup>

As long as local and international legislation or case law does not explicitly recognise and regulate such new dispute resolution mechanisms, the impact of such new technologies on arbitration remains to be seen. But this is a trend worth following closely.

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62 Legler, p. 303.

63 *ibid.*

64 *ibid.*

65 Jevremović.

66 Lacasa; and Legler, p. 303.

67 Clément Lesaege, Federico Ast and William George, Kleros Short Paper v1.0.7, September 2019, p. 14, [https://kleros.io/static/whitepaper\\_en-8bd3a0480b45c39899787e17049ded26.pdf](https://kleros.io/static/whitepaper_en-8bd3a0480b45c39899787e17049ded26.pdf) (accessed 18 October 2022).

68 *ibid.*, p. 3.

## Advanced use of technical tools in arbitration

Although it may take some time until blockchain technology and smart contracts significantly influence the arbitration process, we have seen in recent years how other technical developments have already changed arbitration proceedings, in particular during the covid-19 pandemic.

The pandemic demonstrated that arbitration could provide greater flexibility in times of crisis than litigation in national courts. Arbitrators and practitioners around the world reacted quickly to the challenges posed by the pandemic by, for example, shifting to remote hearings as an alternative to in-person hearings, moving the venue of a hearing to a region less affected by pandemic-related restrictions and adopting a documents-only procedure.<sup>69</sup>

Although there was a growing interest in the use of technology in arbitration even before the onset of the pandemic, the pandemic led to an increased use of already existing technological tools. The WIPO Center, for example, makes available at no cost to interested parties an online case administration platform, the WIPO eADR platform (which is already used in 30 per cent of the cases), and assists in the hosting of online meetings and hearings.<sup>70</sup>

For its part, the International Chamber of Commerce (ICC) established a working group, in response to the pandemic, to update the 2017 edition of its report on information technology in international arbitration. The report has undergone a complete overhaul and now includes a variety of practical resources, including sample procedural language relating to technology tools and solutions, checklists for virtual hearings, items to consider when choosing an online case management platform and a template procedural order.<sup>71</sup>

Before the pandemic, online dispute resolution was already widely used for domain name disputes. Internet domain name disputes are usually governed by the Uniform Domain Name Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers, which provides for online dispute resolution. Online dispute resolution is now increasingly used in other areas, and the trend towards online dispute resolution will likely continue and outlast the pandemic because of cost and time benefits.

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69 See, for example, the proposed procedures of SIAC, SIAC, 'SIAC COVID-19 FAQs', [www.siac.org.sg/faqs/siac-covid-19-faqs](http://www.siac.org.sg/faqs/siac-covid-19-faqs) (accessed 18 October 2022).

70 WIPO, 'WIPO Online Case Administration Tools', [www.wipo.int/amc/en/eadr](http://www.wipo.int/amc/en/eadr) (accessed 18 October 2022).

71 ICC Commission Report, 'Leveraging Technology for Fair, Effective and Efficient International Arbitration Proceedings', 2022 (ICC Commission Report).



Further, as a growing number of practitioners now have experience with online dispute resolution, they are increasingly comfortable with it. Traditional proceedings without any use of technological methods will become increasingly harder to justify. This is apparent from the ICC survey conducted in 2021, which showed, among other things, that 88 per cent of practitioners agree that it should be the norm post-pandemic to conduct case management and other procedural conferences as virtual, rather than in-person, meetings.<sup>72</sup>

Online dispute resolution will no doubt continue to play an increasingly more active role in the arbitration landscape.

## 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.

Many current trends will continue and have a lasting impact on 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).
- ADR is expected to become more integrated in regular state court proceedings (e.g., in the European UPC 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 the procedural language is likely to increase.
- Regarding SEP/FRAND and trade fair disputes, arbitral tribunals will become more important in the future as arbitration is more suitable for those types of disputes as compared to national courts.
- Developments in the area of blockchain and smart contracts are 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 through blockchain.

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72 ICC Commission Report, p. 47.

- The trend towards online dispute resolution and the use of various technological tools will continue and outlast the pandemic because of demonstrated cost and time advantages.

Nobody knows precisely what the future will bring to IP arbitration. Lawyers should keep an eye on the evolving practice in the field as new technologies continue to develop.

## **APPENDIX 1**

# About the Authors

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Kamel Aitelaj is a special counsel at Milbank LLP. Kamel's practice focuses on complex international dispute resolution and public international law matters. He has represented sovereign states and major international companies (telecommunications, finance, chemical and biosciences, energy and mining) in a wide range of proceedings, including investment treaty-based arbitration and commercial arbitration conducted under HKIAC, ICC, ICDR, ICSID, LCIA, SCC and UNCITRAL rules, as well as ad hoc proceedings. Kamel also regularly advises on matters involving sovereign immunity, award enforcement and public international law issues (law of international watercourses and human rights).

Kamel is licensed to practice at the New York and District of Columbia bars and the Barreau de Paris, and was called to the Bar of England and Wales (Middle Temple). He is a fellow of the Chartered Institute of Arbitrators and a member of the International Law Association, the Energy Charter Secretariat Legal Advisory Task Force and the CPR Brazil Advisory Board.

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A graduate of Dartmouth College, Georgetown Law School and the University of Paris I, Alexander is admitted to the Bars of New York and Paris. He is a member of the 'Tech list' of the Silicon Valley Arbitration and Mediation Center, a past president of the International Technology Law Association and a former chair of the International Commercial Arbitration Committee of the International Section of the ABA. Mr Blumrosen is a life member of the Council on Foreign Relations and has been named a chevalier of the French Legion of Honour.

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Jeremy qualified as an English barrister in 1989, as a US attorney-at-law in 1990–1991 (New York State, Court of Appeals for the Federal Circuit and United States Patent and Trademark Office) and was admitted to the Geneva Bar as a foreign lawyer in 2003. He is a door tenant with Quadrant Chambers (United Kingdom) and counsel to Helvetica Avocats Sarl (Switzerland) and Legal Rebel (Netherlands), and serves as external counsel to SonarSource SA and MindMaze Holding SA. He has served on several boards of directors and as a business executive for several start-ups.

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Thomas specialises in general contract and corporate law (including distributorship and licensing, pharmaceuticals and the watch industry); international and domestic arbitration; litigation in civil law; IP law (patents, trademarks and copyright); telecommunications, computer and internet law; media and privacy law; and construction law.

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Prior to joining Cleary, Zachary served as an extern in residence at the International Criminal Court, Office of the Prosecutor and the Special Tribunal for Lebanon, Office of the Prosecutor, in The Hague, Netherlands. From 2012 to 2014, he served as a senior editor on the drafting committee working to reform the evidence law of the United Republic of Tanzania.

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## **Matthew R Reed**

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Matthew R Reed is a partner in the Palo Alto office of Wilson Sonsini Goodrich & Rosati, where he practises in technology-focused international and domestic arbitration and IP litigation, including patent litigation in US district courts and before the US International Trade Commission, and trade secret disputes in state and federal courts.

With a background in chemical engineering, Matt has successfully litigated numerous cases in a variety of areas, ranging from generic pharmaceuticals to medical devices to semiconductor processing and packaging. Matt is a recipient of the Wiley W Manuel Certificate for Pro Bono Legal Services, awarded by the State Bar of California's Board of Trustees for his commitment to providing pro bono legal services to those most in need in the community. Matt serves as a founding board member for the California International Arbitration Council and as a founding board member and committee chair for California Arbitration, two non-profit organisations that promote international arbitration in California through educational, promotional and organisational initiatives and programmes.

Prior to entering private practice, Matt served as law clerk to US District Court Judge Spencer Williams for the Northern District of California. In addition to English, Matt is fluent in Spanish.

### **Ava R Shelby**

#### **Wilson Sonsini Goodrich & Rosati, PC**

Ava R Shelby is an associate in the Los Angeles office of Wilson Sonsini Goodrich & Rosati, where her practice primarily focuses on trademarks, advertising and intellectual property litigation.

Ava has worked extensively on matters involving trademark prosecution, brand protection and enforcement, trademark clearance and selection, advertising issues, IP litigation and arbitration involving IP disputes. She is a member of the firm's Pro Bono Committee and has been recognised by both the firm and the State Bar of California for her commitment to providing pro bono legal services.

Ava graduated in 2016 from the University of Southern California, Gould School of Law, where she was an executive senior editor for the *Southern California Law Review*. She also has a bachelor's degree in journalism and global studies with a minor in business from Lehigh University.

### **Marcelo Junqueira Inglez de Souza**

#### **Demarest Advogados**

Marcelo Junqueira Inglez de Souza is a partner in Demarest's dispute resolution practice area and a member of the firm's board of directors and executive committee. Marcelo holds a PhD in law from the Albert Ludwig University of Freiburg (Germany) as well as a master's degree and a bachelor's degree in law from the Pontifical Catholic University of São Paulo. He concentrates his practice on corporate, contractual, civil and commercial litigation and arbitration, representing large domestic and multinational companies. He is the author of books and is a guest professor in the areas of procedural law, arbitration and

intellectual property. Marcelo is listed in renowned local and international legal publications, such as *Chambers and Partners*, *The Legal 500*, *Leaders League* and *Análise Advocacia 500*, among others.

### **Peter A Sullivan**

#### **Foley Hoag LLP**

Peter A Sullivan works within Foley Hoag's intellectual property, litigation, and international litigation and arbitration departments. He co-chairs the firm's Patent Trial and Appeal Board practice group, and he is a co-managing administrative partner in the New York office.

Peter's clients rely on him as a trusted adviser to devise litigation strategies that align with their business objectives. His litigation practice spans numerous specialties, from patent, trade secrets and other intellectual property disputes to complex multi-jurisdictional contract and tort litigation, and to international commercial arbitration matters. His clients have relied on him to litigate disputes involving a wide range of innovations, including ground-breaking cancer treatments, advanced gas turbine engine technology and wireless communication and tracking systems.

### **Andrew Tepperman**

#### **Charles River Associates**

Andrew Tepperman is a vice president at CRA, based in Toronto, Canada. He specialises in providing economic and damages analyses for clients involved in arbitration and litigation proceedings. Dr Tepperman has assessed damages in a wide range of disputes, including intellectual property, breach of contract and antitrust matters. He has also performed economic analyses of liability issues in arbitration proceedings, including assessment of commercially reasonable efforts, and antitrust litigation matters, including analyses of market definition and market power. His work has encompassed a variety of industries, including pharmaceuticals, biologics, diagnostics, medical devices, telecommunications, and computer hardware and software. He has provided expert testimony in Canadian and US court proceedings. He holds a PhD in economics from the University of Toronto.

**Hiroyuki Tezuka**  
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Hiroyuki Tezuka heads Nishimura & Asahi's international dispute resolution practice. He has been involved in a number of international arbitrations as counsel, sole-arbitrator, co-arbitrator and chair, including before the ICC, the JCAA, the AAA-ICDR, VIAC, the KCAB and SIAC.

Hiroyuki currently serves as a vice president of the Japan Association of Arbitrators and 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 (FCIArb). He is also a member of the International Court of Arbitration of the 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, the ICC United States Arbitration Nomination Commission and the WILEF Global Advisory Board.

## **Robert Wachter**

### **Lee & Ko**

Robert Wachter, FCIArb 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.

## **Heike Wollgast**

### **WIPO Arbitration and Mediation Center**

Heike Wollgast is head of the IP Disputes Section at the WIPO Arbitration and Mediation Center. She holds a PhD in European Community law from the University of Cologne. She was a research fellow at the Institute of International Law in Cologne and practised in the Berlin office of the law firm Luther in the areas of trade and IP law. Before joining the WIPO Arbitration and Mediation Center, Heike specialised in legal and policy aspects of IP enforcement at WIPO's Building Respect for IP Division. Heike is a national of Germany.

## **Minjae Yoo**

### **Lee & Ko**

Minjae Yoo has represented and advised both Korean and foreign clients on a wide range of international arbitration and inbound Korean law matters. He has acted for clients in investor-state disputes, as well as international commercial and construction arbitration conducted under arbitration institutions such as the PCA, ICC and the KCAB. His areas of practice also include challenges and enforcement of arbitral awards and interim measures in relation to arbitral proceedings. He is a native Korean speaker and is fluent in English.

**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. 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.

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Traditionally, large IP owners have been hesitant about international arbitration – too scary (no prospect of appeal), inferior decision makers (compared with top judges), 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 four parts that mirror the life cycle of disputes and will be of interest to newcomers and aficionados alike.

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