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Philosophical and Procedural Excursions into the Arbitration World of Patent and Copyright Disputes

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INTRODUCTION

A distinguished jurist and legal scholar aptly remarked long ago, "[f]or most of the things that properly can be called evils in the present state of the law, I think the main remedy, as for the evils of public opinion, is for us to grow more civilized." So noted Justice Holmes before the Harvard Law School Association in 1913. The civilization of which he spoke was a sobering indictment of those whose cosmic visions oppilated the distinction between transcending their convictions and espousing the *orderly* as opposed to the *revolutionary* change of the law.

The attack on the American court system, which constituted the basis of his remarks, was hardly unique. There would always be, he said, those who were dissatisfied with the American system of jurisprudence, those who believed that justice was elusive and inequitable, and those who believed that the cherished systems of governance were bordering on the brink of destruction because social goals, as advanced by the application of law in the court system, were devoid of equilibrium.

This tide of discontent, which often breeds an improved system of jurisprudence, was only implied in Justice Holmes' comments. However, it was expressly recognized that the existing forums within which the components of human conflict were addressed were inadequate to temper the outcry for change, evolutionary or otherwise. His response to the recognition that the American court system was no longer sacrosanct and did not embody the ideals of jurisprudence suggested that alternative methods of dispute resolution had to be conceived and implemented.

At the time Holmes spoke, arbitration was an idea whose time had not come into existence. Although this process of dispute reso-

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lution had been existing for millenniums, it was yet to be legitimized in the judicial forum. Due to petty jurisdictional rivalries, arbitration was regarded as a form of creeping socialism. The idea that people could resolve their day-to-day conflicts with the assistance of a neutral third party, without the invocation of formal legal procedures, appeared to be an "existentialist derivation."

This "existentialist derivation" has historically been myopically defined as a substitute for litigation. The legal lore which characterizes arbitration as a substitute for litigation bears little resemblance to the realities of the process. Arbitration is a contractual proceeding whereby the parties to a controversy or dispute, select judges of their own choice, and by consent, submit their controversy to such judges for final determination in place of the tribunals provided by the ordinary processes of law.

These proceedings can be initiated and carried out without traditional federal court pleadings. Accordingly, the validity and effect of such pleadings do not become important. Presumptions and burdens of proof of the law of evidence do not govern. Distinctions between issues of fact and of law, as conceived in the law of civil jurisprudence and procedure, have no comparable role in arbitration. Arbitration, in essence, displaces all significant aspects of civil litigation except notice and the right to be heard.

To the process of arbitration, we basically submit those cases which do not require the special treatment of the formal judicial process. By removing the disputes that can be resolved outside the judicial system, those which are only susceptible to judicial treatment are handled more efficaciously by the mechanisms designed to embrace them.

The "existentialist derivation" spoken of earlier was ultimately invoked, albeit gradually, to resolve disputes of virtually all types.[1]

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1. In 1982, the following statutory amendments were enacted germane to arbitration: (a) The Arizona Arbitration Statute was amended to include arbitration in public works contracts if the amount in controversy is less than one hundred thousand dollars; (b) The Arkansas Uniform Arbitration Act was amended to provide for the arbitration of commercial disputes which were previously excluded; (c) The California Arbitration Statute was amended to specifically provide for the issuance of subpoenas in connection with these proceedings; and (d) The New York Arbitration Statute was amended by facilitating the process by which an arbitrator could conclude the arbitration process by requiring the arbitrator to affirm a written award instead of merely acknowledging it.

In the same year, substantial legislation providing for arbitration was enacted: (a) Anchorage revised its public sector collective bargaining ordinance. In contract/interest ar-

Most recently, the process of arbitration was extended to include the resolution of patent validity and patent infringement cases. The following pages address the historical background and significance of this novel legislation as a bellweather of reform in the patent industry, the specifics concerning the implementation of the Act, and the philosophical considerations which undergird the process.

I. Historical Background

On August 27, 1982, President Reagan signed into law House Resolution No. 6260. The bill provides for voluntary binding arbitration of future and pending disputes over the validity and infringement of patents or patent rights.[2] The law went into effect on February 27, 1983. The text of the legislation, which amends Title 35 U.S. Code, is located in the next section of the article.

Prior to its passage, the judicial system had not been favorably disposed toward the utilization of a system other than its own. Although certain aspects of patent disputes had been previously arbitrable, courts did not enforce awards pertaining to patent validity and infringement, deeming it to be within the exclusive province of the courts.[3] The rationale advanced by the courts was that a chal-

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bitration, final offer arbitration on an issue-by-issue basis is now mandated; (b) The Franchise Relations Act, Chapter 5.5 of the Business and Professions Code, provides for voluntary binding arbitation of disputes between franchisor and franchisee; (c) In Oregon, a law was signed providing for arbitration of a dispute between state agencies, between state agencies and local governmental units, and between local governmental units, under the auspices of the AAA and subject to its Commercial Rules; (d) In the Virgin Islands, legislation was enacted to provide for arbitration of disputes arising between public employers and their employees.

2. ". . . an issue of validity arises when a party contends that a patent for some reason is not valid and therefore is no longer in force and effect. A question of infringement arises when parties argue that what they are doing is not covered by the claims of the patent, even though the patent is valid." Goldsmith, *The Arbitration of Patent Disputes*, 34 Arb. J. 28 (1979).

3. *See* Beckman Instruments, Inc. v. Technical Developments Corp., 433 F.2d 55 (7th Cir. 1970); Zip Mfg. Co. v. Pep Mfg. Co., 44 F.2d 184 (D. Del. 1930).

Several public policy arguments have been advanced by the courts in their efforts to preclude recognition from being given to arbitration agreements. The first argument is that there is an overwhelming interest by the members of the public domain in preserving free enterprise. Thus, patent validity and infringement cases should remain part of the public record. Since arbitration proceedings are private and confidential, the public interest would not be well-served.

The second public policy argument interposed by the courts is that the arbitrators' in-

lenge to the validity of a patent is not coterminous with the assertion of rights arising under the supporting agreement; the challenge is thus tantamount to a repudiation of the agreement. Arbitration as a remedy for the resolution of the dispute is inconsistent with the repudiation.

In 1978, the Senate of the 94th Congress passed a bill which would have permitted the arbitration of patent disputes. The legislation died where it originated because of various controversial aspects. Subsequent years of educating the public and private industry that the traditional system of American jurisprudence cannot effectively absorb the administration, utilization and disposition of patent disputes bore fruit. By 1982, the resisting forces, the Department of Justice and the Department of Commerce, furnished their support to the arbitration process. Thus the patent and trademark appropriation bill was swiftly enacted into law.

The enactment of the legislation represented the culmination of years of efforts by the patent bar, private industry, the American Bar Association and the American Arbitration Association to make *all* the provisions of the United States Arbitration Act extend to embrace *all* aspects of patent disputes. As with many types of commercial transactions, the drafters viewed the legislation as an aid to ease court docket congestion.[4]

The basis for the legislation is set forth in the House Judiciary Committee Report prepared by Representative Kastenmeier. It states that "[a]t present, agreements to arbitrate some aspect of disputes arising under patent licenses are enforceable by the courts; however, there have been court decisions that have disapproved arbitration of disputes concerning patent validity or infringement."

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volvement in the industrial mainstream may be too closely linked to the fortunes of the patent industry. The added concern is that eventually the two bodies of law may merge into a more relaxed standard of case law application.

Both of the foregoing concerns are dealt with by various safeguards expressly set forth in the legislative matrix. For further explanation of these bases, see Hoellering, *New Opportunities for Patent Disputes*, N.Y.L.J., Dec. 16, 1982.

4. In a recent article on this issue titled, *The Arbitration of Patent Disputes*, Paul D. Carmichael notes that patent litigation has become one of the most time-consuming and complex forms of commercial litigation. Like anti-trust disputes, despite the small percentage of cases comprising the litigation caseload, the expertise necessary to adjudicate such disputes renders the system burdensome. *General* legal theories play an insignificant role in the resolution of patent and copyright disputes.

The decisions of the courts, most of which vacillated between complete non-recognition of arbitration agreements to tacit acceptance of their validity in the marketplace, gave rise to the movement responsible for developing the patent arbitration scheme.

II. The Legislative Enactment

Section 35 U.S.C. 294, sub-section (a) states:

> 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 disputes 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.[5]

This section permits judicial recognition, heretofore sanctioned in other areas of arbitral jurisprudence,[6] of *present* and *future* dispute resolution. The significance of this language is that the parties to a licensure agreement may not only contract in advance for their preferred method of dispute resolution, but if not contemplated at the time of contract execution, the parties may, at the time the dispute actually arises, submit their dispute to arbitration. This suggests the complete acceptance of the arbitration process and its viability in patent validity and infringement dispute resolution.

The agreement to arbitrate, as with all agreements to arbitrate,

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5. 35 U.S.C. § 294(a) (1982).

6. The primary distinction between present and future dispute resolution is that the latter is deemed valid and irrevocable even though the parties change their minds regarding the viability of the submission of the dispute to arbitration. This distinction effectively translates into the distinction between common law and statutory arbitration. The arbitration statute which is well grounded in common law vestiges does not recognize the validity of future dispute resolution and thereby reduces the element of certainty which otherwise attaches to third party dispute resolution. The differences between common law and statutory arbitration also includes the composition and election of the arbitral board, the conduct of the hearing, and matters relating to enforcement and implementation of the award. In common law arbitration, these procedures are, by and large, governed by judge-made common law rules. While statutory arbitration prescribes formalities, and requires a written submission of the dispute in controversy, at common law it has been held that even an oral agreement and a subsequently rendered oral award are adequate. In either common law or statutory arbitration, the award can be disturbed in the event of fraud, misconduct, partiality of the arbitration, gross unfairness of the proceedings, want of excess of jurisdiction in the arbitration or a substantial breach of a common law rule.

may be challenged by asserting typical defenses to contract formation: fraud in the inducement, fraud in the factum, mutual mistake, rescission, *etc.*

Sub-section (b) states:

> Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by Title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.[7]

The defenses in an action involving the validity or infringement of a patent must be formally pleaded. Such defenses include:

> 1. Noninfringement, absence of liability for infringement, or unenforceability.
> 2. Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability.
> 3. Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title.
> 4. Any other fact or act made a defense by this title.

Thus the arbitrator would be able to rule on the validity of such defenses. Since arbitrators are generally considered to be creatures of contract, such an express grant of authority should preclude frivolous or promiscuous allegations of procedural arbitrability from being raised.

Sub-section (c) states:

> 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 may agree that in the event 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 jurisdiciton 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.[8]

The first sentence of this section states the obvious of arbitral jurisprudence that *only* the parties to the actual contract can be affected or governed by the arbitrator's award. The language is si-

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7. 35 U.S.C. § 294(b) (1982).
8. 35 U.S.C. § 294(c) (1982).

lent on whether non-parties can be added to the arbitration proceeding vis à vis the consent of all the existing parties. However, given the state of the law on the enforceability of an award to include such a configuration, it is likely that such an agreement would be given effect.

Third parties are authorized to contest the validity of a patent in court or by an independent arbitration proceeding even though the patent has been deemed valid in a prior arbitration proceeding. It is premature to assess the impact of two potentially inconsistent decisions concerning the identical subject matter of a dispute as contemplated by the language allowing for appeal of an arbitrator's decision as there have been no reported awards and decisions in this area as of this writing.

In the final sentence of sub-section (c), a patent may be held valid in arbitration, but may subsequently be challenged in court. If overturned, there can be no further appeal. The language suggests that the binding element of arbitration has been disturbed somewhat as the licensee is not estopped from contesting the validity of the patent.[9] This language was evidently inserted to allay the public's fears that failure to furnish a limited method of appellate recourse would render the system completely unfavorable to potential users. Despite the limitations of the appellate process, it is axiomatic that parties generally believe justice can only be achieved by providing an opportunity to exhaust all avenues of recourse.

Sub-section (d) states:

> When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the commissioner. There shall be a separate notice prepared for each patent involved in such proceedings. 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 commissioner. The commissioner 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 commisssioner any party to the proceeding may provide such notice to the commissioner.[10]

The import of this language is that notice to the Commissioner

9. *See* Lear, Inc. v. Adkins, 395 U.S. 653 (1969).
10. 35 U.S.C. § 294(d) (1982).

of Patents and Trademarks becomes a requirement, and the results of the arbitration proceedings, unlike most proceedings where strict confidentiality of identities and results prevail, will become part of the public record.[11]

III. The Philosophical Cornerstones of Arbitration

Albeit the origins of arbitration can be traced to 700 B.C. in the Athenian culture, it was not until the Middle Ages that any philosophical perspectives regarding the process were extensively recorded. In his article entitled, "*The Anglo-Saxon Courts of Law, Essays in Anglo-Saxon Law*," Adams describes the Anglo-Saxon view of arbitration:

> In a society which has no confidence either in its judges, its judicial process, or its very law itself,—which could devise no system of reform in the practice, nor of equitable protection against the evils of that law,—it was certainly not surprising that men should seek a remedy outside the public tribunals.

Since antiquity, the resolution of human conflict and the perceived ineffectiveness of the standard judicial machinery has dominated dialogue in many forums. Arbitration has today come to assume a supplemental role to that of litigation. Proponents of the process proselytize it as a viable alternative, preferring it to the

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11. The Patent and Trademark office, acting in a rule-making capacity, has published the following rule regarding notice of arbitration awards:

> Written notice of any award by an arbitrator pursuant to 35 USC 294 must be filed in the patent and trademark office by the patentee, or the patentee's assignee of licensee. If the award involves more than one patent, a separate notice must be filed for placement in each patent. The notice must set forth the patent number, the names of the inventor and patent owner, and the names and addresses of the parties to the arbitration. The notice must also include a copy of the award.
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> If an award by an arbitrator pursuant to 35 USC 294 is modified by a court, the party requesting the modification must file in the patent and trademark office a notice of the modification for placement in each patent to which the modification applies. The notice must set forth the patent number, the names of the inventor and patent owner, and the names and addresses of the parties to the arbitration. The notice must also include a copy of the court's order modifying the award.
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> Any award by an arbitrator pursuant to 35 USC 294 shall be unenforceable until any notices required by paragraph a or b of this section are filed in the patent and trademark office. If any required notice is not filed by the party designated in paragraph a or b of this section, any party to the arbitration proceeding may file such a notice.

37 C.F.R. § 1.335 (1982).

legal polytechnics which occupy the litigation sphere. Its preference is advanced due to its speed, lack of expense, and ability to provide adequate equities.

The salutary benefits of recognizing the enforcement of arbitration agreements in patent and copyright cases are multifarious. Due to the extremely technical nature of patent cases, the time consumed by litigating such cases is enormous. This situation is exacerabated by two factors: a) the participants must adhere to the strict application of the formal rules of procedure and evidence, and b) the participants must be prepared to "educate" the judge or jury on the dynamics of the industry.

Expeditious closure of disputes is a by-product of the new arbitration system. Antediluvian formal rules of code pleading need not be adhered to. The issues do not have to be extensively amplified, nor do the arguments have to be detailed.

The award of the arbitration panel must be issued within sixty days from hearing closure; the research required by the arbitrator subsequent to the conclusion of the hearing will be minimal.

Arbiters who hear and dispose of these cases are selected from the patent bar; their particular skill and expertise preclude the need to brief the panelists regarding the industrial facets. This aspect affects not only the speed within which such cases are disposed of but, concomitantly reduces the cost of administering and arbitrating them.

The arbitration system thus combines the expertise of the specialist with the efficiency of tailored arbitration procedures designed to dispose of the cases more expeditiously than if they were litigated.

As a matter of public policy, arbitration has long had the support of the judiciary. The ancient common law hostility concerning the non-arbitrability of certain types of cases has now substantially dissipated, particularly in view of this new legislation. The House resolution authorizing the arbitration of patent disputes does not in any way limit the authority of an arbitrator to render decisions which are just, fair and conclusive on all of the issues submitted for consideration. According to the law, the arbitrator is vested with the same type of authority as a judge; the arbitrator can make determinations upon inferences and priority—conception, diligence, reduction to practice, ownership of inventions or title, royalty contracts, royalty rates and also interpret claim language. The

arbitrator is thus relatively unencumbered in his efforts to formulate or fashion appropriate remedies.

CONCLUSION

In a recent address to the members of the judiciary, Justice Burger noted

> [t]he obligation of our profession is, or has long been thought to be, to serve as healers of human conflicts. To fulfill our traditional obligation means that we should provide mechanisms that can produce an acceptable result in the shortest possible time, with the least possible expense, and with a minimum of stress on the participants. That is what justice is all about.

Through a philosophically more credible modality, the Patent and Trademark Appropriations Bill enables those engaged in human conflict to more expeditiously and responsibly resolve their differences. This system of justice need not supplant our present system of jurisprudence; it can effectively complement the traditional adversarial system. The new law encourages the use of a viable process, a process which resolves real problems in a manner consistent with the time-honored concept of voluntary choice.