ADR of Intellectual Property Disputes

Philip J. McConnaughay
Dean and Donald J. Farage Professor of Law
The Pennsylvania State University Dickinson School of Law

This paper addresses that aspect of the 2002 SOFTIC Symposium that concerns the use of private rather than public (i.e., judicial) mechanisms of dispute resolution for the resolution of intellectual property ("IP") disputes. The principal private mechanism with which this paper is concerned is arbitration. Arbitration is the private, non-judicial adjudication of a commercial dispute, usually by a panel of one or three private arbitrators appointed by the parties, which results in a binding outcome. The other private mechanism with which this paper is concerned is mediation. Mediation (or conciliation) is the process by which a neutral third party attempts to assist disputing parties in reaching a voluntary resolution of their dispute. Collectively, arbitration and mediation (and other private mechanisms of dispute resolution, such as friendly negotiations, executive meetings, mini-trials) are known as "alternative dispute resolution" (i.e., alternatives to public courts), or "ADR." All methods of ADR, including arbitration, are consensual in nature – the parties must have consented to the procedure before they can be compelled to participate in the procedure and before public courts will defer to the procedure. Arbitration and other forms of ADR typically are not imposed involuntarily.

This paper discusses two specific issues relating to the use of ADR for the resolution of IP disputes: (i) the reasons why an owner or user of IP rights might or might not prefer to resolve disputes concerning those rights by means of ADR, and (ii) whether or not disputes over IP rights permissibly may be resolved by arbitration rather than by the government judiciary (i.e., the issue of whether IP rights are "arbitrable"). My discussion of the first issue is not specific to

any particular nation; my brief discussion of the second issue reports on the state of the law in the United States.

I. Reasons to Consider ADR for Intellectual Property Disputes

As a general principle, intellectual property rights are territorial in scope. The United States Patent Act, for example, provides that the grant of a patent confers a "right to exclude others from making, using, offering for sale, or selling the invention *throughout the United States*." U.S. courts also hold that U.S. copyright law also does not apply beyond U.S. territorial boundaries, even though the U.S. Copyright Act is not explicit on the point. The same principle is generally true of trademarks (although infringing activity in the case of trademarks sometimes is found to occur outside of U.S. territorial boundaries), and trade secrets.

At the same time, contracts and licenses concerning IP rights and transactions frequently create and extend related legal rights and obligations beyond a single nation's territorial boundaries, and, because of international treaties and the harmonization of national laws concerning intellectual property, the same IP rights increasingly are recognized and protected simultaneously in many different nations.

A. Certainty as to Forum. As with any commercial transaction implicating the laws and judicial power of several different jurisdictions, one of the primary reasons in an IP transaction for including a contractual clause mandating the ADR rather public court adjudication of any disputes is simply to provide the parties with the certainty that, in the event of a dispute, they will be submitting their dispute to a simple forum for resolution rather than potentially to several different forums in several different jurisdictions simultaneously.[1] Without such an arbitration

[1] International law generally recognizes that every sovereign nation has the right to apply its laws (i.e., to exercise its "prescriptive jurisdiction") and exercise its judicial power (i.e., to adjudicate disputes and to require parties to comply with judicial judgments) with respect to conduct within its territory or with respect to conduct outside of its territory that has a substantial intended effect within its territory. Thus, for any commercial transaction that occurs or has effects in more than one nation, the laws of several nations might apply to the transaction and the courts of several nations might have power to adjudicate disputes between parties to the transaction.

clause,[2] one party or the other might file a lawsuit in each of several different jurisdictions having power to apply its law or its judicial power to the parties or transaction. Courts of the United States, as in most other nations, will refuse to hear a lawsuit that is within the scope of a valid contractual arbitration clause, and will instead refer the parties to arbitration.[3] Thus, such clauses generally are viewed as indispensable by commercial parties whose transactions are subject to the laws or judicial power of more than one nation or jurisdiction.[4]

B. The Relative Speed of ADR. Properly managed, arbitration and other ADR mechanisms tend to provide speedier resolutions of disputes than public court adjudications. This typically occurs either because the arbitration/ADR proceedings, unlike public court adjudications, are able to commence immediately (i.e., there is not an entire docket of cases competing for the attention of the adjudicator), or because the procedural flexibility of arbitration/ADR results in the proceeding taking less time. The speed of dispute resolution is

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[2] I will use the term "arbitration clause" to refer to any contractual clause that mandates that, in the event of a dispute, the parties to the contract use ADR methods to resolve the dispute rather than public court adjudication. Ordinarily, these clauses will mandate that disputes be resolved by "arbitration" (i.e., by the imposition of mandatory decision by private arbitrators hired for the purpose of resolving the dispute) even if the clause also provides that the parties must attempt to "mediate" or "conciliate" their dispute (i.e., to seek the assistance of a neutral third party in attempting to resolve the dispute voluntarily) prior to proceeding to arbitration. This is because most national laws (e.g., the Federal Arbitration Act in the United States, 9 U.S.C. Sections 1-16 (1996)), and the principal multinational treaty governing international arbitration (i.e., the 1958 United Nations Convention on the Enforcement of Foreign Arbitral Awards, also known as the "New York Convention," which in the United States is implemented at 9 U.S.C. Sections 201-208 (1996)), require national courts to dismiss (or "refer to arbitration") disputes that are within the scope of a valid "arbitration" clause, but they do not explicitly require courts to defer to contractual clauses requiring forms of ADR other than arbitration.

[3] In the United States, courts are required by Section 3 of the Federal Arbitration Act (9 U.S.C. Section 3 (1996)) to defer to arbitration clauses in purely domestic transactions, and by Article II, paragraph 3 of the 1958 New York Convention (*see* note 2, *supra*) to defer to arbitration clauses in most international transactions.

[4] A contractual "forum selection clause" (i.e., a contractual clause designating a single national court as the place for the resolution of any disputes, to the exclusion of all other possible jurisdictions), as opposed to an arbitration clause, provides some of the same certainty in cross-border transactions that I am suggesting arises from contractual arbitration clauses. However, arbitration clauses usually are preferred by international commercial parties over forum selection clauses because arbitration clauses typically provide greater predictability with respect to several matters in addition to the place of the forum. Some of the additional comparative advantages include: (i) arbitration provides a neutral forum rather than one of a particular nationality; (ii) because of the New York Convention and the proliferation of pro-arbitration national arbitration laws, arbitral awards typically are enforced more easily and reliably than judicial judgments (particularly when the judicial judgment has been rendered in a nation other than the nation of enforcement); (iii) national courts, unlike arbitration tribunals, often are reluctant to enforce the IP laws of another nation; and (iv) an arbitration clause allows the parties to control the language of the proceedings as well as other important procedural matters.

always an important consideration when one of the goals is to reduce the possibility of an extended disruption of business, but this can become an especially important consideration when the subject matter of the dispute is intellectual property. For example, if the dispute concerns computer software, of a microelectronics patent, or a biotech product, public court adjudication (or an improperly managed arbitration) might take longer than the life cycle of the product involved. Successful mediation or an expedited arbitration can reduce this risk.[5]

C. The Availability of Expertise. Commercial parties are able to select the arbitrators and mediators who will hear and consider their disputes; the same is not equally true of public court judges and juries. For IP disputes involving complex technologies or difficult issues of valuation, this difference can have important consequences, not only for the efficiency of the proceeding, but for the correctness or acceptability of the outcome.[6]

D. Confidentiality. IP disputes often involve proprietary know-how with respect to a patented invention or trade secrets and other proprietary information. Because arbitration and mediation are by definition private, the confidentiality of such information typically is easier to ensure than in public court adjudication. In arbitration and mediation, even the existence of the dispute can remain confidential if that is the parties' preference.

E. Neutrality. I mentioned above in conjunction with "Certainty as to Forum" the comparative advantage (over public court litigation) of arbitration's neutrality, at least in the sense of not being affiliated with a particular nation. Another valuable aspect of ADR's neutrality is the ability of arbitration and mediation to accommodate significantly different legal and commercial practices and expectations, as often exist when the parties to the transaction are from both Western and non-Western traditions. ADR does not presuppose any particular

[5] *See e.g.,* Christian Burhring-Uhle, ARBITRATION AND MEDIATION IN INTERNATIONAL BUSINESS 313 (Kluwer 1996); Christine Lepern and Jeanine Costello, *The Use of Mediation in the New Millennium,* NEW YORK LAW JOURNAL 3 (May 6, 1999).
[6] *See e.g.*, Robert Goldschneider, *The Employment of Experts in Mediating and Arbitrating Intellectual Property Disputes*, 6 Amer. Rev. of Int'l Arb. 399 (1995).

procedure or method of proceeding; to the contrary, the parties and their arbitrators or mediator are completely free to adopt whatever rules of procedure, evidence, and conduct that they would like.

F. Avoiding Local Corruption or an Under-Developed Legal System. Companies frequently would like (or are required) to use or license their IP and know-how or trade secrets to their partners or joint venturers in less-developed nations, but, because of the unreliability or corruption of the local judiciary in the nation, they are concerned about the potential consequences of the transaction should a dispute arise. Private contractual mechanisms of dispute resolution can help reduce this risk by substituting in many of these nations for the unreliable or failed public mechanisms. The success of the substitution, however, likely will turn on whether: (i) the less-developed nation has acceded to the 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (i.e., the New York Convention), which essentially requires the nation to enforce qualifying arbitral awards; (ii) the less-developed nation has enacted a modern national arbitration law, similar to the UNCITRAL Model Law on Arbitration, that would allow the arbitration to occur within the territorial boundaries of the less-developed nation and still enjoy the reliable award-enforcement rules of the New York Convention; and (iii) the parties to the transaction have included a broadly encompassing written arbitration agreement in the contract governing their transaction.

G. Flexibility of Remedy. Private mechanisms of dispute resolution offer the possibility of remedies and outcomes that incorporate novel and innovative features – such as revised or imposed royalty rates, cross-licenses, and other creative business solutions – that typically are not available as remedies in public courts. This is particularly true of mediation, where the parties' consent ultimately governs the outcome, but it also can be true of arbitration if the parties agree beforehand (whether in their contractual arbitration clause or in a later agreed-upon charge to the arbitrators) that the arbitrators shall have the power to fashion whatever remedy

they believe just and appropriate. This sort of flexibility could contribute to the satisfactory resumption of relations between the disputing parties following the resolution of their dispute.

H. Enforceability of Awards. As I suggested above in footnote 4 and in Section I.F, arbitral awards, and mediated settlements that are memorialized in the form of arbitral awards, typically will be enforced by courts around the world with far greater ease and reliability than judgments rendered by foreign public courts. This is the result of two relatively recent developments. First, over 120 nations (essentially all nations that engage in international trade) have acceded to the 1958 New York Convention, which places strict limits on the reasons for which an acceding nation may refuse to enforce a qualified arbitral award. Arbitral awards, as a result, have great international currency. Second, many nations have enacted modern national arbitration laws that favor the arbitral resolution of commercial disputes, and that, like the New York Convention, strictly limit the reasons for which a court may refuse to enforce even a domestically-rendered arbitral award.

II. Reasons to Avoid ADR for Intellectual Property Disputes

Frequently, the ADR of IP disputes simply is not available: ADR depends on the consent of the parties to the dispute (whether before the dispute arises, as in an arbitration clause included in the contract governing the transaction, or after the dispute arises, as in a written agreement to submit an existing dispute to arbitration), and many IP disputes – particularly infringement claims – are between parties with no pre-existing relationship and who are not inclined to agree to submit their dispute to ADR.

In other circumstances, even in the context of an existing relationship or prospective transaction, there still may be reasons why one party or another might not want to agree to the resolution of any IP disputes by arbitration or some other form of ADR. Some of these reasons include the following:

A. Concern About the Need for Emergency Injunctive Relief. An IP rights holder may believe that the complete protection and vindication of the rights depends on the availability of immediate injunctive relief (e.g., a Temporary Restraining Order or other form of injunction forbidding the use or disclosure of the IP), and that such relief is more likely obtained from a public court rather than from an arbitration tribunal. This perception suggests an exception to the usual rule that arbitration and ADR are likely to result in speedier resolutions of IP claims than public court litigation. Of course, injunctive relief also may be available from an arbitration tribunal in the form of a "provisional" or "interim" order authorized by the procedural rules to which the arbitration is subject, or from a public court before the arbitral tribunal has been constituted, pursuant to special provisions in a nation's arbitration law authorizing such relief. However, with respect to this latter possibility of *pre*-arbitration *judicial* relief, a small minority of courts in the United States refuse to provide such interim relief on the grounds that judicial involvement of any kind in an arbitration – including the issuance of injunctions before an arbitral panel is formed – violates the provisions of the Federal Arbitration Act and the New York Convention requiring courts to refer to arbitration any disputes that are within the scope of a valid written arbitration agreement.[7] Although this is a distinctly minority position, this issue should be anticipated and addressed in any arbitration clause governing disputes in which one or more of the parties believes that injunctive relief may be important.

B. The Strategic Need for Precedent or Publicity. There are times when an IP rights holder or an alleged infringer may desire a complete and public vindication of its rights. For example, an IP rights holder about to embark on a series of adversarial license negotiations may believe that the benefits of a favorable public judicial vindication of its rights (and the ability to

[7] For discussions of this issue and collections of the U.S. cases taking this minority position see Lucille M. Ponte and Erika M. Brown, *Resolving Information Technology Disputes After NAFTA*, 7 Tul. J. Int'l & Comp. L. 43, 52-54 (1999), and, John A. Fraser III, *Congress Should Address the Issue of Provisional Remedies for Intellectual Property Disputes Which Are Subject to Arbitration*, 13 Ohio St. J. of Dispute Resol. 505 (1998). A good summary of the majority position – namely, that pre-arbitration emergency judicial relief is permissible – is found in David Plant, Arbitrability of Intellectual Property Issues in the United States, 5 Amer. Rev. of Int'l Arb. 11, 23-24 (1994).

control the court in which vindication is sought[8]) outweighs the risk of no vindication or an adverse ruling. Similarly, an alleged infringer with an allegedly infringing product may desire a complete and public vindication of non-infringement as the only effective way to remove consumer doubt about the product in question. Similar strategic purposes also may counsel against ADR for IP rights in other circumstances.[9]

III. The Arbitrability of IP Disputes in the United States

Before 1983, there was considerable uncertainty in the United States about whether intellectual property rights were an appropriate and permissible subject of arbitration. Because IP rights by their very nature include the power to preclude direct competition, courts tended to rule that IP rights so implicated the public interest that only public courts, and not private arbitrators, were authorized to resolve disputes concerning such rights.[10] That view has changed, however, and today there is little doubt that all U.S. intellectual property issues are a proper subject of binding private arbitration in the United States.

The new general rule is reflected explicitly in the U.S. Patent Act:

> 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 an agreement, the parties to any existing patent validity or infringement suit may agree in writing to settle such dispute by arbitration.

[8] In other words, the prospective licensee, rather than the IP rights holder, may be able to choose the court if the IP rights holder postpones action and risks a declaratory judgment lawsuit filed by the prospective licensee, presumably in a venue that the prospective licensee prefers.

[9] *See e.g.*, Peter K. Yu, *Toward a Nonzero-Sum Approach to Resolving Global Intellectual Property Disputes*, 70 U. Cinn. L. Rev. 569, 596 (2002); and, Carmen Collar Fernandez and Jerry Spotter, *International Intellectual Property Disputes: Is Mediation A Sleeping Giant?,* 53 Dispute Resol. J. 62, 64 (1998). There also are public policy reasons why ADR or private settlements might not be appropriate for certain IP disputes, but that issue is beyond the scope of this conference and this paper. *See e.g.*, Philip J. McConnaughay, *The Risks and Virtues of Lawlessness: A 'Second Look' at International Commercial Arbitration,* 93 N.W.U. L. Rev. 453, 495-498 (1999).

[10] See e.g., Hans Smit, *Prefatory Note*, 5 Amer. Rev. of Int'l Arb. at vii (1994), and David W. Plant, *supra* note 7, 5 Amer. Rev. of Int'l Arb. 11-20 (1994).

35 U.S.C. Section 294(a).[11] The traditional "public interest" objection to the arbitrability of these issues is addressed by a later provision of the same Section of the Patent Act:

> 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.

35 U.S.C. Section 294 (c). The interest of a proper patent register is addressed by the requirement that the arbitration award is not enforceable until notice of the award is made in writing to the Commissioner.[12]

Although there is no comparably specific statutory language guaranteeing the arbitrability of copyright, trademark, and trade secret issues in the United States, the courts have left no doubt that issues concerning these IP rights, including ownership of the rights, are arbitrable, although as in patent arbitrations, the results are binding only between the parties to the arbitration and not on others.[13]

[11] Patent interference issues also may be resolved by arbitration (35 U.S.C. Section 135(d)), but that same provision also reserves unto the Commissioner of Patents and Trademarks the ultimate authority for determining patentability, thus calling into question the usefulness of interference issues arbitrations.

[12] 35 U.S.C. Sections 294 (d) and (e).

[13] See generally, William Grantham, *The Arbitrability of International Intellectual Property Disputes*, 14 Berkeley J. of Int'l L. 173 (1996); and David W. Plant, *supra* note 7.