

Arbitration Of Patent Disputes Internationally And In The United States



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Arbitration is an excellent vehicle for handling intellectual property matters. But be careful to negotiate an agreement that doesn't box you in later.

BECAUSE OF the special way that patent rights are created, the arbitration of such rights internationally may be treated differently by different national laws. Despite this disparity of treatment, the arbitration of international disputes has several advantages over litigating in multiple national jurisdictions. In the United States, statutes recognize and govern the arbitration of patent disputes, and arbitration is frequently the dispute resolution mechanism specified in patent licenses. There are many advantages to the arbitration of patent licensing disputes in the United States, but the negotiators of such agreements need to be aware of the tactical considerations in drafting such a provision.

ARBITRATION OF PATENT DISPUTES INTERNATIONALLY • Intellectual property differs from other commercial property in important respects. These differences affect the arbitrability of these disputes, especially on an international level. Although in the United States, case law and statutes recognize the arbitrability of intellectual property rights, in other countries those rights may not be arbitrable, or may not be arbitrable to the same degree.

Arbitration And The Nature Of Intellectual Property Rights

Intellectual property rights are enforceable rights as against all third parties, rather than against a particular third party, such as a party to a contract. By contrast, arbitration is generally the creature of contract between two parties, and involves rights and obligations only as between the parties to that contract. The contract of the parties determines the matters that are subject to arbitration, as well as the procedure to be followed and the persons who are to determine the dispute. The parties may make such a determination by specifying all the above in the arbitral agreement or by simply incorporating rules of various arbitral institutions throughout the world or ad-hoc arbitration rules, such as the Arbitration Rules of the United Nations Commission on International Trade Law (“UNCITRAL Arbitration Rules”). The law of the jurisdiction in which the arbitration is to be held frequently circumscribes the subject matter that the parties can agree to submit to arbitration (the “party autonomy”). The limitation on party autonomy by the laws of the jurisdiction is generally referred to as arbitrability.

An award handed down by an arbitration tribunal generally affects only the rights and obligations as between the parties to the arbitration itself. Contrast this situation with that involving a decision by the court of a sovereign state which finds that a patent issued by an agency of the sovereign that recognized the patent is invalid or that the claims are considerably narrower in scope than the patent holder asserts. The findings of that court have implications as to all third parties otherwise affected by the patent. The question with which one is confronted is whether the law at the place of arbitration or the law of the place where enforcement is sought will permit a private determination of rights that may affect third parties or whether those laws will permit a private party to adjudicate rights established by sovereign act.

Views On Arbitrability

Countries take a variety of views on the arbitrability of intellectual property disputes:

- In a few countries the law seems very clear. In Switzerland, all such claims, including claims concerning patent validity and infringement, are arbitrable, and the arbitrator’s decision can be registered with the authority that issues and maintains patents. Although there are as yet no cases or legislation directly on point, Canadian commentators have suggested that Canada would be equally as permissive;
- In other countries, such as Singapore and Romania, claims concerning patents are simply not arbitrable;
- The great majority of countries seem to lie somewhere in between, and a doctrine is evolving that would permit the arbitration of all intellectual property claims, including patent validity, at least where raised defensively to a claim of infringement. However, any award determining such validity would only be effective as between the parties to the arbitration and would have no effect as to the rights and obligations of third parties.

International Enforceability Of Arbitration Awards

One of the reasons that international commercial arbitration has become a mainstay in the resolution of international commercial disputes is that the awards rendered by an international arbitral tribunal are readily enforceable in jurisdictions throughout the world. This is in large part because of the New York Convention. The grounds for opposition to enforcement of an award are strictly limited by the Convention and only two have special relevance to patent arbitration awards:

- The arbitration agreement is not valid under the law chosen by the parties, or if the parties have not made such a choice, under the law of

the place in where the award was made. Article V(1)(a); and

- The subject matter of the award was not arbitrable under the law of the state in which enforcement is sought. Article V(2)(a).

When an award determining patent rights is sought to be enforced, a key question will be whether the law of the place where enforcement is sought recognizes the arbitrability of or the enforceability of awards concerning patent validity and infringement, and, if so, to what degree. There is no uniform answer to this question, as the laws of jurisdictions vary considerably in this regard.

The New York Convention provides for the ready enforcement of arbitral awards in the territory of any contracting state that were made in the territory of another contracting state. Since virtually all major trading nations are parties to the New York Convention, this solves the problem of a dispute between an alleged infringer who is making or selling the allegedly infringing products in many different national jurisdictions or a patentee who holds patents in each of or many of these jurisdictions. The same award may be taken from one jurisdiction to the next, or simultaneously to many different jurisdictions, and be readily enforceable in each, subject only to very limited grounds of objection to enforcement, in the nature of due process. An international arbitral tribunal can also deal with the application and enforceability of patents issued in several different jurisdictions.

SPECIAL ADVANTAGES OF ARBITRATING LICENSING DISPUTES IN THE U.S.

• There are several advantages of arbitrating, rather than litigating, patent license disputes:

- *Preservation of business relationships.* The parties have an existing business relationship, arbitration serves to preserve rather than to damage or destroy that relationship, because it is confidential, private, and less confrontational in its conduct than litigation;

- *Economy.* Litigation is tremendously expensive, and, from the perspective of the licensor, the recovery in a licensing litigation is circumscribed, being limited to the royalty agreed to in the licensing agreement. The potential return often is not worth the investment that litigation requires;
- *Speed.* Not only is arbitration cheaper and less public, it is also quicker. The parties should have their dispute resolved in six months or less;
- *Expertise.* The parties can select as arbitrators individuals who specialize in patent litigation or are familiar with the industry or the technology involved;
- *Flexibility in the agreement to arbitrate.* Federal statute expressly provides that parties can agree to the arbitration of disputes which relate to patent infringement or patent validity. 35 U.S.C. §294. They can do this either by including an arbitration provision in a contract to which they are parties (such as a joint development agreement or a technology license agreement), or by an agreement in writing to refer an existing dispute over patent validity or infringement to arbitrators for decision. When no contractual relationship exists, the parties may draw up a “submission agreement,” under which they agree to submit defined disputes to arbitration. The statute provides that the arbitration provision or submission agreement shall be valid, irrevocable, and enforceable, the only exceptions to enforcement being the legal or equitable grounds which would permit revocation of any contract;
- *All the parties’ rights are protected in arbitration.* At the arbitral proceeding, either party would be entitled to raise as defenses any or all of the defenses set out at 35 U.S.C. §282, such as non-infringement, unenforceability, patent or claim invalidity, or other similar defenses. The award issued by the arbitrators in such a proceeding would be enforceable just as any other arbitra-