

Cleveland State University  
**EngagedScholarship@CSU**



**Cleveland-Marshall**  
College of Law Library

---

The Global Business Law Review

Law Journals

---


2011

# Overview of International Arbitration in the Intellectual Property Context

Kenneth R. Adamo  
*Kirkland & Ellis LLP*

**How does access to this work benefit you? Let us know!**

Follow this and additional works at: <https://engagedscholarship.csuohio.edu/gblr>

 Part of the [Dispute Resolution and Arbitration Commons](#), [International Trade Law Commons](#), and the [Property Law and Real Estate Commons](#)

---

## Recommended Citation

Kenneth R. Adamo, *Overview of International Arbitration in the Intellectual Property Context*, 2 Global Bus. L. Rev. 7 (2011)  
available at <https://engagedscholarship.csuohio.edu/gblr/vol2/iss1/4>

This Article is brought to you for free and open access by the Law Journals at EngagedScholarship@CSU. It has been accepted for inclusion in The Global Business Law Review by an authorized editor of EngagedScholarship@CSU. For more information, please contact [library.es@csuohio.edu](mailto:library.es@csuohio.edu).

# OVERVIEW OF INTERNATIONAL ARBITRATION IN THE INTELLECTUAL PROPERTY CONTEXT

KENNETH R. ADAMO<sup>†</sup>

I.	ARBITRATION OF INTELLECTUAL PROPERTY RIGHTS ISSUES: THE BASICS .....	8
A.	<i>Why Arbitration in Intellectual Property Rights Conflicts</i> .....	8
B.	<i>Arbitration Requires a Contractual Underpinning</i> .....	8
C.	<i>Binding/Non-Binding Arbitration</i> .....	9
D.	<i>Who Determines Whether an IPR Issue May be Resolved by Arbitration?</i> .....	9
E.	<i>Law Governing Arbitration Proceeding and Award</i> .....	10
II.	PROCEDURAL PRACTICES: <i>AD HOC</i> VS. ADMINISTERED ARBITRATIONS.....	11
A.	<i>Specific IPR Arbitration Rules</i> .....	12
B.	<i>Advantages of Arbitration for IPR Disputes</i> .....	13
C.	<i>Disadvantage of Arbitration Regarding IPR Disputes</i> .....	14
D.	<i>Summary of U.S. Arbitration Regarding IPR</i> .....	14
1.	Patent Issues .....	14
2.	Copyright Issues .....	15
3.	Trademark Issues.....	15
III.	ARBITRATION EFFECTS REGARDING USITC .....	15
IV.	WHAT IS ARBITRABLE IN WHICH COUNTRY, REGARDING IPR? .....	16
A.	<i>Patents</i> .....	17
B.	<i>Trademark, Trade Dress, and Trade Secrets</i> .....	18
C.	<i>Copyright</i> .....	19
V.	CONCLUSION .....	19
	ADDENDUM 1.....	19
	<i>Practical Issues and Problems in the Drafting of</i>	

---

<sup>†</sup> Partner, Kirkland & Ellis. Practices out of the Chicago and New York Offices. He is a member, Illinois, New York, Ohio and Texas Bars. In 2011, he was named to Intellectual Asset Management's IAM Patent Litigation 250 - The World's Leading Patent Litigators. Also in 2011, he was ranked as a top attorney in the "Individuals - U.S. International Trade Commission, and as a Band 1 U.S. litigator for "Individuals-Illinois" and "Individuals-National." This article reflects only the present considerations and views of the author, which should not be attributed to Kirkland & Ellis LLP or to any of his or its former or present clients.

<i>International Arbitration Clauses</i> .....	19
ADDENDUM 2.....	28
<i>WIPO: Why Arbitration in Intellectual Property?</i> .....	28

## I. ARBITRATION OF INTELLECTUAL PROPERTY RIGHTS ISSUES: THE BASICS

Resolving intellectual property rights (“IPR”) issues through alternative dispute resolution (“ADR”) proceedings was a technique long-developing in many major countries.<sup>1</sup> Despite the earlier presence of the Arbitration Act in United States law,<sup>2</sup> the subject of use of arbitration in IPR situations, especially regarding U.S. patents, remained an open and contested issue, until the original addition of 35 U.S.C. § 294 to the U.S. Patent Act in 1982.<sup>3</sup>

U.S. law is now resolved in the availability of IPR arbitration as an ADR tool, either through a “pre-problem” contract, such as a license, or as a “post-problem” mechanism elected and/or established by agreement. There are basics that underlie use of arbitration generally, which are also primary in IPR situations.<sup>4</sup>

### A. *Why Arbitration in Intellectual Property Rights Conflicts*

Intellectual property rights are as strong as the means that exist to enforce them. In that context, arbitration, as a private and confidential procedure, is increasingly being used to resolve disputes involving intellectual property rights, especially when involving parties from different jurisdictions.<sup>5</sup>

### B. *Arbitration Requires a Contractual Underpinning*

All arbitrations are creatures of contract, existing either before a dispute arises or after. Having the contract in place before the problem arises is the preferred method of arbitration-based dispute resolution, though constructing the arbitration agreement after the problem has manifested itself is also an option. The latter approach is not often recommended because it is usually difficult to get parties to agree to a non-judicial mechanism after the problem has arisen, as somebody always thinks they have the upper hand in the litigation process.

A U.S. court cannot order arbitration (binding or non-binding) as part of ADR proceedings, even where “international” in its main aspects (*e.g.* U.S. and foreign patents/IPR, international parties, *or* both: international parties and patent/IPR

---

<sup>1</sup> See Arpad Bogsch, *Opening Address*, WORLDWIDE FORUM ON THE ARBITRATION OF INTELLECTUAL PROPERTY DISPUTES, WIPO PUBLICATION NO. 728 (E), 14 (1994), available at <http://www.wipo.int/amc/en/events/conferences/1994/opening.html> [hereinafter WORLDWIDE FORUM].

<sup>2</sup> See generally The U.S. Arbitration Act, 9 U.S.C. § 1 et seq.

<sup>3</sup> The U.S. Patent Act, 35 U.S.C. § 294 (governing voluntary arbitration).

<sup>4</sup> See generally *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth*, 473 U.S. 614, 626 (1985). See also Addendums 1 & 2.

<sup>5</sup> See generally *Mitsubishi Motors*, 473 U.S. 614.

issues).<sup>6</sup> Amongst the ninety-four federal districts there are some ADR provisions in the local rules that include mandatory arbitration; yet fine print within these provisions often precludes parties from arbitrating.<sup>7</sup> Parties cannot be ordered to arbitrate even intellectual property rights. Again, that means arbitration must originate from either a license agreement or a dispute resolution agreement.<sup>8</sup> It is clear under U.S. law that, post-dispute, one may enter into agreements to arbitrate.<sup>9</sup>

Issues that may be resolved may be international in that sense of U.S. and foreign IPR being involved, or the parties may be U.S. and non-U.S. in origin, or both, provided that the necessary agreement is in place or is put in place.

### C. Binding/Non-Binding Arbitration

The difference is straightforward: you can agree to be bound by the arbitrator's result or agree that the result is advisory only.<sup>10</sup> There is no appeal from binding arbitration, no available appellate review of the usual nature which may lead to the overturning of an award for legal or factual errors.<sup>11</sup> Review is possible only for misconduct or evident partiality, as provided under the Federal Arbitration Act.<sup>12</sup>

### D. Who Determines Whether an IPR Issue May be Resolved by Arbitration?

In the U.S., the United States Supreme Court has reviewed this question several times, with an answer dependent on specific circumstances.

In *AT&T Technologies, Inc. v. Communication Workers of America*, the Court held that the question of whether parties contractually agreed to arbitrate (formed an enforceable agreement) is to be decided by the court, not the arbitrator, *unless* the parties clearly and unmistakably provided otherwise.<sup>13</sup> *Granite Rock Co. v. International Brotherhood of Teamsters* reached the same result: a court may order arbitration of a particular dispute only where the court is satisfied that the parties

---

<sup>6</sup> See Federal Arbitration Act, 9 U.S.C. § 4 (1994) [hereinafter FAA]. Still, though most federal and state judges would prefer arbitration to resolve suits relating to a United States patent, they generally cannot order it, even in districts that have very detailed dispute resolution provisions.

<sup>7</sup> For an example of an arbitration procedure at the district court level, see Local Rules of the United States District Courts for the Southern District of New York, 60-67 (July 2011), available at <http://www.nyed.uscourts.gov/pub/docs/localrules.pdf>.

<sup>8</sup> For examples of such arbitration cases, see *WIPO Arbitration Case Examples*, WORLD INTELLECTUAL PROPERTY ORGANIZATION, <http://www.wipo.int/amc/en/arbitration/case-example.html> (last visited Oct. 12, 2011).

<sup>9</sup> See *Intellectual Property: Arbitration vs. Litigation*, AMERICAN ARBITRATION ASSOCIATION 2, available at <http://www.adr.org/si.asp?id=5004> (last visited Oct. 12, 2011).

<sup>10</sup> See *The ABCs of ADR: A Dispute Resolution Glossary*, CPR INSTITUTE FOR DISPUTE RESOLUTION (2000), <http://www.ilr.cornell.edu/alliance/resources/basics/ABCs.html>. Note: U.S. federal courts are prohibited from rendering advisory opinions, a first potential advantage of arbitration as an ADR vehicle. See *Muskrat v. United States*, 219 U.S. 346, 351-353 (1911).

<sup>11</sup> See *Hall Street Assocs. v. Mattel, Inc.*, 552 U.S. 576, 588 (2008).

<sup>12</sup> FAA, *supra* note 6, § 1 et seq.

<sup>13</sup> *AT&T Techs. v. Communs. Workers of Am.*, 475 U.S. 643, 656 (1986).

agreed to arbitrate the dispute and formed an agreement to arbitrate.<sup>14</sup> But in *Rent-A-Center West v. Jackson*, the Court held that the arbitrator decides the question of whether an issue is subject to arbitration, so long as parties clearly and unmistakably provided for such a determination, and the validity of agreement to arbitrate such threshold issues is not specifically challenged.<sup>15</sup> Under U.S. law, then, U.S. courts favor arbitration and view favorably—and controlling—the parties' statements as to issues to be arbitrated.<sup>16</sup>

#### E. Law Governing Arbitration Proceeding and Award

International aspects of IPR come in two forms. First, because all patents throughout the planet do not extend any further than the bounds of their country, one may have rights protected by the laws of each country in which the patent exists. For example, if you license a technology portfolio you usually have U.S. patents, Spanish patents or Portuguese patents, Hungarian patents, even Latvian patents. So, under this scenario, you get a big bundle of rights with a variety of different laws involved, which is then international in that sense. Second, one may license to companies based in more than one country. Sometimes both circumstances are applicable.

In the usual instance of an arbitration proceeding arising out of a license agreement, the license agreement will have stated a substantive choice of law governing the license. Usually, but not absolutely, that substantive law would also control in any arbitration proceeding arising out of the license. The procedural framework of the arbitration would need, for best practices, to also be recited in the license agreement. Where a post-dispute agreement is entered into, there is usually no practice or presumption as to applicable substantive law *or* the procedural rule/framework of an arbitration, and both would need to be recited. Application of any choice-of-law rules would, of course, need to be considered, and those effects specifically negated if they would defeat the recited substantive law or procedural rule/framework intended to apply in and control the arbitration.

Always follow the rule of “better safe than sorry” regarding the arbitration: include a clear statement of governing substantive law and the intended procedural rule/framework in the agreement, and address conflict of laws as well.

Again, it is relatively rare to encounter a major international contract without a choice of *substantive* law clause. Most arbitration clauses do not, however, specify the *procedural* law to apply to the arbitration, and many do not even specify the place of arbitration. Such definition is important because the procedural law to be applied and place of arbitration may be critical to the parties' rights and, in particular, to the enforcement of the award. Also, the definite specification of the place and the procedural law of the arbitration can often save much time and expense during the arbitration proceeding itself. One should be careful, however, to select a jurisdiction whose procedural law is well adapted to international arbitration, and whose courts will not permit undue court interference with the arbitration.

The arbitral award is generally considered an award of the place where it is *issued*, not of the place where the contract is to be *performed* or of the country whose

---

<sup>14</sup> Granite Rock Co. v. Int'l Bhd. of Teamsters, 130 S. Ct. 2847, 2856 (2010).

<sup>15</sup> See *Rent-A-Center, W., Inc. v. Jackson*, 130 S. Ct. 2772, 2779 (2010).

<sup>16</sup> See *Mitsubishi Motors*, 473 U.S. at 626.

substantive law *applies* to the contract.<sup>17</sup> Accordingly, in designating the place of arbitration, one should be careful to select a country which has adhered to the 1958 Convention of the Recognition and Enforcement of Foreign Arbitral Awards, known as the “New York Convention,” so that the award can benefit from the reciprocal enforcement provisions in the countries who are signatories to that convention.<sup>18</sup>

## II. PROCEDURAL PRACTICES: *AD HOC* VS. ADMINISTERED ARBITRATIONS

There are two general types of procedural frameworks in arbitrations: administered and *ad hoc*.

International Chamber of Commerce (commonly referred to as “ICC”) arbitrations are an example of an administered proceeding, where the parties retain (as it were) a professional, institutional group to provide framework, arbitrator(s) selection, procedural rules, timetables, etc.<sup>19</sup> The ICC is a well-known international arbitration body having “cachet,” which helps to engender confidence in judges asked to enforce requests to arbitrate or an award under the New York Convention. All ICC awards, whether final or partial, are first submitted to review by the ICC’s Court of Arbitration which may modify the form of the award, draw the arbitrator’s attention to “missed” points of substance that were overlooked or not fully handled, etc.<sup>20</sup> But the ICC is expensive, requires many mandatory procedures, and comes with particularized complexities.

Alternatively, *ad hoc* arbitrations have no institutional nor formal supervision, and no review of an award pre-issuance. Parties may sit down and agree as to how they want the procedure to work. This agreement, once signed, becomes the arbitration procedure. There is no outside administrative agency. Such organizations as the World Intellectual Property Organization, the American Arbitration Association, or the ICC, do *not* administer the arbitration.<sup>21</sup> In this way, costs are kept down. The International Institute for Conflict Prevention & Resolution has rules for non-administered (*ad hoc*) arbitration of patent and trade secret disputes, which parties follow by agreement.<sup>22</sup> The key to effective *ad hoc*

---

<sup>17</sup> See Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, art. I(1), 21 U.S.T. 2517, 330 U.N.T.S. 38 [hereinafter New York Convention].

<sup>18</sup> See generally *id.*

<sup>19</sup> See generally *Arbitration*, INTERNATIONAL CHAMBER OF COMMERCE, <http://www.iccwbo.org/policy/arbitration/id2882/index.html> (last visited Oct. 12, 2011) [hereinafter ICC]. The World Intellectual Property Organization and the American Arbitration Association also provide administered arbitration mechanisms and rules applicable to IPR. See generally *WIPO Arbitration and Mediation Center*, WORLD INTELLECTUAL PROPERTY ORGANIZATION, <http://www.wipo.int/amc/en/> (last visited Oct. 12, 2011) [hereinafter WIPO]; *Arbitration*, AMERICAN ARBITRATION ASSOCIATION, <http://www.adr.org/> (last visited Oct. 12, 2011) [hereinafter AAA].

<sup>20</sup> See *Rules of Arbitration, Scrutiny of the Award by the Court*, art. 27, ICC (1998), [http://www.iccwbo.org/uploadedFiles/Court/Arbitration/other/rules\\_arb\\_english.pdf](http://www.iccwbo.org/uploadedFiles/Court/Arbitration/other/rules_arb_english.pdf).

<sup>21</sup> See generally WIPO, AAA, or ICC, *supra* note 19.

<sup>22</sup> See generally *CPR Rules for Non-Administered Arbitration of Patent & Trade Secret Disputes*, THE INTERNATIONAL INSTITUTE FOR CONFLICT PREVENTION & RESOLUTION, <http://cpradr.org/Resources/ALLCPRArticles/tabid/265/ID/615/CPR-Rules-for-Non-Administered-Arbitration-of-Patent-Trade-Secret-Disputes.aspx> [hereinafter *CPR Rules*].

proceedings is a well-drafted, detailed arbitration agreement, and care in selecting the arbitrators used in resolving the dispute.<sup>23</sup>

#### A. *Specific IPR Arbitration Rules*

In the realm of intellectual property-specific issues, WIPO, ICC, AAA, and the CPR rules/procedures may be applied. WIPO has an arbitration mechanism comprised of two sets of rules: the arbitration rules and the expedited arbitration rules.<sup>24</sup> These rules are not IP specific. But WIPO maintains an updated directory of arbitrators who are experts in intellectual property law, as well as having an understanding of technology.<sup>25</sup> The ICC also does not have specific rules for IPR. The AAA, on the other hand, has specific rules for intellectual property matters, particularly patent cases.<sup>26</sup> They are used most often in conjunction with the commercial arbitration rules/mediation procedures comprising supplementary rules for the resolution of patent disputes.<sup>27</sup> The AAA also maintains a national panel of patent arbitrators who are either lawyers specializing in IPR, or who are “gearheads.”<sup>28</sup> The AAA provides a very detailed preliminary hearing procedure, as well as an enforceability procedure.<sup>29</sup>

The CPR also has a set of patent-specific rules,<sup>30</sup> but they are *ad hoc*. The CPR does not take on nor provide any administrative functions or capabilities.

---

Note that the ICC, WIPO, and AAA rules/procedures may be used *ad hoc* without retaining those organizations to provide a fully-administered proceeding.

<sup>23</sup> Note, again, that the ICC, WIPO and the AAA maintain a list of available, experienced arbitrators having experience with IPR matters who may act as arbitrators in *ad hoc* proceedings as well. See *Process of ICC Expertise*, ICC, <http://www.iccwbo.org/court/expertise/id4463/index.html> (last visited Oct. 12, 2011); *Neutrals*, WIPO, <http://www.wipo.int/amc/en/ neutrals/index.html> (last visited Oct. 12, 2011); *Neutrals*, AAA, <https://apps.adr.org/center/login.jsp> (last visited Oct. 12, 2011).

<sup>24</sup> *WIPO Arbitration Rules*, WIPO, <http://www.wipo.int/amc/en/arbitration/rules/index.html> (last visited Oct. 12, 2011); *WIPO Expedited Arbitration Rules*, WIPO, <http://www.wipo.int/amc/en/arbitration/expedited-rules/index.html> (last visited Oct. 12, 2011).

<sup>25</sup> See *Neutrals*, WIPO, *supra* note 24. They tend to be gearheads. Everybody here (referring to symposium audience) familiar with the term gearheads? Somebody here must be an engineer besides me. [These arbitrators] get the technology. This is not the judge who in high school said, “Ugh: Chemistry, never again!”

<sup>26</sup> See *generally Resolution of Patent Disputes Supplementary Rules* (2006), AAA, <http://www.adr.org/sp.asp?id=27417> [hereinafter *Patent Disputes*]; *Commercial Arbitration Rules and Mediation Procedures* (2009), AAA, <http://www.adr.org/sp.asp?id=22440> [hereinafter *Commercial Arbitration*].

<sup>27</sup> See sources cited *supra* note 26.

<sup>28</sup> See *Neutrals*, AAA, *supra* note 23.

<sup>29</sup> See *Commercial Arbitration*, *supra* note 26, at R-20; *Patent Disputes*, *supra* note 26, Supplementary Rules for the Resolution of Patent Disputes, d. (noting that “[a]ny award issued pursuant to these rules shall be enforceable pursuant to 35 USC §294.”).

<sup>30</sup> See *generally CPR Rules*, *supra* note 22.

*B. Advantages of Arbitration for IPR Disputes*

There are many advantages to arbitrating IPR disputes, including:

- Party Autonomy.<sup>31</sup>
- Certainty as to Forum. Disputes are submitted to a single forum, not several different forums in several different jurisdictions simultaneously.<sup>32</sup>
- Relative Speed of Arbitration. Arbitration is designed to allow for set decision-making time periods.<sup>33</sup>
- Availability of Expert Arbitrators. The greatest advantage of arbitration may be that parties are allowed to pick arbitrators who are specialists in the area of dispute.<sup>34</sup>
- Confidentiality. Parties are not forced to wash their dirty linen in public. This is a significant reason parties elect to arbitrate.<sup>35</sup>
- Neutrality Regarding National Interests.<sup>36</sup>
- Avoidance of U.S.-Style Discovery. In an arbitration agreement, parties may agree not to have any discovery at all. Alternatively, they can specify what each side will do. This option is unavailable in court.<sup>37</sup>
- Minimal Damage to the Party/Commercial Relationship.<sup>38</sup>
- Flexibility of Remedy.<sup>39</sup>
- Enforceability of Awards. The New York Convention has 120 countries as signatories: there is only one result, with one place to go to have the result enforced.<sup>40</sup>
- Single Procedure.<sup>41</sup>
- Binding Effect (if the parties so choose).<sup>42</sup>

---

<sup>31</sup> See *Resolving IP Disputes through Mediation and Arbitration*, AAA (2006), [http://www.wipo.int/wipo\\_magazine/en/2006/02/article\\_0008.html](http://www.wipo.int/wipo_magazine/en/2006/02/article_0008.html) [hereinafter *Resolving IP Disputes*].

<sup>32</sup> See *id.*

<sup>33</sup> See Kevin R. Casey, *The Suitability of Arbitration for Intellectual Property Disputes*, 71 PAT. TRADEMARK & COPYRIGHT J. (BNA) 143, Dec. 2, 2005.

<sup>34</sup> See *Resolving IP Disputes*, *supra* note 31. For instance, in a complicated biotechnology case the parties may wish to pick an arbitrator or even a three-person panel of arbitrators who have experience in this scientific area, instead of a judge who does not have a scientific background. Having an expert arbitrator is an advantage unavailable to parties trying a case in state or federal court.

<sup>35</sup> See *id.*

<sup>36</sup> See *id.*

<sup>37</sup> See Casey, *supra* note 33.

<sup>38</sup> See *id.*

<sup>39</sup> See Philip J. McConaughay, *ADR of Intellectual Property Disputes*, 2002 SOFTIC SYMPOSIUM 1 (Nov. 15, 2002), [http://www.softic.or.jp/symposium/open\\_materials/11th/en/PMcCon.pdf](http://www.softic.or.jp/symposium/open_materials/11th/en/PMcCon.pdf).

<sup>40</sup> See *id.* See also New York Convention, *supra* note 17.

<sup>41</sup> See *Resolving IP Disputes*, *supra* note 31.



### C. Disadvantage of Arbitration Regarding IPR Disputes

There are disadvantages to arbitrating IPR disputes. For one, it may prove extremely difficult to get injunctive relief quickly.<sup>43</sup> Additionally, some parties want the precedential value of a court-rendered judgment or they want their victories publicly broadcast. Lastly, it can be very hard to get punitive damages. Under trademark, copyright or patent law in the United States, if you willfully infringe upon somebody else's rights, you may be forced to pay triple the damages awarded as well as attorney's fees.<sup>44</sup> It is very difficult to find a court that will say you can do that in an arbitration agreement, even if you have agreed to it.<sup>45</sup>

### D. Summary of U.S. Arbitration Regarding IPR

#### 1. Patent Issues

The United States used to hate arbitration. We could not decide if issues relating to antitrust, trademarks, or patents were arbitrable. Finally, in the early 1980s, the Patent Code was revised to add Section 294, which allowed—absent contract language to the contrary—all intellectual property issues to be the proper subject of binding arbitration in the United States.<sup>46</sup> Utilization of the statute mandates binding

<sup>42</sup> See McConnaughay, *supra* note 39.

<sup>43</sup> See *id.* See also Merrill Lynch v. Salvano, 999 F.2d 211, 214 (7th Cir. 1993) (breach of contracts, trade secrets misappropriation, noted some equitable power in court to order preliminary injunctive relief in disputes ultimately to be resolved by arbitration); FRA S. p. A. v. Surg-O-Flex of America, Inc., 415 F. Supp. 418, 420-21 (SDNY 1975) (preliminary injunction against false designation of origin). *But cf.* CPR Rules, *supra* note 22, at Rule 13.1 (providing for equitable relief such as specific performance and injunctions.); Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1194 (7th Cir. 1987) (granting injunctive relief and ordering copyrights transferred).

<sup>44</sup> See 35 U.S.C. § 284 (1952) (enhanced damages may be viewed as punitive and are not available under 35 U.S.C. § 294). *But* regarding trademark law, a party may only get enhanced damages if they are *not* punitive in nature. See Lanham Act, 15 U.S.C. § 1117(a) (1946). Regarding copyright, enhanced statutory damages have both punitive and compensatory components. See 17 U.S.C. § 504(c).

<sup>45</sup> Instead, you may state that the multiple damages are “remedial” when writing the agreement, in order to arrive at the same outcome.

<sup>46</sup> 35 U.S.C. § 294(a) (1982). Section 294 of the Patent Code reads as follows:

(a) 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.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 [35 USC § 282] of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) 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. The parties to an

arbitration. If there is a finding in a § 294 arbitration that the patent is invalid, it is only invalid as between the two people in the arbitration. Congress has also expressly provided for the voluntary, binding arbitration of “any aspect” of patent interference disputes.<sup>47</sup> As a result, all issues concerning United States patents are properly subject to binding arbitration in the United States, absent limiting language in the applicable contract.

## 2. Copyright Issues

In the United States there is no statutory authority for binding arbitration of copyright issues. United States courts, however, have held that federal law does not prohibit binding arbitration of copyright validity or infringement, where such issues arise out of a contract dispute.<sup>48</sup> It is likely that United States courts will also hold that such issues are properly the subject of binding arbitration in the absence of an underlying contract dispute.

## 3. Trademark Issues

Like copyrights, there is no federal statutory authority nor individual state authority in the United States for binding arbitration of trademark issues. Binding arbitration of trademark validity and infringement issues is likely to be held by federal courts to be proper, though, notwithstanding outdated opinions which hold otherwise.

### III. ARBITRATION EFFECTS REGARDING USITC

The United States may restrict imports under the auspices of the United States International Trade Commission, an independent federal agency that, in part,

---

arbitration may agree that in the event of a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director [of the USPTO]. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Director. The Director shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Director, any party to the proceeding may provide such notice to the Director.

(e) The award shall be unenforceable until the notice required by subsection (d) is received by the Director.

*Id.*

<sup>47</sup> 35 U.S.C. § 135(d).

<sup>48</sup> David W. Plant, Chairman, ADR Committee, *Arbitrability of Intellectual Property Issues in the United States*, in WORLDWIDE FORUM, *supra* note 1, available at <http://www.wipo.int/amc/en/events/conferences/1994/plant.html>.

regulates unfair trade acts involving patent, trademark, and copyright infringement.<sup>49</sup> Yet, a great exception to the general restriction power of the USITC centers around arbitration agreements. Though there was a battle for a number of years about whether such an exception was going to be allowed, the dispute has been affirmatively decided in favor of terminating ITC proceedings in view of an agreement to arbitrate.<sup>50</sup>

#### IV. WHAT IS ARBITRABLE IN WHICH COUNTRY, REGARDING IPR?

As noted, IPR are country-specific (e.g., a U.S. patent has no effect outside of the United States). Regarding arbitration, the susceptibility of an IPR issue to resolution by that ADR technique is also country-specific: certain countries allow resolution of patent issues by arbitration, others do not.<sup>51</sup> Some countries are very pro arbitration and arbitrate everything, including patent validity, as long as the validity holding only binds the two parties. Germany has the opposite policy, in which “all disputes relating to property rights may be arbitrated, but disputes over patent invalidation, revocation of compulsory licensing cannot be arbitrated.”<sup>52</sup> As might be expected, the substantive and procedural aspects of arbitration are all somewhat different, country-by-country.

This is an important consideration in the choice of applicable/controlling substantive law in an arbitration agreement and subsequent proceeding, as well as concerning the ultimate enforceability of an arbitration award. Countries are not required to and will not (in the usual course) enforce arbitration awards under the New York Convention if they cover subject matter not arbitrable under the second country’s law.<sup>53</sup>

---

<sup>49</sup> See generally United States International Trade Commission, <http://www.usitc.gov/> (last visited Oct. 12, 2011) [hereinafter USITC]. The USITC is very powerful. Its proceedings take about nine months, may affect ships of Toyotas that are about to land in California that have transmissions that violate somebody’s patent, and the ships don’t get to land. The little cars stay on the ship. That’s what this thing is; it is an import restriction.

<sup>50</sup> See Certain Pesticides and Products Containing Clothianidin, USITC Inv. No. 337-TA-634, (Order No. 5, May 8, 2008) ALJ Bullock (ID terminated investigation because of existence of arbitration agreement).

<sup>51</sup> With respect to the intellectual property law in a selection of foreign countries, see William Grantham, *The Arbitrability of International Intellectual Property Disputes*, 14 Berkeley J. Int’l L. 173 (1996) [hereinafter *Arbitrability*]; He Wei and Wang Yaxi, Exploration and Development of Arbitration of IP Rights (Parts I and II), KING AND WOOD IP BULLETIN (July 2009), <http://www.kingandwood.com/IPBulletin.aspx?id=ip-bulletin-july-2009&language=en>; Wu Wei-Hua, KING AND WOOD IP BULLETIN (October 2009), <http://www.kingandwood.com/IPBulletin.aspx?id=ip-bulletin-october-2009&language=en>; *International Arbitration of Patent Disputes*, 10 J. MARSHALL REV. INTELL. PROP. L. 384 (2011).

<sup>52</sup> ZIVILPROZEBORDNUNG [ZPO] [GERMAN CODE OF CIVIL PROCEDURE] July 27, 2001, BUNDESGESETZBLATT, TEIL I [BGBl. I] 1887, § 1030.

<sup>53</sup> See New York Convention, *supra* note 17, at art. V(1)(a), (2)(a).

### A. Patents

Generally, patent infringement and licensing issues are arbitrable in most countries, but invalidity/validity challenges are not.<sup>54</sup> To the extent that invalidity/validity challenges are arbitrable, the resulting arbitration decision/award has a binding (or any) effect usually only as between the particular parties to the proceeding.<sup>55</sup>

The current status of patent-issue arbitrability for a variety of major countries is stated as follows:<sup>56</sup>

In Belgium and the Netherlands, arbitration law is consistent with the U.S.'s 35 U.S.C. § 294: the law expressly permits arbitration of patent ownership, validity, infringement and licensing to be binding *only inter partes*.<sup>57</sup> Conversely, the validity of patents is *not* arbitrable in Brazil and Canada.<sup>58</sup> In Finland, ownership of registered rights, patents, trademarks, and utility models is *not* arbitrable.<sup>59</sup> Validity disputes regarding registered rights are *not* arbitrable.<sup>60</sup> Scope of rights, however, is arbitrable.<sup>61</sup> In Israel, as with 35 U.S.C. § 294, parties can arbitrate infringement claims where invalidity defenses are raised, awards being binding *only* between the parties.<sup>62</sup> In Italy, arbitration is only available for infringement disputes, not for validity issues concerning patents or trademarks.<sup>63</sup>

---

<sup>54</sup> See M.A. Smith, et al., *Arbitration of Patent Infringement and Validity Issues Worldwide*, 19 HARV. J. L. LAW & TECH. 299, 304 (2006) [hereinafter *Arbitration of Patent Infringement*].

<sup>55</sup> See *Patent Disputes*, *supra* note 26, at Introduction.

<sup>56</sup> Because this area is in constant flux, the latest statutory provisions, case precedent and/or other source of law on this point, *must* be researched and confirmed whenever an arbitration agreement is first executed, updated/revised, or a proceeding contemplated on either the part of a party alleged to infringe/violate a license or IPR rights, or by the IPR rights' owner/holder.

<sup>57</sup> See Loi sur les brevets d'invention [Patent Act] of March 28, 2004, MONITEUR BELGE [M.B.] [Official Gazette of Belgium], Mar. 9, 1985, at, art. 73 § 6; Rijksocrooiwet 1995 [Patent Act 1995], arts. 80–81, Stb. 1995, 51.

<sup>58</sup> See Código de Processo Civil, arts. 1072-1102 (Brazil's Code of Civil Procedure allows for arbitrability of patent disputes); *Arbitration of Patent Infringement*, *supra* note 54, at 329-30 (Canadian arbitration policy provides that "the procedural law of a patent arbitration is the procedural law of the place of arbitration, as provided in the applicable arbitration statute.").

<sup>59</sup> See *Arbitrability*, *supra* note 51, at 217 (citing Inga Pontynen, Memorandum on Arbitration and Intellectual Property Rights in Finland 3 (July 1993) (unpublished paper submitted to ICC Working Group on Intellectual Property) (on file with author)).

<sup>60</sup> Cf. *Arbitrability*, *supra* note 51, at 217 (noting that "validity and ownership questions may be considered in arbitration as a preliminary to a determination of an arbitrable dispute.").

<sup>61</sup> *Id.*

<sup>62</sup> Golan Work of Art Ltd. v. Bercho Gold Jewellery Ltd., Tel Aviv District Court civil case 1524/93 (providing the first case law establishing arbitrability of patent disputes).

<sup>63</sup> See *Arbitrability*, *supra* note 51, at 209 (noting that Italian courts do not allow arbitration of trademark and patent claims requiring involvement of the Public Prosecutor in the civil proceeding).

Japan allows for arbitration of disputes centering around the invalidity, enforceability, and infringement of patents, according to the Code of Civil Procedure, as well as copyright and trade name issues.<sup>64</sup> Awards declaring a patent utility model, design, or trademark invalid cannot be enforced absent an invalidity decision by the Japanese Patent Office.<sup>65</sup> Japanese arbitration bodies may award damages and injunctions, as well as the destruction of infringing products.<sup>66</sup> Switzerland does not have an arbitration statute, but in 1975 its Federal Office of IP ruled that arbitral tribunals are empowered to decide all IPR issues, including the validity of patents, trademarks and designs.<sup>67</sup> The United Kingdom's Patent Act states that arbitration is available only in very limited cases with specific sanction of the courts.<sup>68</sup> The validity of patents, however, is an arbitrable issue, but binds only the parties privy to the arbitration.<sup>69</sup> Finally, the People's Republic of China (PRC) has instituted the Arbitration Law of PRC to govern arbitration in the areas of contractual disputes (such as an IPR assignment), infringement disputes, and ownership disputes (i.e. licensing agreements, research and technology development agreements, software development agreements, distribution agreements, etc.).<sup>70</sup> The validity of patents, however, may not be resolved through arbitration.<sup>71</sup>

#### B. Trademark, Trade Dress, and Trade Secrets

Full-issue amenability to arbitration of trademark and copyright IPR issues is the norm in most of the world, as it is with respect to trade dress and trade secrets. The United States regularly resolves trademark disputes through arbitration,<sup>72</sup> as does the United Kingdom in areas of trademark infringement. Exceptions to this standard include Belgium, in which no statute exists to address the arbitration of trademark disputes, and Germany, where trademark disputes regarding the legal effects of

---

<sup>64</sup> MINJI SOSHŌHŌ [MINSHŌHŌ] [JAPANESE CODE OF CIVIL PROCEDURE], arts. 786- 805.

<sup>65</sup> See *Arbitration of Patent Infringement*, *supra* note 54, at 352-53. See generally Tokkyo Hō [Patent Law], Law No. 121 of 1959 [hereinafter Japanese Patent Law], translated in World Intellectual Property Organization, Database of Intellectual Property Legislative Texts, available at [http://www.wipo.int/clea/docs\\_new/pdf/en/eg/eg001en.pdf](http://www.wipo.int/clea/docs_new/pdf/en/eg/eg001en.pdf).

<sup>66</sup> Japanese Patent Law, *supra* note 66, at Ch. 4, Part 2, § 100.

<sup>67</sup> See Decision of Dec. 15, 1975, published in the Swiss Rev. of Industrial Prop. & Copyright, 36-38 (1976).

<sup>68</sup> See The Patents Act, 1997, Part I, § 52.

<sup>69</sup> See generally *id.*

<sup>70</sup> See generally Zhong Cai Fa [Arbitration Law] (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 31, 1994, effective Sep. 1, 1995) [hereinafter P.R.C. Arbitration Law], art. 2, P.R.C. LAWS 91, available at <http://www.cietac.org/index.cms>. See also *Arbitrability*, *supra* note 52, at 217.

<sup>71</sup> See *Arbitrability*, *supra* note 51, at 217.

<sup>72</sup> See *Daiei, Inc. v. United States Shoe Corp*, 755 F. Supp. 299 (D. Hawaii 1991). Note that cybersquatting, claims of bad faith/abusive registration of trademarks, and trademarks are also resolved through arbitration. See ICANN, Uniform Domain Name Dispute Resolution Policy, at <http://www.icann.org/en/udrp/udrp-policy-24oct99.htm> (last modified May 17, 2002).

registration, the invalidation of registration, and the expiration of rights, *cannot* be arbitrated.<sup>73</sup>

### C. Copyright

Copyright disputes may also be settled through arbitration. In the United Kingdom, copyright infringement disputes may be arbitrated, while in the United States arbitration may be used to resolve contractual copyright disputes and to confirm the validity of copyrights.<sup>74</sup>

## V. CONCLUSION

IPR are very important, being licensed all over the world. Arbitrating IP disputes has many advantages, including the privacy of the proceeding, cost-efficiency, specialized arbitrators, and the option to make the agreement binding. No longer do parties have to air their dirty linen in public.<sup>75</sup> Arbitration has many benefits and should be considered, if not prearranged, as part of any IPR project.

## ADDENDUM 1

### *Practical Issues and Problems in the Drafting of International Arbitration Clauses*

#### **1. Agreement to Submit Future Disputes Versus Agreements to Submit Existing Ones**

##### **a. Agreement to Submit Future Disputes**

Agreements to submit future disputes to arbitration are more common. They are usually in the form of an “arbitration clause” within the principal agreement between the parties.

***Length and Complexity of Agreement.*** Agreements to submit future disputes to arbitration are often short and may borrow from recommended standard clauses of arbitral institutions/rules such as the International Chamber of Commerce based in Paris (“ICC”), the American Arbitration Association based in New York (“AAA”), etc. At the time of drafting, the nature of the (possible) dispute is normally not fully

---

<sup>73</sup> See *Arbitrability*, *supra* note 51, at 207-08.

<sup>74</sup> See generally *Saturday Evening Post*, 816 F.2d 1191.

<sup>75</sup> In the late 1980s, particularly in Texas, the “diaper wars” were going on. I don’t know how many of you ever had to deal with a disposable diaper, but they are the most amazingly engineered products on the planet. If you pick up a package of disposable diapers and turn it on its side, you probably would see seventy-five patents on it. Well, back in the 1980s, there were four major companies in that business. They were litigating with each other until their eyeballs bled. In 1988, they announced worldwide settlements. Have you heard of a lawsuit or a battle relating to disposable diapers in the last twenty-three years? Do you think they just suddenly stopped? No; what did they do? They entered into the second type of agreement I’ve been telling you about: a dispute resolution agreement. They have been fighting with each other for the last twenty-three years but they have been doing it outside the public gaze. Nobody knows what’s been going on. Believe me, they haven’t stopped fighting with each other, but they are very happy with resolving these problems through this type of approach.

known. Exceptions to the shortness of such clauses are known, particularly in *ad hoc* or multiparty settings, where the clause may be lengthy and complex.

#### **b. Agreement to Submit Existing Disputes**

Such agreements are less common and are often referred to as “submission to arbitration agreements” or “submission agreements.”

These agreements tend to be quite long and involved because they are an attempt to tailor the arbitration to the dispute which is already a known quality. But a submission agreement can simply take the form of a short institutional clause such as that of the ICC.

### **2. Formation of the Arbitration Agreement**

The formation of the arbitration agreement is usually synonymous with the drafting of the agreement.

#### **a. Do the Parties Have “Capacity” to enter into the Agreement to Arbitrate?**

Most arbitrations, particularly in the international realm, arise out of defined contractual relationships. Note that a “defined legal relationship *whether contractual or not*” usually suffices.

***The New York Convention.*** This is the case for the purposes of holding that an agreement to arbitrate is valid under the 1958 United Nations (“New York”) Convention on Recognition and Enforcement of Foreign Arbitral Awards. This is the principal and most widely applicable multinational convention meant to facilitate the recognition and enforcement of arbitration agreements and arbitral awards deemed to be “foreign.”

If the parties had no legal capacity to enter into the arbitration agreement, under the New York Convention it is invalid.

“Capacity” may differ from jurisdiction to jurisdiction and may depend on a number of factors. These include (a) for a natural person, nationality or place of residence and (b) for a corporation, the place of incorporation, or the place of business.

#### **b. Is the Subject Matter of the Underlying Agreement “Arbitrable”?**

Another inquiry with respect to formation of the arbitration agreement is whether, under that agreement, the dispute is arbitrable.

***Notions of Arbitrability.*** Subject to the relevant applicable substantive law as well as any mandatory provisions of the law of the situs (if that is a different body of law), the arbitrator’s jurisdiction depends on a proper interpretation of the arbitration agreement: Did the parties intend a dispute of the kind in question to be resolved by arbitration?

***Problems at the Enforcement Stage.*** There is a simple relevance to the inquiry as to whether the arbitration agreement covers matters incapable of being settled by arbitration. If it relates to matters which are considered non-arbitrable under (a) the law of the agreement or (b) the law of the situs of the arbitration, if different, the agreement is likely to be unenforceable.

Article V.2(a) of the New York Convention entitles the enforcing court before whom a petition to enforce a foreign award is pending to refuse enforcement for precisely this reason - and whether or not the award debtor raises the ground of non-arbitrability on its own (it is also important to note that the objection to this effect under Article V.2(a) of the New York Convention is becoming more and more limited in the United States.)

**c. Is the Agreement to Arbitrate Otherwise “Valid”?**

An additional hidden problem here is that under Article V.1(a) of the New York Convention, enforcement of a foreign arbitral award may also be refused if the arbitration agreement is not valid. The award may be deemed invalid either under the law to which the parties have subjected it or, failing any indication of such an agreement as to the applicable law, under the law of the country where the award was made.

Thus whether the subject matter of the arbitration is “arbitrable” under Article V.2(a) of the New York Convention, must be examined under both laws, including under Article V.1(a) of the New York Convention.

***Concurrent Court Control.*** Under Article II.3 of the New York Convention, a court is empowered to examine whether or not the arbitration agreement itself is null and void, inoperative, or incapable of being performed. If it is not, then the parties will be referred back to arbitration. For example, if a party seeks to complete arbitration under an arbitration agreement, the defendant may bring court proceedings on the merits even though it has agreed to arbitration. It is in cases like this that Article II.3 of the New York Convention may be relevant, and will be linked to how well drafted the arbitration clause is.

Article II.3 of the New York Convention, if applicable, works well in countries such as England and Switzerland where issues of jurisdiction are often finally resolved at the earliest possible stage by means of “concurrent court control.” In England, for example, a party seeking to enforce an arbitration agreement may apply, in court, for a stay of court proceedings while the dispute is referred to arbitration. However, the state court will not intervene of its own volition - that is the defendant must ask for a stay of the High Court proceedings. And the court proceedings are not dismissed, and thus may be “revived” at a later date.

In the United States, Section 3 of the Federal Arbitration Act Title 9 USC requires courts to “stay the trial” of actions referable to arbitration. The FAA, which applies to all international commercial arbitration in the United States, preempts inconsistent state statutes.



Under the FAA, if one party claims that a dispute is non-arbitrable and files an action in federal or state court, the federal district court may stay such action until it first resolves the arbitrability question. Furthermore, if one party fails or refuses to submit to arbitration, in contravention of a written arbitration agreement, the aggrieved party may petition the federal district court for an order to compel arbitration under Section 4.

### **3. Essential and Optional Elements of an Arbitration Agreement**

#### **a. Potential Advantages to Consider in Drafting.**

*Tailoring the Proceedings.* Among the potential advantages to consider in drafting the arbitration agreement are the limitation of the jurisdiction of courts and the establishment of an equitable playing field. This also includes providing for a neutral situs and substantive law or otherwise agreed upon procedural rules. It also encompasses choosing a tribunal with a particular background or complexion.

Among advantages which should be borne in mind at the drafting stage are the possibility of expedited proceedings and a greater ability to enforce the arbitral award abroad pursuant to international agreements such as the New York Convention.

Other advantages include the option to exclude a right to appeal against the arbitral award and the benefits of confidentiality. The parties have the ability to choose an arbitral venue, and preferably provide in the dispute resolution clause for one with developed arbitration statutes. Such statutes should satisfactorily address the issues of judicial supervision and interim relief during the arbitration.

*Simplification of Service and Discovery.* Finally, the arbitration clause may reflect the fact of simplified commencement of proceedings and service of process. In this way, defects in service of process which plague the beginnings of many transnational litigations may be avoided. A properly drafted clause may serve to ensure facilitation of discovery of foreign witnesses and documents and site inspections as compared with cross-border court litigation. The same may apply to the use of more than one language for the proceedings.

#### **b. Key Components in Drafting an Arbitration Agreement**

A good and effective arbitration agreement may and often should be short, but achieving the appropriately-worded brevity requires time and careful consideration in advance.

##### **i. Place of Arbitration (“Situs”)**

Providing for the situs is indispensable. The reasons go well beyond the obvious desire to choose a place for proceedings if one has the opportunity to do so. The situs will have a direct and determinative impact upon a number of matters crucial to the arbitration.

*Where Was the Award “Made”?* In short, one should never have to speculate as to where the parties intend to hold their arbitration. One should also never have to speculate as to where the award was “made.” The place of the arbitration, or situs, may have a critical influence on the ability to challenge or vacate the award at that place. It may also help or harm efforts to enforce the award at a different location, but in consideration of the laws applicable at the place of arbitration. This relates to the earlier discussion regarding capacity, arbitrability and validity.

There are at least four principal reasons why the situs matters:

*The Role of the Courts at the Situs.* First, will the national courts at the situs, or elsewhere, be able to play a supervisory, interventionist, or injunctive role in the proceedings at the request of a party or of the tribunal? For example, in international arbitrations sited in England, the proceedings could be subject to repeated applications to the courts for rulings on legal questions. This may be the case unless the parties have opted out of the case-stated procedure. To what extent, in what manner, and how quickly will the courts be able to play such a role and be inclined to do so at the stipulated situs?

*Mandatory Procedures at the Situs.* Second, when choosing the situs, the drafter must not lose sight of the inquiry as to whether there are any mandatory procedural or other requirements at the situs which must be followed in the conduct of the arbitral proceedings. These include, notably, statutes of limitation or prescription or qualifications of arbitrators. If there are such requirements, the drafter must determine what they are, and how their observance or partial observance have been interpreted and enforced by the local courts.

*Barriers to Enforcement.* Third, the choice of a situs in the arbitration clause is directly linked to the question of what barriers to enforcement of the arbitral award may exist. Such barriers may operate as a matter of the law and public policy of the situs chosen, including where enforcement is sought in another locale. The inquiry goes beyond the mere question of whether the place of arbitration is a signatory to the New York Convention.

*Bases for Challenge.* Fourth, a related, but not identical issue is what bases for annulment or vacatur of the award exist at the situs. One should assess how certain jurisdictions which are frequently the situs for setting aside proceedings (because of their popularity as a situs for arbitrations in the first place) have recently treated questions of set aside proceedings.

## **ii. Applicable Substantive Law**

The parties should also decide at the contracting stage which substantive law they wish to apply to the underlying contract and merits of any disputes.

In international contracts where the counterparties are of different nationalities and perhaps entirely different legal traditions, often a “neutral” third-country law is chosen as a perceived compromise. To the extent possible at this early stage of the drafting, the parties should consider a number of issues which impact on which substantive law should be agreed upon.

*The Applicable Law and Damages.* These include the likelihood that a party might be the claimant as opposed to defendant and the likely nature of the claim which would arise. They also include whether the different bodies of law which are being weighted might result in dramatically discrepant outcomes or damage amounts.

For example, the availability or non-availability of consequential or punitive damages will depend upon the jurisdiction and applicable law. Equally crucial is whether the likely subject matter of the dispute might not be considered “arbitrable” under the law applicable.

*Clearly Providing for an Applicable Law.* The choice of substantive law should be clearly expressed in the contract, whether in the arbitration agreement itself or in a “neighboring” article of the contract. Otherwise, once a dispute arises, needless time and money may be expended litigating solely the issue of the applicable law.

*The Applicable Law and Selecting the Tribunal.* The lack of agreement on a choice of law hinders the parties in their selection of arbitrators, since one normally seeks to choose an arbitrator with particular knowledge or training in a specific body of law.

Finally, at the drafting stage one must face the issue of the likelihood that the substantive law agreed as applicable to the contract should or should not be agreed as applicable to the arbitration agreement, which is a separate contract. In *Volt Inf. Sciences, Inc. v. Board of Trustees of Leland Stanford Jr. University*, 489 U.S. 468 (1989), the U.S. Supreme Court held that a choice of California law as applicable to the contract resulted in incorporation of California *arbitration* law into the contract.

### **iii. Number and Qualifications of Arbitrators.**

The parties may or may not be able to agree at the contracting stage on such issues as how many arbitrators they wish (usually one or three), what qualifications if any might be stipulated (nationality, training, language, profession, lawyer versus engineer, etc.), and how and within what time frames the tribunal should be constituted. Likewise, they must confront the issue of whether the administrative authority or some other body should constitute the tribunal or part of it if there is a failure to select or agree on arbitrators.

*Preserving Flexibility.* It may be safest to preserve all options by providing, without more, for “one or three” arbitrators.

Whether to have a one or three-person tribunal will be a balance act: balancing the desire for a three-member tribunal with the likely greater cost and length of proceedings. Most often, this can be handled, or postponed, by providing for “one or more” arbitrators.

### **iv. Language of the Proceedings.**

The language of the proceedings will most often, but not always, be the same as the language of the underlying contract and arbitration agreement. Where the parties are able to agree, they should clearly specify the language of proceedings.

One language should clearly be deemed controlling. Bilingual proceedings with simultaneous translation are entirely possible but often expensive and time-consuming. If they are to take place, some agreement on cost-sharing and responsibility for translation arrangements should be reached.

#### **4. Variations on “Standard” or “Model” Arbitration Agreements**

The drafter must be clear as to the effect of using standard or model arbitration agreements of a particular institution or providing for the application of a certain body of rules. Namely, providing for, *e.g.*, the AAA or ICC Rules results in an incorporation of *all* of the arbitration rules of that institution or of rules into the contract at issue as if set forth in full in the contract itself.

##### **Implications of Choice of Particular Rules.**

First, the drafter should be thoroughly familiar with the particular rules which he is considering providing for, including all relevant appendices, explanatory brochures, etc.

Second, the drafter should avoid needless repetition, in the arbitration agreement, of matters or wording *already* addressed in the rules which are deemed incorporated.

Third, the drafter should clearly and explicitly derogate from, waive, exclude, or otherwise modify those sections of the incorporated rules which are not desired, but only after confirming that they *can* legally and practically be so modified or excluded.

Finally, one must be wise to the very rare, but nonetheless legitimate, opportunities for “improvement” of the rules; institutional rules are the subject of criticism and do undergo revision or amendment from time to time in response to such criticism. The drafter should add only such additional provisions discussed above as the place of arbitration, the applicable substantive law, and the language of the arbitration.

##### **a. Sample Institutional Arbitration Agreements**

What follows are several sample or recommended dispute resolution clauses, the recommendations appearing as “standard” clauses in the respective arbitral institution’s publications of rules and procedures.

Also, in the case of institutional arbitration clauses in particular, the arbitral institution normally recommends that in addition to the basic standard clause the parties stipulate the number of arbitrators, the applicable substantive law, and the language to be used in the arbitral proceedings.

##### **i. American Arbitration Association (AAA) Commercial Arbitration Rules:**

“Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.”

**ii. AAA International Arbitration Rules:**

“Any *controversy or claim arising out of or relating to this* contract shall be *determined* by arbitration in accordance with the International Arbitration Rules of the American Arbitration Association.”

**iii. International Chamber of Commerce (ICC):**

“All *disputes arising in connection with the present* contract shall be *finally settled* under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.”

**b. Sample Ad Hoc Arbitration Agreement.**

**i. 1992 Rules and Commentary for Non-Administered Arbitration of International Disputes, Center for Public Resources, Inc. (CPR):**

“Any *controversy or claim arising out of or relating to this* contract, *or the breach, termination or validity thereof*, shall be *settled* by arbitration in accordance with the Center for Public Resources Rules for Non-administered Arbitration of Business Disputes, by (a sole arbitrator) (three arbitrators, of whom each party shall appoint one) (three arbitrators, none of whom shall be appointed by either party). *The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. §1-16, and judgment upon the award rendered by the arbitrator(s) may be entered by any court having jurisdiction thereof.*”

**c. Possible Additional Components to Standard Agreement**

***Initial Additional Components.*** Among the initial additional components worth considering is a specific reference in the arbitration agreement to the arbitrability of disputes concerning the existence, validity, or termination of the contract and/or the arbitration agreement themselves. As has been seen, some standard clauses consider such a reference (“ . . . or the breach, termination or validity thereof”) necessary while others do not.

***Cooling Off Periods.*** Another additional component which often becomes an entire clause preceding the actual submission to arbitration is an agreement to attempt settlement, conciliation, mediation, or some referee procedure as a condition precedent to the right to commence arbitration. This might also be called the “cooling off period,” an example of which might be the following:

“All disputes arising in connection with this Agreement shall be finally settled amicably, if possible, by negotiation between the parties. If any such dispute is not so settled within thirty (30) business days after it has arisen, any party may, by the giving of written notice making express reference to this Article, cause the dispute to be referred to a meeting of appropriate higher management of the parties, such higher management to consist of no more than three (3) representatives appointed by each of the parties. Such meeting shall be held within ten (10) business days following the giving of written notice at a place to be agreed by the parties. If the dispute is not settled within twenty (20) business days after the date of the Notice referring the dispute to appropriate higher management, then the dispute shall be finally settled under the Rules of Arbitration of . . . .”

**Components Regarding Selection of Arbitrators.** There are also a number of additional conditions respecting the selection of arbitrators which might be added, including the name of the appointing authority, certainly the number of arbitrators, the method of selection of arbitrators, removal and replacement of arbitrators, and their qualifications and nationality. Some of these issues are already addressed in certain institutional sets of rules while others are not.

In any event, the drafter must be sure that he provides for an appointing authority which indeed exists and which would be willing and able to serve in the role contemplated.

**Other Potential Additions.**

- a denial of the right of the tribunal to “adapt” the contract
- a provision for multiparty proceedings, including consolidation and specific provisions for the number and method of selection of the arbitrators, having verified that such selection method does not violate the public policy of the situs or the potential place of enforcement
- providing for two places of arbitration, i.e., “home and home” depending on who is claimant
- a governing procedural law, including discovery limitations and specifying oral hearings or rather a documents-only arbitration
- a governing substantive law with or without exclusion of the conflicts of law rules of the governing body of law
- a governing law of the arbitration agreement if there is some compelling reason why it should be different from that of the underlying contract
- a requirement that the decision be made in accordance with good commercial practice and principles of fairness and equity (*amiable composition*)
- a requirement that the award contain “reasons” (the AAA Commercial Rules generally applicable in many domestic U.S. arbitrations do *not* require reasoned awards)
- an allowance for or prohibition of partial awards
- an allowance for or exclusion of punitive or consequential damages
- an “entry of judgment” agreement in the United States

- consent to the jurisdiction of a specific court for purposes of enforcement
- designation of an agent for service in any action brought in a specific court for purposes of enforcement
- an expansion of the grounds for vacatur (e.g., manifest error in determination or application of substantive law)
- a provision for an award of attorney's fees and costs.<sup>76</sup>

## ADDENDUM 2

### *WIPO: Why Arbitration in Intellectual Property?*

Some of the main characteristics of intellectual property disputes and the results offered by litigation and arbitration are summarized in the following table:

COMMON FEATURES OF MANY IP DISPUTES	COURT LITIGATION	ARBITRATION
<b>International</b>	Multiple proceedings under different laws, with risk of conflicting result  Possibility of actual or perceived home court advantage of party that litigates in its own country	A single proceeding under the law determined by parties  Arbitral procedure and nationality of arbitrator can be neutral to law, language and institutional culture of parties
<b>Technical</b>	Decisions maker might not have relevant expertise	Parties can select arbitrator(s) with relevant expertise
<b>Urgent</b>	Procedures often drawn-out  Injunctive relief available in certain jurisdictions	Arbitrator(s) and parties can shorten the procedure  WIPO Arbitration may include provisional measures and does not preclude seeking court-ordered injunctio
<b>Require finality</b>	Possibility of appeal	Limited appeal option
<b>Confidential/trade secrets and risk to reputation</b>	Public proceedings	Proceedings and award are confidential

<sup>76</sup> Adapted/excerpted from *International Arbitration and Litigation Briefing*, Vol. 1 No. 1, April 1996 (Jones Day).