

# INCENTIVES AND CHALLENGES FACING INTERNATIONAL ARBITRATION IN THE INTELLECTUAL PROPERTY CONTEXT

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## Introduction

It is anecdotally mentioned that intellectual property law is the next legal frontier. Grants to “Authors and Inventors [of] the exclusive Right to their respective Writings and Discoveries”<sup>1</sup> are thought to be the basis of an emerging asset class of the 21st century, one valued at an estimated \$5 trillion in the United States alone.<sup>2</sup> But the intellectual property phenomenon is also global, evidenced by the advent of powerful industry organizations<sup>3</sup> and international treaties<sup>4</sup> with implications spanning economic sectors from the music industry to agricultural commodities. The transactions embodied in this emerging global economy are largely governed by one of the oldest forms of law – contract law. And where there are contracts and covenants, disputes will arise. Transactions surrounding intellectual property, particularly technology transfer and licensing/royalty schemes that cross international boundaries, are subject to evolving legal doctrines, exposed to breakneck innovation, and therefore are far from immune to controversy between parties. Furthermore, judicial systems struggle worldwide with international law in its most basic form, and intellectual property issues that are governed domestically and enforced across borders offer unprecedented challenges. Where traditional systems of adjudication are challenged by the new intellectual property economy, international commercial arbitration, though not a perfect solution, has a role to play.

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<sup>\*</sup> Benjamin N. Cardozo School of Law, J.D. 2010.

<sup>1</sup> U.S. Const. art. III, §8, cl. 8.

<sup>2</sup> Intellectual Property Exchange International, <http://www.ipxi.com/> (last visited December 19, 2008).

<sup>3</sup> See, e.g., The World Intellectual Property Organization; The International Intellectual Property Alliance.

<sup>4</sup> See, e.g., The Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) promulgated by the World Trade Organization (“WTO”).

## The Difficulties in Litigating Intellectual Property

Despite intellectual property's reputation as a growth practice in recent years, the global economic crisis is weighing down on the legal practice area.<sup>5</sup> With 2009 looming as a period of economic sluggishness, law firms will be compelled to invest conservatively in cyclic practice areas, which include intellectual property.<sup>6</sup> But as IP litigation slows, disputes over technology transfer, licensing agreements, and royalties are not necessarily subject to the same contraction. In fact among the many intellectual property transaction models available, licensing has emerged as a dominant model in the information economy.<sup>7</sup> Therefore, licensing situations that will inevitably give rise to conflict-inviting circumstances must be anticipated.<sup>8</sup> Unfortunately for clients who are anxious to supplement their revenue streams with outstanding royalties or infringement damages, the steady demand for IP litigation placed on law firms seeking to economize may result in the decreased efficacy of counsel. Also, the legally immaterial aspects of intellectual property litigation can wind up costing a client tens of thousands of dollars.<sup>9</sup> In the U.S., this drawback to IP litigation is spurred by courts' broad jurisdictional power to determine "reasonable billing rates" and attorneys fees for litigants seeking to recover costs of representation or expenses resulting from their adversaries' tactics in pre-trial discovery.<sup>10</sup> Adding to the hurdles of intellectual property adjudication is the inherent inefficiency of

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<sup>5</sup> See Peer Monitor Q3 '08 Executive Report (Thomson Reuters, Eagan, M.N.), Nov. 6, 2008 (Intellectual property litigation experienced demand contraction in 2008, and fee growth at firms for intellectual property matters fell by more than 20% over the course of a year).

<sup>6</sup> *Id.*

<sup>7</sup> Robert Gomulkiewicz, et al., *Licensing Intellectual Property* 20-21 (Vicki Been, et al., Aspen Publishers 2008) (2008).

<sup>8</sup> See Brian Brunsvold and Dennis O'Reilley, *Drafting Patent License Agreements* 200 (BNA Books 2007) (1971).

<sup>9</sup> See, e.g., *Matlink v. Home Depot & Lowes*, No. 07cv1994-DMS (BLM) (S.D. Cal. Oct. 27, 2008).

<sup>10</sup> See, e.g., *Matlink*, (even though not all of the issues raised in a motion to compel were technically complex, prevailing market rates should be measured against rates charged for representation in patent litigation where defendants were entitled to engage counsel with both the technical knowledge and expertise in the unique procedures associated with patent litigation to defend the action). See also *Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027 (N.D. Iowa 2006) (district court correctly retained jurisdiction over the defendant's claim for attorney fees under 35 U.S.C.S. § 285 as a matter of patent law).

litigation, translating into costs estimated at \$2 million for a single patent licensing dispute. Paradoxically, licensors perceive a requirement to be aggressively litigious to comfort potential licensees wary of third party infringement liability, and the counterintuitive result is incentive for IP holders to go to court.<sup>11</sup> Inefficiencies and large legal price tags are not the only challenges facing intellectual property litigants. Outside of jurisdictions immersed in intellectual property matters,<sup>12</sup> judges may lack the expertise required to properly adjudicate technical validity and infringement matters. Where this is true experts are required to assist legal proceedings, adding costs for the parties to litigation. Even where the speed of innovation and the desire for commercial outcomes have motivated the legal process to adapt, the old proverb of ‘justice delayed is justice denied’ applies.<sup>13</sup> So it is not a surprise that courts strongly favor settlements, particularly settlement of intellectual property cases, to conserve over-taxed judicial resources. Even when settlement is the outcome, parties are left with the financial burden and opportunity costs of pre-trial preparations.

### **Advantages to Arbitration in the Intellectual Property Context**

Fortunately intellectual property claimants are not relegated to expensive, inefficient, and litigious dispute resolution in the halls of justice – parties seeking relief under international intellectual property disputes can have their claims for breach of license agreement, patent invalidity, and patent infringement settled via arbitration.<sup>14</sup> Arbitration generally lends itself to confidentiality of hearings and awards, flexibility of procedures, avoidance of discovery, far less

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<sup>11</sup> See, e.g., *Aro Corp. v. Allied Witan Co.*, 531 F.2d 1368, 1372 (6th Cir. 1976) (Public policy strongly favors settlement of disputes without litigation, and potential litigants should avoid reliance on over-burdened courts). See also *Bradley v. Chiron Corp.*, 136 F.3d 1317, 1322 (Fed. Cir. 1998); *Foster v. Halco Mfg. Co.*, 947 F.2d 469, 477 (Fed. Cir. 1991).

<sup>12</sup> Such as the Court of Appeals for the Federal Circuit or the Eastern District of Texas.

<sup>13</sup> See Fed R. Civ P. 34.

<sup>14</sup> Patent Act, 35 U.S.C. §294 (2002) (it is permissible to draft a patent license agreement that effectively subjects to arbitration all disputes that might arise thereunder).

motion practice than litigation, finality, commercial preferred outcomes, and the general policies of courts to support arbitral outcomes.<sup>15</sup> Despite the highly specialized Court of Appeals for the Federal Circuit, whose national jurisdiction in the United States includes patent and trademark matters, validity and infringement issues relating to U.S. patents may be decided in an arbitration proceeding held in a foreign country so long as U.S. law is applied.<sup>16</sup> Indeed, general acceptance of the international arbitrability of intellectual property is evidenced by the substantial number of cases involving such disputes settled by the International Court of Arbitration, the arbitral institution of the International Chamber of Commerce (“ICC”).<sup>17,18</sup> In the same vein, the World Intellectual Property Organization (“WIPO”)<sup>19</sup> has created specific intellectual property arbitration procedures and a corps of potential arbitrators for international disputes. In settling intellectual property matters, the most significant contribution to minimizing the costs of arbitration is an efficient conduct of the proceeding, a goal vigorously pursued by WIPO’s Arbitration and Mediation Center.<sup>20,21</sup>

Stemming from its competency and infrastructure, WIPO claims several advantages to facilitating intellectual property arbitration.<sup>22</sup> First, parties are more likely to engage one another

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<sup>15</sup> Curtis Pew, International Commercial Arbitration Course Lecture at the Benjamin N. Cardozo School of Law (Aug. 28, 2008) (unpublished lecture, on file with the professor).

<sup>16</sup> See *Deprenyl Animal Health Inc. v. University of Toronto Innovations Foundation*, 297 F.3d 1343 (Fed. Cir. 2002).

<sup>17</sup> Current and emerging intellectual property issues for business, A roadmap for business and policy makers (International Chamber of Commerce), Ninth edition 2008, at 50.

<sup>18</sup> International Court of Arbitration Bulletin (International Chamber of Commerce) 9:1 ICC IArb.Bull.37, 1998 (very year, about 10% of the contracts giving rise to ICC arbitration relate to intellectual property).

<sup>19</sup> WIPO is an intergovernmental organization whose mandate is to promote the protection of intellectual property. It is based in Geneva and has 183 member states. WIPO administers 24 multilateral intellectual property treaties, including the Patent Cooperation Treaty and the Madrid System.

<sup>20</sup> WIPO Arbitration and Mediation Center, *Why Mediate/Arbitrate Intellectual Property Disputes?*, Les Nouvelles, Journal of the Licensing Executives Society International, Vol.XLII, No.1, at 305 (March 2007).

<sup>21</sup> The WIPO Arbitration and Mediation Center was established in 1994 to promote the time and cost effective resolution of intellectual property disputes through alternative dispute resolution.

<sup>22</sup> WIPO Arbitration and Mediation Center, *Why Mediate/Arbitrate Intellectual Property Disputes?*, Les Nouvelles, Journal of the Licensing Executives Society International, Vol.XLII, No.1, at 302 (March 2007).

with a stronger sense of collegiality since they acquiesced to arbitration prior to any disputes arising. Parties also gain the invaluable resource of WIPO's access to highly specialized arbitral panels, seated with practitioners and experts representing the legal and technical spectrums of intellectual property. Next, no party enjoys the protectionist impulses of a friendly jurisdiction.<sup>23</sup> Another advantage to arbitrate international intellectual property matters is confidentiality, especially where extraordinarily valuable trade secrets and other proprietary information are at stake. But the most important consideration is the enforceability of arbitral awards stemming from WIPO proceedings; international awards are to be executed without delay and enforced by national courts under the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention").

But this is not guaranteed; not all international intellectual property disputes are best resolved by arbitration. Depending on the case, a highly specialized competency for the adjudication of intellectual property rights, one informed by the repeated rigor, standards, and customs of litigation in a particular jurisdiction, is required. Arbitration of international intellectual property disputes also is less desirable in two key areas: the enforcement of arbitral awards and the downstream policy effect that arbitral panels can impose.

### **Language of Arbitration and Customs of Litigation**

Practitioners have expressed that disputes over intellectual property matters constitute a form of 'linguistic jujitsu.' Linguistic nuances in claims drafting provide substantial challenges to potential patentees in the first place. When foreign patentees have intellectual property grants in jurisdictions where the official or principle language (or dialect) is different than their own,

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<sup>23</sup> Curtis Pew, International Commercial Arbitration Course Lecture at the Benjamin N. Cardozo School of Law (Oct. 2, 2008) (unpublished lecture, on file with the professor).

semantics present additional challenges.<sup>24</sup> For example, U.S. courts will apply the ordinary and accustomed meaning to words in a claim, and patentees can be their own lexicographers.<sup>25</sup> American patent law, like the patent laws of other jurisdictions, will not read into the language of patent claims or patent prosecution history – the words under which a patent was granted are taken at face value.<sup>26</sup> This is a concern where there is no direct translation between languages, potentially rendering the same patent invalid in one jurisdiction while it would be upheld in another.

In the context of international arbitration of intellectual property disputes, the language of arbitration is governed by Article 16 of ICC Arbitration Rules, giving deference to the Arbitral Tribunal regarding the language of the proceedings in the absence of an express agreement by the parties. Under the WIPO Arbitration Rules, Article 40(a) provides that unless the parties agree otherwise, the language of the arbitration shall be the language of the arbitration agreement – subject to the power of the tribunal to determine otherwise with regard for the parties’ observations and the circumstances of the arbitration.<sup>27</sup> Similarly, Article 40(b) of the WIPO Arbitration Rules provides that the tribunal may order documents translated into the decided language of the arbitration.<sup>28</sup> Where it is WIPO’s province to have special competence in the arena of intellectual property arbitration, parties may have a higher level of comfort operating under WIPO guidelines than with arbitration that is structured by the ICC. But no matter what venue arbitral parties decide upon, they must be mindful of language considerations to avoid the imposition of Article IV, Section 2 of the New York Convention. That provision requires parties

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<sup>24</sup> The challenge is compounded when a patentee, for example whose first language is X, assigns his rights to a foreign corporation who transacts in the language of Y who in turn licenses some aspect of the invention to another foreign party who conducts business in language Z.

<sup>25</sup> See *K-2 Corp. V. Salomon S.A.*, 191 F.3d 1356 (W.D. Wash. 1999).

<sup>26</sup> See *Markman et al. v. Westview Instruments, Inc., et al.*, 116 S. Ct. 1384 (1996).

<sup>27</sup> United Nations and the World Intellectual Property Organization, *Course on Dispute Settlement in International Trade, Investment and Intellectual Property*, at 55 (2003).

<sup>28</sup> *Id.*

seeking recognition and enforcement of arbitral awards to translate the documents into the language of the *enforcing court* if not already done so. This adds yet another layer of linguistic complication to the arbitral process.

### **Standards Defined by Public Notice and Judicial Announcements**

In the United States, the Declaratory Judgment Act<sup>29</sup> grants courts broad declaratory power with respect to intellectual property infringement disputes that arise over license agreements.<sup>30</sup> To bring a claim for declaratory judgment, parties seeking a decision on infringement need not suffer actual damages to be heard.<sup>31</sup> Once in federal district court, parties can obtain a ruling and appeal the decision through the federal court system just like any other Article III case or controversy.<sup>32</sup> Litigants retain the option of having the decisions appealed in this judicial scheme, a substantial benefit over a final and firm arbitral ruling. Declaratory judgments are also a part of the public record and announce to would-be infringers or breaching licensees not to test the limits of the established rule. In contrast, arbitral proceedings are typically held confidential, and though the threat of public embarrassment or publicly displayed proprietary knowledge is abated by the arbitral process, the benefit of *stare decisis* is lost.

Judicial judgments remain preferable if a party seeks to establish public precedent rather than a mere award that binds only the litigating parties.<sup>33</sup> A party willing to endure litigation retains the benefit of publicly clarifying rights or establishing intellectual property law doctrines according to their interests, especially if their rights are decided (or declined for adjudication) by

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<sup>29</sup> Declaratory Judgment Act, 28 U.S.C. § 2201, (2007).

<sup>30</sup> *See, e.g.,* MedImmune, Inc. v. Genentech, Inc., 127 S. Ct. 764 (2007).

<sup>31</sup> U.S. Const. art. I §8, cl. 8 (federal subject matter jurisdiction is established).

<sup>32</sup> U.S. Const. art. III, §2, cl. 1.

<sup>33</sup> WIPO Arbitration and Mediation Center, *Why Mediate/Arbitrate Intellectual Property Disputes?*, Les Nouvelles, Journal of the Licensing Executives Society International, Vol.XLII, No.1, at 302 (March 2007).

the highest courts.<sup>34</sup> The downside to this strategy, in addition to the obvious costs, is the risk position taken by litigating parties where there is unsettled law or vague standards for judicial interpretation of precedent. Even arbitrators acknowledge the benefits of the “... requirement of courts of first instance, and the appellate courts that review their decisions, to articulate sound legal reasons for their judgments; reasons and judgments which are themselves subject to further review and confirmation. [They also recognize that arbitration], with its absence of appellate review, lacks such a safeguard.”<sup>35</sup> Even so, litigation strategies for intellectual property claims can be protracted over several years before judges who may lack the narrow skill set to properly adjudicate intellectual property claims, whereas international arbitration offers finality in judgment, wider international applicability, and certainty that the arbitral panel has the subject matter competence to properly settle a dispute.

### **Enforcement, Arbitrability, and Domestic Policy Considerations**

One salient concern for parties agreeing to arbitrate international intellectual property disputes is refusal of enforcement of arbitral awards in relevant jurisdictions. This concern is rooted in Article V, Section 2(a) of the New York Convention, which states that “[r]ecognition and enforcement of an arbitral award [may be refused] if the competent authority in the country where enforcement is sought finds that ... [t]he subject matter of the difference is not capable of settlement by arbitration under the law of that country.” Essentially, this is a grant of discretion for national courts to determine their own subject matter jurisdiction over arbitral decisions. Arbitral decisions surrounding patent and trademark validity raise jurisdictional questions in

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<sup>34</sup> See, e.g., *Lab Corp. v. Metabolite*, 548 U.S. \_\_\_\_ (2006) (certiorari denied, leaving monumental questions of patentability under 35 U.S.C. §101 unanswered).

<sup>35</sup> Nachtrab, Kevin, *To Arbitrate or to Litigate: That is the Question*, *Les Nouvelles*, Journal of the Licensing Executives Society International, Vol.XLII, No.1, at 295 (March 2007).

particular. This is based on some national judicial bodies' refusals to consider patent or trademark validity as arbitral disputes. They characterize intellectual property rights as a grant of the government, subject to that government's discretion, and not a private commercial matter. China<sup>36</sup> and France<sup>37</sup> are examples, where arbitral decisions on patent and trademark validity are considered unenforceable. This is notwithstanding that the arbitral proceeding was conducted in a jurisdiction where patent validity may be arbitrated under that nation's law, as is permissible in the United States.<sup>38</sup>

Unfortunately, national courts worldwide have the discretion to invoke their authority granted by Article V of the New York Convention, rendering arbitral agreements in intellectual property disputes as void for public policy or for lack of arbitrability.<sup>39</sup> A potential solution for parties agreeing to internationally arbitrate their licensing and technology transfer claims is to strategically avoid contentious jurisdictions by adjusting their patent portfolios based on foreign priority filing. Prudent intellectual property strategy should account for the likelihood of certain jurisdictions to enforce claims and should pattern the arbitration clauses of license agreements and international filing accordingly. In addition to creative patent portfolio structuring and nuanced arbitral agreements, parties should remain mindful that the New York Convention,

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<sup>36</sup> See Arbitration Law of the P.R.C., art. 3(2), 6 P.R.C. LAWS 91 (arbitration of administrative disputes is not allowed).

<sup>37</sup> See French Code Civile, art. 6.

<sup>38</sup> See Patent Act, 35 U.S.C. §§135(d), 294 (2000).

<sup>39</sup> An example being identification of intellectual property 'worst offenders' by the United States Trade Representative's Office (the "USTR"). The European Commission issues a similar annual report. The USTR annually releases a "Special 301" Report on the adequacy and effectiveness of intellectual property rights protection by U.S. trading partners. In 2008, key trading partners who were on the Special 301 list expressed their outright anger toward being singled out for intellectual property rights violations by the United States. Thailand retorted to the 2008 Special 301 by saying that the US escalated an imagined dispute with Thailand far out of proportion, and Israel was so upset about the possibility of remaining on the Priority Watch List that it filed an angry response with the US Trade Representative back in March. Canada, also on the USTR's list, announced that it does not recognize the 301 watch list process and that the U.S. process lacks reliable and objective analysis, being driven entirely by U.S. industry.

along with imposing a refutable presumption on arbitrability, has not been ratified by all nations.<sup>40</sup>

The power of Article V is not only induced by protectionist impulses or local courts' deference to governmental grants of intellectual property monopolies. Parties agreeing to arbitrate should remain mindful of differences in national approaches to non-arbitrability. Until 2006, it was unclear how to define matters for arbitrability subject to the public policy of domestic laws; the Model Law on International Commercial Arbitration (the "Model Law") of The United Nations Commission on International Trade Law ("UNCITRAL") was silent on certain matters, particularly with respect to intellectual property.<sup>41</sup> Cases involving the same dispute and arbitral award depended solely on a national court's individual perception of the applicability of domestic public policy.<sup>42</sup> There is case law illustrating courts' tendencies to consider arbitrability of disputes only at the stage of recognition and enforcement, not for the purposes of examining arbitrability, thereby granting deference to the judgment of arbitral panels and merely calling into question the applicability of their decisions.<sup>43</sup> The 2006 revision of the Model Law includes provisions designed to facilitate interpretation by reference to internationally accepted principles, but this is not enough.<sup>44</sup> Despite early recommendations for

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<sup>40</sup> Particularly, parties must be mindful of agreeing to arbitrate where intellectual property rights are to be enforced in Taiwan. The island nation is not a party to the New York Convention and is consistently listed as a worst offender in the USTR's Section 301's. The scenario makes Taiwan a variable black hole for the enforcement of intellectual property rights, no matter how fair or effective an arbitral award might be.

<sup>41</sup> Enforcing Arbitration Awards under the New York Convention - Experience and Prospects, United Nations (June 10, 1998).

<sup>42</sup> *Compare*, Fincantieri-Cantieri Navali Italianai SpA (Italy) v. Ministry of Defense Arament and Supply Directorate of Iraq, Republic of Iraq, 21 Yearbk. Comm. Arb' 594 (1996) (Italian court holds that an arbitral award is unenforceable under a theory of public policy with a de facto presumption that the arbitral restrains of Ar. V of the New York Convention apply), *with* Fincantieri-Cantieri Navali Italianai SpA and Oto Melara SpA (Italy) v. M (Switzerland), ASA Bulletin (1993) 58-68, (Swiss court holds that the same controversy mentioned above was properly presented to arbitrators even if contrary to public policy of a state with Ar. V jurisdiction).

<sup>43</sup> See *M.S.A. (Belguim) v. Company M (Switzerland)*, 14 Yearbk. Comm. Arb'n 618 (1989), (heard by the court in Brussels).

<sup>44</sup> UNCITRAL Model Law on International Commercial Arbitration: 1985 - With Amendments as Adopted in 2006: With Amendments as Adopted in 2006, United Nations, at 23 (2008).

the Model Law to define such matters, there is still no explicit reference to intellectual property in the 2006 revision.<sup>45</sup> Evolving practices in international trade and technological developments were addressed generally in the revision of Article 7 of the Model Law, but the document remains silent on intellectual property.<sup>46</sup>

## **Conclusion**

Though the courts of sovereign jurisdictions have their drawbacks in terms of settling international intellectual property disputes, notions of protectionism and international competition are driving them to innovate and adjust. But the law moves slowly, and where the intellectual property economy is rapidly evolving, parties should look to international commercial arbitration to protect their interests. What remains to be seen is whether arbitration can drive public policy where industry leaders look to streamline and unify intellectual property norms internationally, instead of efficient private adjudication of intellectual property claims being voided by certain national policies. Until such a day arrives, parties agreeing to engage in arbitration over intellectual property disputes must be savvy in their intellectual property strategy and should look to specialized arbitral forums for dispute resolution.

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<sup>45</sup> See FN 38 at *supra*.

<sup>46</sup> See FN 41 at *supra*.