IN COURT OR NO COURT: EFFICACY OF ARBITRATION IN IP DISPUTE RESOLUTION

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Intellectual property arbitration can be defined as an arbitral procedure in which at least one intellectual property right[1] is in issue. Intellectual property is the source of many of the most dynamic world enterprises. It is the foundation of the publishing industry, the entertainment industry, the pharmaceutical industry, and the most rapidly developing industry of all--that based on information technology. The computer industry generates much of the interest in intellectual property with the vast commercial activity in new genres of work such as semiconductor designs, computer programs and digital databases. Only the exercise or the challenge of the intellectual property right, or the contesting of the existence or the validity of an intellectual property right, makes the dispute an intellectual property dispute.

Intellectual Property Arbitration refers to methods of resolving IP disputes without having to start court proceedings. IP disputes are resolved in aid of expert opinions. Increasingly, arbitration is chosen as a means of objective, amicable and final adjudication of commercial disputes. Thus, the emergence of arbitration of intellectual property matters is a study which merits serious

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[1]See, Art. 1 (2), Paris Convention for the Protection of Industrial Property; Art. 1 (2), TRIPs Agreement; Art. 2 (viii), Convention Establishing the World Intellectual Property Organization.

consideration.[2] IP addresses principally the allocation of rights under license agreements. Similar considerations exist with respect to arbitration involving matter such as anti-trust,[3] securities regulation,[4] and bankruptcy.[5] These dispute all implacable public rights, whose violation could result in a loss to society at large, which never signed the agreement to arbitrate.

It is the sovereign prerogative of the state to grant legal protection to IP rights, conferring certain exclusive rights on the beneficiary to use and to exploit the IP in question These rights need to be registered with a governmental or quasi-governmental agency, which alone can grant amend or revoke these rights and determine their scope.

I. REASONS FOR INTELLECTUAL PROPERTY'S INCREASING INTEREST IN ARBITRATION

A distinctive feature of IP disputes is that they often contain technical subject matter. Thus, settlement of such a dispute should be conducted by an arbitrator with specialized knowledge in IP. A major concern is to ensure the selection of an arbitrator with an understanding and familiarity of the IP transaction, the nature of the rights concerned and the particular issues in dispute. The advantage of arbitration is that the arbitral tribunal may be chosen to possess the technical skills which necessary to comprehend the IP dispute at issue.

[2] See, Worldwide Forum on the Arbitration Of Intellectual Property Disputes, WIPO Publication No. 728(E), I (1994) (explaining that both intellectual property and arbitration have in recent years experienced a growth of activity and have come to occupy increasingly prominent positions in national and international commerce).
[3] See, Mitsubishi Motors Corp v. Soler Chrysler-Plymouth Inc, 473 U.S. 614 (1985).
[4] See, Scherk v. Alberto-Culver Co., 417 US 506 (1974).
[5] See, Sonatrach v. Distrigas Corp., 417 US 506 (1974).

Arbitration has been a widely used dispute resolution mechanism in international commerce for a long time. It satisfies the parties' demand for an amicable, inexpensive, expeditious way to settle their dispute, providing them with a neutral forum, a competent tribunal of their own choice familiar with the subject-matter, and with a procedure that preserves privacy and confidentiality. [6] Even the parities flexibility in the powers that permit the arbitrator to exercise and choose the applicable procedures, usually by including reference to the rules of an arbitration institution makes people to opt for arbitration on IP disputes.

Arbitration is a less formal procedure than litigation, but still shares some of the elements of a court procedure. The increasing interest in intellectual property arbitration reflects the growing economic importance and the globalisation of intellectual property rights. There has been a dramatic increase in the demand for such rights within the last 15 years. The number of patent applications, for instance, has grown worldwide between 1986 and 1990 from 1.25 to 1.65 million.[7] Today, the economic weight of intellectual property rights in some countries surpasses the relevance of traditionally important sectors of commerce.

Arbitration is the classic way to eschew problems which stem from contracts involving a multitude of national laws. It possibly becomes the vehicle to enforce the global intellectual property code in *statu nascendi*. The TRIPs Agreement, which has already been signed by over 100 states, is an indication that some intellectual property principles, as expressed in the Berne, the Paris and the Rome Conventions, have become recognised worldwide and now build up

[6] See, Niblett, Worldwide Forum on the Arbitration of Intellectual Property Disputes, WIPO Publication No. 728, 1994, p. 198.
[7] See, Gurry, in Objective Arbitrability, Antitrust Disputes, Intellectual Property Disputes, Paper presented at the ASA Conference held in Zurich on November 19, 1993, p.111.

part of the *lex mercatoria*.[8] Accordingly, they would be directly applicable in arbitral procedures as far as the choice of law lies in the arbitrator's discretion.

II. THE CHARACTERISTICS OF INTELLECTUAL PROPERTY DISPUTES

Arbitration in the field of intellectual property shows no unique features but common characteristics, typically the involvement of highly technical questions and the need for confidentiality as well as for a quick dispute settlement.

1. **Technicality**- Disputes involving intellectual property rights tend to be highly technical and complicated. Only a technical expert can decide, for instance, whether an invention contains an inventive step. By choosing an arbitrator who is a specialist in the particular field, the parties minimize the need for additional experts and thus costs.
   Recently, however, doubts have arisen as to whether the nomination of technical experts for arbitrators is advisable; "*having an arbitrator fully equipped for dealing with whatever legal issue might arise during the course of the proceedings is more important than having an arbitrator able to grasp the factual substantive issues of the case*".[9]

2. **Confidentiality-**Intellectual property disputes often deal with

[8]See, Schmitthoff, TheLaw and Practice of International Trade, 9th Ed., 1990, p. 655(The lex mercatoria embraces internationally accepted principles of law governing contractual relations); See also Dasser, Internationale Schiedsgerichte und lex mercatoria, 1989, p. 100 (International legislation is one source of law of the lex mercatoria).

[9] See, Werner, Application of Competition Laws by Arbitrators, (1995) 12 J.INT.ARB. 1 at 21.

confidential information, such as trade secrets or patents. Therefore, the parties are often keen to preserve privacy and confidentiality, which are said to be best preserved by an arbitral procedure. In practice, however, often neither the underlying contract nor the law governing the arbitral procedures or the *lex arbitri* provide for confidentiality. In such cases, it is far less than clear to what extent arbitration is private and confidential.[10]

3. **The speed of procedure-**Intellectual property rights are inseparably connected with technological evolution. The life cycles of technical innovations get shorter and shorter; product life cycles are currently between 9 and 14 months.[11] This brings about the need for quick dispute resolutions.
   Practice, however, shows that it is sometimes a myth to believe that arbitration will bring about a quick end to a commercial dispute. It depends on many different factors, especially on the chosen arbitrators, whether an arbitral procedure saves cost and time.[12]

III. THE ARBITRABILITY OF INTELLECTUAL PROPERTY DISPUTES

Arbitrability means the capability of being properly subject to arbitration. Disputes as to validity, effect and royalties due under licensing agreements intended to lead to IP rights are generally

[10]Supra at 6, p.199; See, Esso/BHP v. Plowman, (1995) 11 ARB. INT. 3, 234.; See also Paulsson & Rawding, The Trouble with Confidentiality, p.303; Collins, Privacy and Confidentiality in Arbitration Proceedings, p. 321.
[11]See, Hill, in Conference on Rules for Institutional Arbitration and Mediation, Reports published by WIPO (1995), p. 137.
[12]See, Arnold, in Worldwide Forum on the Arbitration of Intellectual Property Disputes, WIPO Publication No. 728, 1994, p. 306, (mentions an arbitration case in California that was expected to last six to eight weeks. The award, rendered after four-and-a-half years, was eventually set aside to a substantial part by a court).

considered to be arbitrable. These more often does not have a direct effect on the third parties. Problems concerning arbitrability arise when the question arises not in respect of the validity of IP rights but on the contracts that has been concluded in the exercise of such right. The dispute between the licensor and the licensee although being a private affair is referable to arbitration. Such disputes are generally referred to international arbitration.

In India, the power of reference to arbitration has been contained in Section 8 of the Arbitration and Conciliation Act, 1996. [13] It empowers the court to refer the parties to arbitration when there is a violation of any agreed terms of the contract and contains an arbitration clause. Even an arbitration clause may give the power to the parties to select their arbitrators and assures confidentiality of arbitral proceedings, which is of vital importance to safeguard trade secrets. In the absence of specific provisions in the applicable intellectual property statutes, the question of arbitrability has to be decided according to the *lex arbitri*, which usually deems all disputes arbitrable that are at the free disposal of the parties or involve property.[14]

According to Article II (3) of the New York Convention, the court will decide whether it will accept the action or refer the plaintiff to arbitration. Moreover, a state court at the place where enforcement is sought may refuse recognition of the award on the ground that the subject-matter of the dispute is inarbitrable under the national law.[15] This provision enables the country where enforcement is sought to impose, on a limited scale, its national law on an international award. In practice, however, most parties comply with the award voluntarily. What is more, decisions that deny the exequatur of an award on the

[13] … Power to refer parties to arbitration where there is an arbitration agreement…
[14]Art. 5 of the Swiss Intercantonal Arbitration Convention.
[15]Art. V (2) (a), of Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) 1958.

grounds set up in Article V (2) are extremely rare.[16]

In some countries, 'intellectual property claims' have been considered non-arbitrable, albeit these are the areas where the arbitration is becoming more acceptable as an alternative to litigation. Some countries, such as France,[17] deny the arbitrability of disputes related to public policy. In US, 'patent claims' were excluded from arbitration until 1981, when the Congress allowed patent disputes to be arbitrated.[18] In European Union, disputes directly affecting the existence or validity of a registered IP right are still not considered to be arbitrable. By contrast, in Switzerland where the law contains a comparable definition of arbitrability, the opposite is true: arbitration awards are recognized by the Swiss patent and trade mark office as a basis for revoking the registration of a patent.[19] Most of the other legal systems do not exclude IP rights as a whole, from the jurisdiction of arbitration tribunals but usually draw a distinction between those rights which have to be registered, i.e., patents and trade marks, and those which exist independently of any such formality, such as copyright.

However, most related issues such as ownership, infringement, transfer or violation of the patent can be freely arbitrated in all major jurisdictions. The general acceptance of the arbitrability of IP disputes is reflected in the arbitration system under the WIPO Rules.[20]

Usually, even countries which allow the arbitrability of all intellectual

[16]See, Hanotiau, in Objective Arbitrability, Antitrust Disputes, Intellectual Property Disputes, Paper presented at the ASA Conference held in Zurich on November 19, 1993, p. 36.
[17]Id., p. 26.
[18] By addition of Section 294 to title 35 of the US Code.
[19]See Blessing, Arbitrability of Intellectual Property Disputes, 12 ARB INTL 191 at 200, 1996.
[20]See Lew, Mistelis and Kroll, Comparative International Commercial Arbitration, 2003, p. 209-210, ¶ 9-66.

property issues do not accept an award as a sufficient basis to alter the registration.[21] But it should be kept in mind that the subject matter of disputes arising under any of these statutes, in view of the provisions of Section 2(3) of the Arbitration and Conciliation Act, 1996 will not be arbitrable under this Act.

IV. POWER OF TRIBUNAL TO CHALLENGE VALIDITY OF IPR

There is controversy over whether the arbitral tribunal has the power to challenge the validity of an intellectual property right. The validity issue primarily challenges the arbitrability of registered rights, such as patents and trademarks. In the course of registration, the law often provides a special administrative procedure under which third parties may oppose.[22] Generally, such procedures cannot be replaced by arbitration. Therefore, these jurisdictions may also decide to reserve to themselves the right to adjudicate any disputes challenging the validity of the granted rights. However, as Francis Gurry has rightly pointed out, there is an inconsistency when the same state, which is common practice, allows the settlement of invalidity claims in a pre-trial stage by an agreement between the parties which restricts the ambit of the contested right or by licensing the contester.

[21]Exception is Switzerland, where awards are recognized by the Federal Office for Industrial Property if they have been declared enforceable by the competent authority.

[22]For instance, S. 47 (4) of the U.K. Trade Marks Act 1994, according to which the Registrar, in the case of bad faith in the registration of a trade mark, may apply to the court for a declaration of the invalidity of the registration

V. MANDATORY RULES OF LAW

Mandatory rules of law are compulsory provisions of law which, owing to public policy considerations, are to be applied irrespective of the *lex contractus*.[23] Noncompliance with mandatory rules of law is a ground to set an award aside.[24]

The arbitral tribunal would have to apply the mandatory provisions of the place where enforcement would probably be sought.[25] Yet this may clash with the parties' choice of law. It is arguable that in such a situation the arbitral tribunal leaves its mission and thereby sets a ground for setting the award aside.[26] Even if the award is not challenged, enforcement might be refused on the ground that the award deals "*with a difference not contemplated by or not falling within the terms of the submission to arbitration*".[27]

The now predominant view seems to endow arbitrators with the power to adjudicate competition law issues, at least as long as competition law is not at the very heart of the dispute. The crux of the matter, again, lies in the question which (competition) law is to be

[23]See, Hochstrasser, Choice of Law and Foreign Mandatory Rules in International Arbitration, (1994) 11 J.INT.ARB. 1 at 67.
[24]Art. V (2) of the New York Convention allows the refusal of the recognition and enforcement of a foreign award, if the subject-matter of the difference is not capable of settlement by arbitration or if this would be contrary to public policy under the law of the country where enforcement is sought. Many jurisdictions have similar provisions for the setting aside of domestic awards (cf., Art. 27, Swiss Federal Private International Law Act1987, especially S. 1 (refusal of enforcement if a decision contradicts the Swiss Ordre Public)).
[25] See, Dessmontet, in Objective Arbitrability, Antitrust Disputes, Intellectual Property Disputes, Paper presented at the ASA Conference held in Zurich on November 19, 1993, p. 70; See also Hanotiau, id, p. 33; Art. 26, ICC Rule (the arbitrator shall make every effort to make sure that the award is enforceable at law).
[26]Art. V (1) (e) of Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) 1958.
[27]Id.

applied. The applicable law depends prima facie on the law governing the contract. [28] By choosing the law of a Member State of the European Union, for instance, the parties inevitably opt for the application of E.C. competition law. However, the parties cannot simply evade the application of a certain competition law by opting for a "neutral" body of law governing their contract.

VI. THE WIPO RULES ON ARBITRATION

In September 1993, the WIPO General Assembly unanimously approved the establishment of the WIPO Arbitration Center, now called the WIPO Arbitration and Mediation Center. The Center offer services for the resolution of IP disputes between private parties through arbitration and mediation. The Centre also administers special administrative procedures for the resolution of disputes arising out of the registration of Internet domain names. The WIPO is currently the only institution offering specialised services designed for intellectual property disputes. The increased resort to international protection opens new possibilities for the use of ADR. The existence of more rights raises the potential for a larger number of conflicts involving those rights.

WIPO has developed an online system for administering commercial disputes involving IP. To be administered by the WIPO Arbitration and Mediation Centre, the WIPO system will be used for disputes involving Internet domain names, where certain assumptions can be made about the technical sophistication of the parties, but also for other types of e-commerce disputes, such as those arising out of the

[28]See Bebr, Arbitration Tribunals and Article 177 of the EEC Treaty, (1989) 22 C.M.L.R. 489; See also Competition and Arbitration Law, ICC Publication No. 480/3 (1993).

online conclusion of licensing agreements.[29] WIPO plans to work with content and service providers in order to tailor the system to their specific customer needs. In increasing procedural efficiency, the system will also lend itself to facilitate the resolution of conventional commercial disputes.[30] The WIPO Rules reflect standard practice in international arbitration, combining the "best features of established and recognised arbitration rules" and presenting the state of the art of commercial arbitration rather than unique features of intellectual property disputes. Yet they support academia's view on the characteristics of intellectual property disputes. They encompass special provisions dealing with the technicality and the confidentiality of such conflicts. Several Articles aim to accelerate the procedure.

A WIPO procedure is commenced by a request for arbitration submitted to the WIPO Arbitration Center,[31] which administers the arbitral procedures conducted by the WIPO Rules. The Center neither reviews the qualifications nor confirms the nomination of the chosen arbitrators; it is not supposed to get involved in any questions that can be solved by the arbitral tribunal or the state courts. Only in exceptional cases is it called on to nominate the arbitrators.[32] The request can, but does not have to, be accompanied by a statement of claim.[33] The claimant, in his request for arbitration, has to include a brief description of the nature and circumstances of the dispute, especially of the technology involved.[34] This reflects WIPO's concern

[29]See E Wilbers, WIPO International Conference on Electronic Commerce and Intellectual Property, September, 1999 available at http://ecommerce.wipo.int/meetings/1999/index.html, last accessed on 1st October 2010.

[30]See F Gurry, Dispute Resolution on the Internet, paper presented at the Fifth Biennial International Dispute Resolution Conference, International Federation of Commercial Arbitration Institutions (ICFAI), New York, May 1999.

[31]Hereinafter referred to as 'the centre'.

[32] But, contrary to the ICC Court, the Center does not confirm the parties' nomination.

[33]WIPO Rules, Art. 10.

[34]WIPO Rules, art. 9 (iv).

to appoint arbitrators familiar with the specific subject-matter of a dispute. In order to assist the Center in this task and to give recommendations when it is asked to do so, the Center maintains a list of persons who are specifically qualified to act as mediators and arbitrators in intellectual property disputes.[35] Unfortunately, WIPO has not so far published this list.

The WIPO Rules safeguard under specific conditions and limitations the confidentiality of the existence of the arbitration, of disclosures made during the arbitration and of the award. The provisions bind the parties, the arbitrators and the Center. The Rules also regulate the disclosure of trade secrets and other confidential information.[36] Truly innovative is the introduction of a "confidentiality adviser", who decides under exceptional circumstances in lieu of the arbitral tribunal whether a piece of information is to be classified.[37] This proviso may evoke the particular interest of a party who utterly distrusts a member of the arbitral tribunal. It is difficult to assess whether there is a real need for the introduction of specific intellectual property arbitration rules. In practice, it seems that the choice of the arbitrators and the parties' willingness to cooperate are far more important than the selection of the applicable set of rules.

However, because of the perception of a low level of IP protection provided by WIPO Conventions and the perceived inability of WIPO to enforce IPR in 1986 the US govt. shifted its efforts for international IP protection to the GATT in the Uruguay Round negotiations. Under the GATT, a detailed agreement entitled TRIPS was created which provided both national treatment and extremely detailed rules for minimum standards of protection of a very broad spectrum of IPR.

[35]In January 1996, the list encompassed 527 persons from 53 different jurisdictions.
[36]WIPO Rules, Art. 52.
[37]Ibid.

VII. INTERIM RELIEF IN INTELLECTUAL PROPERTY ARBITRATION

Interim relief is of pivotal importance in the field of intellectual property; the majority of such disputes brought before the state courts are likely to end at the interlocutory stage.[38]

The applicable arbitration rules sometimes do not explicitly refer to the arbitral tribunal's power to grant interim relief. Moreover, the request for interim relief may arise before the arbitral tribunal has been constituted. In such situations, the claimant almost inevitably will have to turn to the state courts. Some courts, however, have denied their competence and referred the parties back to arbitration.[39]

Up to now, there have been no institutional arbitration rules providing for timely instant relief at an early stage of the dispute.[40] The WIPO is about to introduce an Emergency Interim Arbitral Procedure, which would be available as an additional feature on an optional basis under the WIPO arbitration rules. This speedy procedure would be applied by a standby panel of arbitrators who would be available on 24 hours' notice. In the absence of the parties' agreements on the person to act as Emergency Arbitrator, the Center would be called on to appoint the arbitrator out of the members of the standby panel. Under certain conditions, the Emergency Arbitrator would be empowered to permit

[38]See Niblett, Arbitrating the Creative, (1995) 50 DISPUTE RESOLUTION JOURNAL 1 at 67.

[39]See Redfern, Arbitration and the Courts: Interim Measures of Protection--Is the Tide About to Turn?, (1995) 30 TEX. INT'L L.J. 1, 71 at 84; See also Wagoner, Interim Relief in International Arbitration, (1996) 62 Arbitration 2, 131 at 132.; Channel Tunnel Group Ltd v. Balfour Beatty Construction Ltd, [1993] 1 All E.R. 66 (The U.S. and the English courts are little inclined to grant interim relief in a dispute which is subject to international arbitration).

[40]In the ICC Pre-arbitral Referee Procedure (in effect since January 1, 1990), it takes a minimum of eight days after the receipt of the request for interim relief for the appointment of the referee

an *ex parte* hearing.[41]

The proposed WIPO procedure would be most valuable for parties seeking relief in a number of jurisdictions or in a country where timely relief is not available. However, for the time being the enforceability of such interim orders is in limbo because some national arbitration laws only allow the enforcement of final or partial awards, or do not recognise an arbitral tribunal's power to grant interim relief at all.[42]

VIII. CONCLUSION

From a procedural IP arbitration raises issues that are not too different from other forms of private binding resolution. True, IP disputes often implicate interim measures and technical expertise, which played a part in the elaboration of IP arbitration rules by WIPO. However similar concerns exist in other areas, including arbitration related to corporate acquisitions, joint ventures, investment and finance.

Again the absence of appeal on the merits of an award can be an advantage as well as drawback, particularly in international transactions. The better approach might be to provide by statute that courts shall respect the litigants' clear agreement for judicial review on legal and factual merits. Otherwise some parties may shy away because of the fear of risk involved in the error of the arbitrator.

There has also been reluctance among the IP lawyers to arbitrate, one oft-overlooked element which might be called the "loss of face factor". Thus it will not be surprising to see law firm conducting

[41]Art. IX (b) of the draft Emergency Rules.
[42]Consultation Document on Proposed WIPO Supplementary Emergency Interim Relief Rules, prepared by the International Bureau, April 19, 1996.

lawsuits than going for arbitration proceedings. It is often easier and safer to be ignorant than to learn. Until more counsel have experience with international arbitration, they will understand it as a risky business.