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## ECONOMICS OF ARBITRABILITY IN INTERNATIONAL IP CONTRACTING

*Miquel dels Sants Mirambell Fargas*



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## ECONOMICS OF ARBITRABILITY IN INTERNATIONAL IP CONTRACTING

*Miquel dels Sants Mirambell Fargas\**

### ABSTRACT

IP arbitrability in international commercial disputes encapsulates the friction between traders and holders, between private contracts and public registers, between party autonomy and mandatory rules. Particularly, non-arbitrability of invalidity defenses concerning registered industrial intellectual property rights has been insufficiently analyzed as a crucial matter of recognition and enforcement of international awards. Consequently, a sound economic rationale on grounds of competitive advantages is disregarded in too many instances. Having regarded the ever-growing importance of IP rights for companies' productivity and today's primary use of arbitration in cross-border contracting, the present research aims at pointing that out. It applies a transaction cost economics approach and takes into account the legal comparative background. This study finally examines arbitrability of IP validity with *inter-partes* effect as an operable solution and the advantages of a predictable model as was early adopted by the United States.

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## LIST OF ABBREVIATIONS

BGB	Bürgerliches Gesetzbuch (German Civil Code)
BOE	Boletín Oficial del Estado (Official State Gazette of Spain)
CJEU	Court of Justice of the European Union (former European Court of Justice, ECJ)
FAA	Federal Arbitration Act (9 U.S.C. 1 ( <i>et seq.</i> ))
ICC	International Chamber of Commerce (Paris)
IP/IPR	Intellectual Property/ Intellectual Property Right(s)
LA	Ley de Arbitraje 60/2003 (Spanish Arbitration Act 60/2003)
Model Law	UNCITRAL MODEL LAW on International Commercial Arbitration, adopted on 21 June 1985 and amended in 2006
NY Conv.	New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, signed in New York on 10 June 1958
OEPM	Oficina Española de Patentes y Marcas (Patents and Trademarks Office of Spain)
TFEU	Treaty on the Functioning of the European Union (Official Journal 115, 05/2008)
TRIPs	Agreement on Trade-Related Aspects of Intellectual Property Rights (1994)
UNCITRAL	United Nations Commission on International Trade Law
WIPO	World Intellectual Property Organization
ZPO	Zivilprozessordnung (German Code of Civil Procedure)

## I. INTRODUCTION

## A. Hypothesis

*If you think that justice is expensive, try injustice.*

ANONYMOUS<sup>1</sup>

In the last seventy years, modern means of transport operating on better infrastructures have shortened geographical distances. Countless treaties have facilitated international trade and supranational policies have promoted the free circulation of resources. In this context, the internet has transformed communication while newly-developed technologies have moved forward existent state-of-the-art. Lastly, insurgent on-and-offline business models have shaken up entire economies.<sup>2</sup>

In this economic environment, companies' performance and ultimate survival rely on specialization and innovation to create sustainable competitive advantages internationally. Either on contracting with least-cost suppliers, on targeting emerging markets worldwide or on better diversifying operations geographically.<sup>3</sup> In so doing, the international enforcement of several intellectual property rights first appeared as the essential factor. By avoiding any unlawful appropriation of firms' intangible assets, it guaranteed returns on investments *incentivizing* companies to specialize and innovate.

These factors notwithstanding, it is nowadays affirmed that this "incentive model" only provides, at best, a partial justification for IP systems.<sup>4</sup> While it is true that internationally recognized IP rights protect innovation, cutting-edge technologies and new product positioning and support their commercialization,<sup>5</sup> it is classic commercial contracting that

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<sup>1</sup> ROBERT COOTER & THOMAS ULEN, *LAW & ECONOMICS* 382 (6th ed. 2016).

<sup>2</sup> MICHAEL E. PORTER, *COMPETITIVE STRATEGY: TECHNIQUES FOR ANALYZING INDUSTRIES AND COMPETITORS* 287–88, 359 (1980) (identifying "environmental triggers to globalization") [hereinafter PORTER (1980)]; MICHAEL E. PORTER, *SER COMPETITIVO* 361–62, 359 (2009) [hereinafter PORTER (2009)].

<sup>3</sup> CHROCZIEL ET AL., *INTERNATIONAL ARBITRATION OF INTELLECTUAL PROPERTY DISPUTES—A PRACTITIONER'S GUIDE* 1–2 (2017).

<sup>4</sup> Paul J. Heald, *A Transaction Cost Theory of Patent Law*, 66 OHIO ST. L.J. 473, 474 (2005).

<sup>5</sup> See, e.g., Robert P. Merges, *A Transactional View of Property Rights*, 20 BERKELEY TECH. L.J. 1477, 1487–89 (2005) (The author identifies two transactional roles of IP and explains an impact on precontractual liability and on enforcement flexibility.).

continues to articulate most of these transactions. Whereas *transactions* can be upheld by any means, for example resorting to informal rules, *contracts* are, in principle, legally enforceable promises.<sup>6</sup> Hence, contracts structure a formal institutional framework for an effective as well as efficient international coordination of cross-border interdependencies.<sup>7</sup> They exist between and among IP right-holders and IP traders competing on productivity.

In this new economic paradigm, the imperious need for specialization and innovation holds true for almost all players. On the one hand, from an organizational theory, it not only concerns global industries or multinational companies, such as Honda, Novo-Nordisk Group, Hewlett-Packard (HP) or IBM. It also chases companies operating in smaller multi-jurisdictional or even domestic environments. This results from a vertical disintegration that forces market players to specialize on some activities and outsource others to least-cost suppliers, often by undertaking cross-border moves.<sup>8</sup> On the other hand, from a supply chain perspective, specialization and innovation are regarded not at an intra- but mainly at an inter-company level, creating significant firm-to-firm dependencies.<sup>9</sup>

As a result, many scholars have identified and analyzed contractual coordination of IP rights as something missed by the “incentive model” of IP Law.<sup>10</sup> In the present research, however, the key coordination of IP rights is studied from another transactional viewpoint: the economics of contract enforcement. Particularly, how international arbitration policies enable or disrupt formal transactions on: specialization, least-cost outsourcing, geographical diversification of firms’ operational portfolios, innovation, and

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<sup>6</sup> *Id.* at 1515 (“[t]ransactions are not quite the same as contracts . . . .” In this research, the debate basically relates to *contracts*, running the risk of confusing the concept with its hypernym: *transactions*).

<sup>7</sup> See Oliver E. Williamson, *The New Institutional Economics: Taking Stock, Looking Ahead*, 39 J. ECON. LITERATURE 595, 597 (2000) (use chart for the qualification of contracts as formal institutional context).

<sup>8</sup> See Section III.C *infra*; MICHAEL E. PORTER, THE COMPETITIVE ADVANTAGE: CREATING AND SUSTAINING SUPERIOR PERFORMANCE 275–77 (1985) [hereinafter PORTER (1985)]; PORTER (2009), *supra* note 2, at 361–62, 367; Merges, *supra* note 5, at 1517 (see the self-explanatory chart).

<sup>9</sup> Jonathan M. Barnett, *Intellectual Property as a Law of Organization*, 84 S. CAL. L. REV. 785, 795–97 (2010–2011).

<sup>10</sup> *Id.* at 787–88. This scholarly approach is known as *Transaction Cost Economics*. E.g., Merges, *supra* note 5, at 1486; see Liza Vertinsky, *An Organizational Approach to the Design of Patent Law*, 13 MINN. J.L. SCI. & TECH. 211, 220–22 (2012). The following Section I.B, *infra*, better explains how this scientific methodology is applied to this research.

expansion to new markets. As the ultimate point, how all this effects the generation of competitive advantages,<sup>11</sup> which not only result in companies' performance and survival but in increases of States' GDPs.<sup>12</sup>

The hypothesis of this research is thus to demonstrate, from an economic viewpoint, that the right approach to arbitrability of IP disputes has much to add to, or subtract from, the needed coordination on specialization and innovation. Whereas arbitrability of IP validity with *inter-partes* effect, as early adopted by the United States system, seems an operable solution, its pitfalls must be considered. These topics are discussed at a cross-border level under the auspices of Article V(2)(a)(b) of the New York Convention.

Four facts demonstrate the relevance of this hypothesis: First, the ever-growing importance of commercial arbitration as a mechanism for adjudicating certain IP disputes in cross-border businesses.<sup>13</sup> Second, a

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<sup>11</sup> See Section III.C *infra*; Mark A. Lemley, *The Myth of the Sole Inventor*, 110 MICH. L. REV. 709, 711, 715 (2012) (stating: “[i]nvention appears in significant part to be a social, not an individual, phenomenon”); Barnett, *supra* note 9, at 836 (“[f]ailure to match the cost efficiencies made available by outsourcing supply chain functions to least-cost outside providers inherently results in a competitive disadvantage.”).

<sup>12</sup> JUSTINE PILA & PAUL TORREMANS, EUROPEAN INTELLECTUAL PROPERTY LAW 4 (2016); TREVOR COOK & ALEJANDRO I. GARCIA, INTERNATIONAL INTELLECTUAL PROPERTY ARBITRATION 15, 45 (2010) (Discussing some reasons for *technology transfer* as follows: “[t]here are numerous motivations underlying the negotiation and grant of patent licenses [. . .] [f]or example a patentee may lack the resources to exploit its patent in all jurisdictions; a technology developed for one type of business may have application in other areas in which the patentee has no commercial ambition, or a company with an established product may take a license to enable it to improve upon an enhance its existing technology”; stressing the attractiveness of international arbitration for resolving global IP disputes.); see *infra* Section III.C (for the economic analysis); PORTER (2009), *supra* note 2, at 287–88.

<sup>13</sup> WIPO, *WIPO Caseload Summary*, WORLD INTELLECTUAL PROP. ORG., <https://www.wipo.int/amc/en/center/caseload.html> (last visited Feb. 23, 2019) (For data, see the table covering the period 2009–2017.); cf. Kenneth R. Adamo, *Overview of International Arbitration in the Intellectual Property Context*, 2 GLOB. BUS. L. REV. 7, 8 (2011); Jacques De Werra, *Global Policies for Arbitrating Intellectual Property Disputes*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY LICENSING 375–76 (2013); Luke Nottage, *Chapter 5: A Weather Map for International Arbitration: Mainly Sunny, Some Cloud, Possible Thunderstorms*, in THE EVOLUTION AND FUTURE OF INTERNATIONAL ARBITRATION 59–78, 64 (Stavros L. Brekoulakis, Julian D.M. Lew & Loukas A. Mistelis eds., 2016) (see chart for the expansion of arbitration around the globe); GARY B. BORN, INTERNATIONAL ARBITRATION: LAW AND PRACTICE 9–16 (2012) [hereinafter BORN (2012)] (the author provides an introduction to reasons for adopting international commercial arbitration); NIGEL BLACKABY, CONSTANTINE PARTASIDES, ALAN REDFERN & MARTIN HUNTER, REDFERN & HUNTER ON INTERNATIONAL ARBITRATION 28–39 (6th ed. 2015). Particularly regarding IP disputes, see COOK & GARCIA, *supra* note 12, at 49; PILA & TORREMANS, *supra* note 12, at 30; Pedro Alberto De Miguel Asensio, *Alcance de la Arbitrabilidad de los Litigios Sobre Derechos de Propiedad Industrial*, 7 MAG. COM. & INV. ARB. 81, 84 (2014).



highly controversial situation given the lack of consistent answers across jurisdictions worldwide.<sup>14</sup> Third, the need to enrich the debate on the topic whose discussion has so far been largely limited to legal arguments. Fourth, a novel application of *transaction cost economics* to think about international arbitration policies, rather than IP rights or IP contracts as the focal institutional framework.

### *B. An Intersection between Law, Business and Economy*

To develop the outlined hypothesis, the general toolkit for legal analysis is complemented with two specific methodologies. Review of primary sources, of case law and of academic literature is thus jointly conducted with studies in *private comparative law* and *law and economics*. This combination of methodologies responds to the concrete analytical challenges posed by the identified interdisciplinary hypothesis and to the *continuum* that social sciences arguably together constitute.<sup>15</sup>

In the *continuum*, private comparative law suggests a geographical approach. With it, causes or reasons for the global heterogeneity of legal backgrounds as well as cultural differences are somehow present.<sup>16</sup> Law and economics is here taken in a broad sense, bringing it close to *new institutional economics* (NIE) by focusing on how context influences economic activities.<sup>17</sup> As a result, the economic study of the IP coordination problem

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It is worth noting that exploitation of IP rights is no longer limited to commercial arbitration but has extended to investment arbitration, where foreign investors claim that patent systems violate investment-treaty obligations. See CHROCZIEL ET AL., *supra* note 3.

See Banco Santander Totta S.A. v. Companhia de Carris de Ferro de Lisboa S.A. (et al.) [2016] EWHC 465, [65]–[81] (UK) (For the distinction between national or international, in terms of dispute.); BLACKABY ET AL., *supra* note 13, at 7–8, 11 (for the distinction in terms of arbitration proceedings); see also Section II.C.4.a, *infra*.

<sup>14</sup> See *infra* Section II.C.4 (discussing classification of the different policies in a comparative law study).

<sup>15</sup> The present work is, of course, focused on law. See Pablo Salvador Coderch & Sergi Morales Martínez, *Verdad y Veracidad: El Derecho Naturalizado*, INDRET PRIVATE LAW, 2017, at 6, 10 (extending the *social sciences continuum* from technologic to common knowledge).

<sup>16</sup> INGEBORG SCHWENZER, PASCAL HACHEM & CHRISTOPHER KEE, GLOBAL SALES AND CONTRACT LAW 1 (2012) (See paras. 1.02 and 1.03 for an explanation of the *functional comparative approach* as a scientific method to analyze legal systems from a neutral position.).

<sup>17</sup> Christopher Buccafusco, Stefan Bechtold & Christopher Jon Sprigman, *The Nature of Sequential Innovation*, 59 WM. & MARY L. REV. 1, 9–10 (2017). NIE was partly founded by the 2009 Nobel Prize winner Oliver E. Williamson and followed by many scholars in the IP field. See Oliver E. Williamson,

applies both: a *transaction cost economics* (TCE) approach, which places transactions in the spotlight,<sup>18</sup> and a *neoclassical* analysis of the economics of contract enforcement, whose notion of welfare is reduced to parties' surplus. In so doing, arguments not only have spillovers to economics but also to behavioral economics and negotiation. Last but not the least, key conclusions are based on an analysis of competitiveness from a business standpoint.<sup>19</sup>

In principle, *economics of law* allows us to focus on economic and social outcomes of rules, their impact on parties' incentives, behaviors as well as social costs. The neoclassical view of economic theory is mainly interested in the marginal changes.<sup>20</sup> *New institutional economics* extend the neoclassical rationales by introducing a novel, central role of institutions in order to explain economic activity.<sup>21</sup>

These specific methodologies respectively apply to the two parts in which this work is split. Section II of this paper elaborates on arbitrability of IP validity in certain international disputes. It is further divided into three sub-sections, narrowing down the topic from three *cumulative* angles: (1) categories of IP rights concerned; (2) claims in dispute and contractual settings; and (3) non-arbitrability per Article V(2) of the New York Convention. This topic further accounts for a top-down legal comparative study under Section II.C.4, *infra*. On the one hand, a conceptual classification of the international *status quo*, including a future supranational system (the EU-UPC Agreement). On the other hand, two jurisdiction-specific surveys from both civil and common law backgrounds (Spain and the United States).

The economics of non-arbitrability under the auspices of Article V(2) of the New York Convention are exhaustively examined in the first part of

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*Transaction Cost Economics: An Introduction*, ECONOMIC DISCUSSION PAPERS 599–610 (2007), <http://www.economics-ejournal.org/economics/discussionpapers/2007-3>; Heald, *supra* note 4, at 475–78; Merges, *supra* note 5, at 1482–86, 1513–14; Barnett *supra* note 9, at 838. See Vertinsky, *supra* note 10, at 227–29 (For an introduction to NIE concerning IP policies.). An application of NIE to arbitration policies on IP rights was, however, still missing.

<sup>18</sup> The part of NIE that intends to explain economic activity by means of studying transactions as institutional framework has been referred as *Transaction Cost Economics*, see Williamson, *supra* note 17, at 608; Merges, *supra* note 5, at 1482–86. Vertinsky, *supra* note 10, at 216, rather moves towards the term *Organizational Economics*.

<sup>19</sup> See PHILIPP HACKER, VERHALTENSÖKONOMIK UND NORMATIVITÄT 3 *et seq.* (2017).

<sup>20</sup> See generally Richard A. Posner, *The Law and Economics Movement*, 77 AM. ECON. REV. 1, 4–7 (1987); HACKER, *supra* note 19, at 3 (*et seq.*); but cf. Eric A. Posner, *Economic Analysis of Contract Law after Three Decades: Success or Failure?*, 112 YALE L.J. 829, 879–80 (2003).

<sup>21</sup> Vertinsky, *supra* note 10, at 227.

Section III. Here, however, from three *consecutive* approaches: (1) introductory remarks on the contract principle for coordination taking a transactional cost economics perspective; (2) disruptions introduced by non-enforcement of international awards on grounds of non-arbitrability; and (3) overall consequences on the competitive advantages at the micro-macroeconomic levels.

Before concluding, the second part of Section III presents the solution supported hereby: a predictable, worldwide recognition and enforcement with *inter-partes* effect of international awards incidentally adjudicating on matters of IP validity. The practicability of this solution is, on the one hand, exemplified by its early adoption by the United States system and the tendency toward it demonstrated by leading French case law. On the other hand, the solution is confronted to its many legal and practical limitations, both at the post- and pre-award stage.

## II. LACK OF A DEFAULT JURISDICTION TO ENFORCE INTERNATIONAL IP AWARDS

### A. Registered Industrial IP Rights

For the purpose of this research, only four classes of intellectual property rights are relevant: (1) patents, (2) utility models, (3) registered designs, and, in most of the cases, (4) trademarks. These four property rights are particularly relevant because they present two cumulative traits: *registered* and *industrial*. Other categories of non-registered rights or non-industrial rights are simply deemed arbitrable in most jurisdictions, less frequently adjudicated in international commercial IP arbitration, or have little impact on companies' contest on competitive advantages. Either way, they do not raise the questions answered throughout this research.

To briefly enumerate the rights accommodated by the notion of "intellectual property rights" at an international level, one can resort to Article 1(2) in conjunction with its Sections 1–7 of the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPs).<sup>22</sup> These seven

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<sup>22</sup> Michael W. Carroll, *A Framework for Tailoring Intellectual Property Rights*, in THE STRUCTURE OF INTELLECTUAL PROPERTY LAW: CAN ONE SIZE FIT ALL? 15, 45 (Annette Kur & Vytautas Mizaras eds., 2011); COOK & GARCIA, *supra* note 12, at 1–2; CHROCZIEL ET AL., *supra* note 3, at 99. The

sections encompass: copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits, and protection of undisclosed information.

For the sake of completeness, approaches taken by national IP systems may be totally different as regards non-industrial rights, such as copyright. Notably, they may have significant commercial value as well. In stark contrast with countries of common law tradition like the United States, civil law systems do not acknowledge disposition of moral rights attributed to the author of a protected work. As a result, they can arguably neither be arbitrated.<sup>23</sup>

- i. *Registered* stands for IP rights administered by competent public authorities and, accordingly, announced to the public upon registration. In other words, exclusionary powers that are granted by state-bodies after applying statutory criteria in the course of a substantive and formal process of examination. Precisely, this category of IP rights is enforceable with *erga omnes* effect—*i.e.* against third parties—due to their public conferral and subsequent registration. Disruptive non-arbitrability policies discussed hereinafter largely affect validity issues concerning these registered rights. In short, an “[a]rbitrator is somehow circumventing the public grant system.”<sup>24</sup>

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*Agreement on Trade-Related Aspects of Intellectual Property Rights* was incorporated by Annex 1C of the *Marrakesh Agreement Establishing the World Trade Organization*, signed on 15 Apr. 1994, constituting an integral part of the World Trade Organization. Therefore, all 164 WTO member states including the European Union by Decision 94/800/EU of the Council of 22 Dec. 1994 have today adopted the TRIPs. See also Anna P. Mantakou, *Substantive Rules on Arbitrability: Chapter 13—Arbitrability and Intellectual Property Disputes*, in *ARBITRABILITY: INTERNATIONAL & COMPARATIVE PERSPECTIVES* 263, 264 (Loukas A. Mistelis & Stavros L. Brekoulakis eds., 2009); COOK & GARCIA, *supra* note 12, at 5–6; see Vertinsky, *supra* note 10, at 268–71 (from an organizational viewpoint based on new institutional economics).

An analysis of the international IP law falls beyond the scope of this research, see PILA & TORREMANS, *supra* note 12, at 27–28 (for a structured overview of the principal sources).

<sup>23</sup> PILA & TORREMANS, *supra* note 12, at 4–5; COOK & GARCIA, *supra* note 12, at 52–53; CHROCZIEL ET AL., *supra* note 3, at 15, 18; Steven A. Certilman & Joel E. Lutzker, *Arbitrability of Intellectual Property Disputes*, in *ARBITRATION OF INTERNATIONAL INTELLECTUAL PROPERTY DISPUTES* 72, 78 (Thomas D. Halket ed., 2012).

<sup>24</sup> William Grantham, *The Arbitrability of International Intellectual Property Disputes*, 14 BERKELEY J. INT’L L. 173, 199 (1996).

To sum up, (1) registered patents protect technical inventions and exceptionally their applications. They allow holders to exclusionary use and commercialize the protected innovation for 20 years, subject to exceptions. For instance, uses for academic research and experimentation purposes are, to a certain extent, not legally encumbered. (2) Utility models follow the same rationale, covering technology innovations involving a less significant inventive step. Accordingly, the right-holder is entitled for a shorter period of time. (3) Registered industrial designs grant exclusionary use and commercialization for a period of 25 years. In contrast, whenever designs are not registered, fewer uses are reserved to the right-holder for a maximum period of 3 years. Finally, (4) trademarks, which are usually registered, vest their holders with an exclusionary sign of identification. This confers indefinite signaling of goods and services in the market, subject to limited exceptions. For instance, third parties' legitimate use of own names.<sup>25</sup>

- ii. As to *industrial*,<sup>26</sup> the relevant IP rights (patents, utility models, registered designs and trademarks) can be grouped under two categories: identification and innovation IP rights. Both categories relate to the vast majority of companies' operations worldwide.<sup>27</sup> The former, identification, refers to those rights capable of signaling companies' products and services in a given market as well as to distinguish them from those of competitors. The latter is the temporal protection of concepts for technological

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<sup>25</sup> PCT Patent Prosecution Highway (PCT-PPH) Pilot Programs, PCT Newsletter (World Intell. Prop. Org., Geneva, Switz.) Apr. 2018, at 7 (see specifically the "Practical Advice" subsection, "Seeking utility model protection instead of patent protection."); Grantham, *supra* note 24, at 196; and from the IP law perspective, PILA & TORREMANS, *supra* note 12, at 5–6; Carroll, *supra* note 22, at 25–26 (discussing whether "one-size-fits-all" IP systems, mainly laid down by the TRIPs, should be replaced by tailored IP rights).

<sup>26</sup> PILA & TORREMANS, *supra* note 12, at 4, 7 n.6 (defining "[i]n the terminology of European law, all but copyright and related rights fall within the general category of *industrial property rights*" (emphasis added)). However, designs are regarded as a hybrid of copyright, patent and even trademarks.

<sup>27</sup> *Id.* at 4 (considering that industrial property rights are "[d]istinguished by their concern with industrial or commercial subject matter and activities").

developments as regards the state-of-the-art.<sup>28</sup> In today's economic reality, both sub-groups of industrial IP rights are somehow present, when not central, in many of the cases adjudicated by international commercial arbitral tribunals.<sup>29</sup>

### *B. Incidentally Adjudicating on IP Validity Defenses*

It is now relevant to establish a correlation between categories of IP disputes, applicable IP laws and arbitration. As a broader point apropos of applicable IP laws, it is crucial to stress the problems created by IP territoriality. The concept refers to three aspects: conferral of IP rights under national laws; restriction of legal effects of IP rights to the territory of their conferring state; and enforcement of foreign IP rights by the courts of the conferring state applying their domestic law. The minimum standards of the well-known *Paris Convention for the Protection of Industrial Property* (1883, as revised in 1979) came in response to IP territoriality.<sup>30</sup>

Concerning the above-identified rights, two types of disputes may be subject to international commercial arbitration: (a) creation of rights; and (b) exploitation of rights.<sup>31</sup> Despite the fact that creation disputes may equally pose difficult questions of arbitrability concerning ownership, only the latter is discussed in this research. This is justified because exploitation disputes are those directly linked with the cross-border commercial handling of such registered IP rights. In other words, exploitation disputes are the

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<sup>28</sup> See *id.* at 17 (for an overview on the purposes of granting industrial IP rights); *id.* at 15–19 (for the historical backgrounds of patents); *id.* at 19–20 (for trademarks (signs of commercial origin)). In economic terms, see Merges, *supra* note 5, at 1487–89; ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT* 7 (3d ed. 2007).

<sup>29</sup> For instance, the statistics of WIPO Arbitration and Mediation Center between 2009–2017 illustrate that 45% of the cases involved industrial IP rights, mainly patents (28%) and trademarks (17%), see WIPO, *supra* note 13.

<sup>30</sup> The Paris Convention for the protection of industrial property (1883) counts 177 contracting states. It was revised in many occasions: at Brussels (1900), Washington (1911), The Hague (1925), London (1934), Lisbon (1958) and Stockholm (1967), and amended in 1979 (Paris Union). For a comprehensive analysis of the Paris Convention updated on 13 Apr. 2018; see WIPO, *Paris Convention for the Protection of Industrial Property*, WORLD INTELLECTUAL PROP. ORG., <http://www.wipo.int/treaties/en/ip/paris/> (last visited Feb. 24, 2019). See also PILA & TORREMANS, *supra* note 12, at 31–33.

<sup>31</sup> Mantakou, *supra* note 22, at 269–70; COOK & GARCIA, *supra* note 12, at 11 (Pointing out that such classification is not always neat: “[a]greements that address both ownership and exploitation together may be encountered.”).

litigated outcome of the transactional environment hereby analyzed, namely international IP coordination.

Furthermore, exploitation disputes typically arise out of, or in connection with, different kinds of IP contracting, on which this research is mainly focused. Patent or trademark license agreements and R&D cooperation contracts are only two examples.<sup>32</sup> Noticeably, this IP contracting behind an exploitation case is what usually provides a private dispute resolution body with the authority to rule on the dispute. For most of the scenarios examined hereby, the underlying agreement included an arbitration clause.<sup>33</sup>

Along the broad spectrum of exploitation disputes potentially swept into arbitration, matters that will be decided by arbitral tribunals can be classified in three categories: (i) contractual rights, obligations and breaches; (ii) tortious infringements; and (iii) validity claims.

- i. *Contractual issues* are the matters typically known by international arbitral tribunals. For example, these represent questions of interpretation, performance or breaches of agreements for the transfer of technology and commercialization of granted IP rights. None of them raise doubts as regards non-arbitrability policies since they have a clear contractual basis. With reference to the law, the relevant conflict-of-law rules determine the applicable contract law in the rare cases of absence of a choice-of-law clause in the agreement.<sup>34</sup> For example, Article 4 of Rome I Regulation, 2008 O.J. (L177) 6 (EC), on the law applicable to contractual obligations (Rome I) provides EU member states with such a set of rules.<sup>35</sup>

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<sup>32</sup> See, e.g., WIPO, *Intellectual Property Agreement Guide*, WORLD INTELLECTUAL PROP. ORG., <https://www.wipo.int/amc/en/center/specific-sectors/rd/ipag/> (last visited Feb. 24, 2019) (for templates of IP agreements). See also CHROCZIEL ET AL., *supra* note 3, at 94 (Identifying not only license agreements but other contractual manifestations such as “[a] dispute between joint venture partners concerning the value of IP contributed to a joint venture.”); Grantham, *supra* note 24, at 197 (for a hypothetical).

<sup>33</sup> COOK & GARCIA, *supra* note 12, at 52–53; *but cf. infra* point (ii) “Tort Issues.”

<sup>34</sup> Certilman & Lutzker, *supra* note 23, at 82 n.103 (discussing an Interim Award in an ICC arbitration case (case no. 6097, 1989) where parties (a Japanese claimant and a German defendant) agreed that interpretation of the contract was governed by Japanese law); Adamo, *supra* note 13, at 10; Grantham, *supra* note 24, at 188–89; Mantakou, *supra* note 22, at 264; De Miguel Asensio, *supra* note 13, at 83, 101; COOK & GARCIA, *supra* note 12, at 45, 74; De Werra, *supra* note 13, at 366.

<sup>35</sup> Rome I Regulation, 177/6 2008 O.J. (L177) 6 (EC) (on the law applicable to contractual obligations). Any further discussion about choice-of-law falls beyond the present research. See Franco



To illustrate, Article 61 WIPO Arbitration Rules sets forth:

- (a) The Tribunal shall decide the substance of the dispute in accordance with the law or rules of law chosen by the parties. Any designation of the law of a given State shall be construed, unless otherwise expressed, as directly referring to the substantive law of that State and not to its conflict of laws rules. Failing a choice by the parties, the Tribunal shall apply the law or rules of law that it determines to be appropriate. In all cases, the Tribunal shall decide having due regard to the terms of any relevant contract and taking into account applicable trade usages. [. . .].<sup>36</sup>
- ii. *Tort issues* encompass infringement of granted IP rights. It is commonly upheld that torts affecting IP rights are arbitrable if the parties want to make them so. This consent occurs, on the one hand, if the relevant parties enter into an IP-exploitation agreement whose arbitration clause was drafted broadly enough to accommodate torts conflicts. That can be achieved by including in the arbitration clause formulations such as “all disputes arising out of” or “all disputes in connection with.”<sup>37</sup> On the other hand, admittedly rarer, when after an infringement has occurred, concerned parties agree to submit the lawsuit to international arbitration. A major motivation for this is the possibility of solving the tort dispute in a single proceeding. This becomes particularly relevant for multijurisdictional or global IP litigation since parties

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Ferrari, *From Rome to Rome via Brussels, Remarks on the Law Applicable to Contractual Obligations Absent a Choice by the Parties*, 73 RABELS ZEITSCHRIFT FÜR AUSLÄNDISCHES UND INTERNATIONALES PRIVATRECHT 750, 769 (2009); Ulrich Magnus, *Article 4 Rome I Regulation: The Applicable Law in the Absence of Choice*, in ROME I REGULATION: THE LAW APPLICABLE TO CONTRACTUAL OBLIGATIONS IN EUROPE 27, 45 (Franco Ferrari & Stefan Leible eds., 2009) (for an analysis of Article 4 compared with the Proposal for the Rome I Regulation).

<sup>36</sup> WIPO, *WIPO Arbitration Rules Article 61*, WORLD INTELLECTUAL PROP. ORG., <https://www.wipo.int/amc/en/arbitration/rules/index.html> (last visited Mar. 6, 2019).

<sup>37</sup> Cf. ICC, *Arbitration Clause*, INT’L CHAMBER OF COM., <https://iccwbo.org/dispute-resolution-services/arbitration/arbitration-clause/> (last visited Feb. 24, 2019) (for the ICC’s Standard Arbitration Clause); Irene Welser & Susanne Molitoris, *The Scope of Arbitration Clauses or All Disputes Arising out of or in Connection with this Contract*, in AUSTRIAN YEARBOOK ON INTERNATIONAL ARBITRATION 17, 24 (Klausegger et al. eds., 2012) (“[a]rbitration agreements covering *all disputes out of a contract* [. . .] encompass claims based on unjust enrichment and tort if the contractual violation and the harmful action are connected in a way that they must be seen as forming a unity.” (Emphasis added)).



can primarily avoid contradictory rulings, save time, reduce costs and secure market position.<sup>38</sup>

Arguably, the type of arbitration agreement also influences the applicable law to the tortious dispute. Whenever the parties involved in a lawsuit of torts entered into an agreement containing a substantive choice-of-law clause, the chosen substantive law will govern the dispute of torts. On the contrary, if parties later decide to submit the dispute to arbitration, they may or may not agree on a substantive tort law.<sup>39</sup> If a substantive law is not chosen, the applicable law is determined by the set conflict-of-laws rules, based upon the principle *Lex Loci Protectionis*. This refers to the law of the jurisdiction for which protection is sought.

For instance, it is established for EU member states by the recital 26 to the Rome II Regulation, 2007 O.J. (L864) (EC), on the law applicable to non-contractual obligations (Rome II):<sup>40</sup>

Regarding infringements of intellectual property rights, the universally acknowledged principle of the *lex loci protectionis* should be preserved. For the purposes of this Regulation, the term ‘intellectual property rights’ should be interpreted as meaning, for instance, copyright, related rights, the *sui generis* right for the protection of databases and industrial property rights.<sup>41</sup>

iii. *Validity issues*<sup>42</sup> concerning registered industrial IP rights constitute the roadblock of commercial arbitration in an

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<sup>38</sup> BLACKABY ET AL., *supra* note 13, at 72 (explaining that an agreement to arbitrate might be concluded by two main venues: an arbitration clause (*ex ante*) or a submission agreement (*ex post*)). See Mantakou, *supra* note 22, at 264; COOK & GARCIA, *supra* note 12, at 11, 46 (regarding IP law). For the economics of *ex ante* and *ex post* ADR—mainly of commercial arbitration—see Steven Shavell, *Alternative Dispute Resolution: An Economic Analysis*, 24 J. LEGAL STUD. 38, 42–43, 45–46 (1996) (pointing out that submission agreements may arrive too late to create desirable incentives compared to arbitration clauses).

<sup>39</sup> Certilman & Lutzker, *supra* note 23, at 82 n.103 (discussing an Interim Award in an ICC arbitration case (case no. 6097, 1989) where parties agreed that German law was the one applicable to infringement issues); COOK & GARCIA, *supra* note 12, at 74.

<sup>40</sup> ROME II REGULATION, 2007 O.J. (L864) (EC) (on the law applicable to non-contractual obligations) [hereinafter ROME II]; COOK & GARCIA, *supra* note 12, at 10 n.9; and De Werra, *supra* note 13, at 368.

<sup>41</sup> ROME II, *supra* note 40, at ¶ 26.

<sup>42</sup> The term “[in]validity” also refers to “revocation,” “cancellation” or “enforceability.” These are alternative concepts adopted in different jurisdictions referring to the same challenge to existence of an

international context for IP contracting. This basically encompasses claims against the valid registration or subsistence of an IP right. Many jurisdictions adopt non-arbitrability policies, on grounds of public policy and third-party protection, that affect both agreements to arbitrate and resulting awards.<sup>43</sup> This occurs irrespective of whether a validity claim was only ancillary claimed. In stark contrast, invalidity claims against other non-registered IP rights do not raise major arbitrability concerns, except for moral rights in copyright.

As to applicable laws, it must be stressed that while a license agreement commonly provides for a substantive choice-of-law clause, the law of the jurisdiction according to which a registered IP right is granted generally governs the questions of validity. The U.S. Court of Appeals for the Federal Circuit considered this in the IP case *Deprenyl Animal Health, Inc. v. University of Toronto Innovations Foundation*, arguing that the arbitral tribunal seated in Canada should, if patent validity was found to fall within the agreement to arbitrate, apply U.S. patent law.<sup>44</sup>

To sum up, all exploitation disputes over registered industrial IP rights resulting from commercial contracting are, in principle, arbitrable.<sup>45</sup> This principally includes contractual and infringement issues, since there is an outstanding exception as to invalidity of publicly registered industrial IP rights. Consequently, arbitration of IP disputes becomes extremely complicated whenever non-arbitrable questions are raised together with, or

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IP right. Matthew A. Smith et al., *Arbitration of Patent Infringement and Validity Issues Worldwide*, 19 HARV. J.L. & TECH 299, 304; GRANTHAM, *supra* note 24, at 199 (for a hypothetical).

<sup>43</sup> See *infra* Section II.C.3 (the arguments for non-arbitrability policies); Certilman & Lutzker, *supra* note 23, at 71, 78 (stating: “[t]here should be less resistance to arbitrability of copyright disputes globally.”).

<sup>44</sup> In the argumentation, the court falls back on the leading decision *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 639 n.21 (1985) (concerning application of U.S. antitrust laws). See also Thomas Halket, *Choice of Law in International Intellectual Property Arbitrations: A Three-Dimensional Chess Game?*, in CONTEMPORARY ISSUES IN INTERNATIONAL ARBITRATION AND MEDIATION: THE FORDHAM PAPERS 2008, at 199, 215–18 (Arthur Rovine ed., 2009). Cf. De Werra, *supra* note 13, at 367.

<sup>45</sup> De Werra, *supra* note 13, at 357–59; Smith et al., *supra* note 42, at 304.

preliminarily to, any arbitrable matter.<sup>46</sup> This is exactly the case of the *validity defenses* examined in this research. When asserted in the course of international IP arbitration, the tribunal has to incidentally adjudicate invalidity in order to decide on the principal contractual or tortious issues over patents, utility models, registered designs or trademarks. Defendants challenge the validity of the underlying right with the idea that a contract upon an invalid right cannot be breached or that invalid IP rights cannot be infringed. Such litigation strategy is mainly aimed at defending themselves from the contractual or tortious claims; nevertheless, it brings about significant consequences as discussed *infra*.<sup>47</sup>

In practice, given that many international IP disputes which are adjudicated by arbitral tribunals arise out of license agreements, parties may be estopped from asserting the invalidity of the IP right in dispute. Such limitations occur whenever license contracts incorporate a “non-contest” (or “no-challenge”) clause. Notably, however, they are not enforceable under certain laws.<sup>48</sup>

### C. Non-Arbitrability Policies at the Enforcement Stage

#### 1. Remarks on Arbitrability and its Several Stages of Control

Party autonomy is self-regulation, the most basic characteristic of arbitration. In the realm of contract law, party autonomy is captured by freedom of contract.<sup>49</sup> According to the laws of many countries, freedom of contract finishes where public interest commences.<sup>50</sup> Public interest is

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<sup>46</sup> COOK & GARCIA, *supra* note 12, at 52 (“[o]nly disputes involving the invalidity of registered IPR are likely to give rise to such concerns [arbitrability.]”); Smith et al., *supra* note 42, at 304.

<sup>47</sup> Certilman & Lutzker, *supra* note 23, at 76 (stressing that: “[w]hile often masquerading as, or intertwined with, causes of action for infringement [. . .] can implicate validity concerns”); De Miguel Asensio, *supra* note 13, at 88–90, 94; Mantakou, *supra* note 22, at 269–70 (“[v]ery often, issues involving, for example, validity or ownership may arise in the form of preliminary issues in the context of a dispute involving a license agreement.”); COOK & GARCIA, *supra* note 12, at 7; CHROCZIEL ET AL., *supra* note 3, at 14, 94; JAN PAULSSON, THE IDEA OF ARBITRATION 119 (2013) (“[t]o prevent respondents from using unmeritorious protestations of invalidity as a delaying tactic.”).

<sup>48</sup> COOK & GARCIA, *supra* note 12, at 53.

<sup>49</sup> SCHWENZER, HACHEM & KEE, *supra* note 16, at 64–67, paras. 4.47–4.63.

<sup>50</sup> See, e.g., Banque Arabe et Int'l d'Inv. v. Inter-Arab Inv. Guarantee Corp., 11 MEALEY'S INT'L ARB. REP. 1 (1994); Certilman & Lutzker, *supra* note 23, at 55; BLACKABY ET AL., *supra* note 13, at 71; COOK & GARCIA, *supra* note 12, at 50; CHROCZIEL ET AL., *supra* note 3, at 5, 29.

essentially enshrined in mandatory rules, which sanction contracts by declaring them non-enforceable, usually on grounds of substantive invalidity.<sup>51</sup>

In international commercial IP arbitration, agreements to arbitrate and resulting awards are scrutinized against applicable mandatory contract and arbitration legislation, which set forth the substantive and formal validity requirements.<sup>52</sup> Among these mandatory rules, there is a particular limit on freedom of contract as regards commercial arbitration: the doctrine of non-arbitrability, also known as objective arbitrability.<sup>53</sup>

This refers to the determination by law of which matters in a dispute, under the rules of a given jurisdiction, that can be heard before and adjudicated by an arbitral tribunal. On the flip side, are matters that are to be exclusively dealt with by state courts. In a nutshell, states allow, by means of their mandatory law on allocation of jurisdiction,<sup>54</sup> to refer only a limited

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<sup>51</sup> See, e.g., Article 6(3) C.C. (As this research is partly set around the Spanish legal system, the most fitting example here is Article 6(3) of the Spanish Civil Code, which reads: “3. Los actos contrarios a las normas imperativas y a las prohibitivas son nulos de pleno derecho, salvo que en ellas se establezca un efecto distinto para el caso de contravención.” “[a]cts contrary to mandatory and prohibitive rules shall be null and void by operation of law, save where such rules should provide for a different effect in the event of violation.” Official translation, <http://derechocivil-ugr.es/attachments/article/45/spanish-civil-code.pdf>].)

<sup>52</sup> Cour de cassation [Cass.] [supreme court for judicial matters] 1st civ., Sept. 26, 2012, No. 11-26022 (Fr.) (*Banque Privée Edmond de Rothschild Europe* case as an example of substantive invalidity of an agreement, concerning “one-direction” arbitration clauses). For formal invalidity—and thus ineffectiveness under Article II of the New York Convention—see the well-known decision *Kahn Lucas Lancaster v. Lark International Ltd.*, 186 F.3d 2010 (2d Cir. 1999). In the literature see BORN (2012), *supra* note 13, at 73–76 (as regards formal validity) 77–86 (regarding the substantive validity) 82–86 (for non-arbitrability doctrine).

<sup>53</sup> Grantham, *supra* note 24, at 179; De Werra, *supra* note 13, at 356; Ulrich Haas, *Commentary on Article V New York Convention*, in PRACTITIONER’S HANDBOOK ON INTERNATIONAL ARBITRATION 483, 519 (Frank-Bernd Weigand ed., 2002); Smith et al., *supra* note 42, at 305; Joachim Münch, § 1030 ZPO, in MÜNCHENER KOMMENTAR ZUR ZIVILPROZESSORDNUNG (Wolfgang Krüger & Thomas Rauscher eds., 5th ed. 2017) (about “Schiedsfähigkeit”); Certilman & Lutzker, *supra* note 23, at 55–56; CHROCZIEL ET AL., *supra* note 3, at 13; INTERNATIONAL COMMERCIAL ARBITRATION: A TRANSNATIONAL PERSPECTIVE 124 (Várady et al. eds., 6th ed. 2015) (pointing out the broader meaning that is sometimes given in the United States to non-arbitrability: “[c]overing all questions relating to the jurisdiction of the arbitral tribunal.”); in this regard, see *infra* Section II.C.4.c.

<sup>54</sup> For the mandatory character of these laws when interacting with arbitration agreements: *Carr & Anor v. Gallaway Cook Allan* [2014] NZSC 75 (N.Z.). It must be noticed that non-arbitrability, as explained in Section II.C.4, *infra*, can be determined either by the arbitral law itself or by the applicable IP-law. See also Marc Blessing, *Mandatory Rules of Law versus Party Autonomy in International Arbitration*, 14 J. INT’L ARB. 23, 27 (1997).

range of disputes to arbitration.<sup>55</sup> As a *creature of contract*, arbitration is curtailed depending on the nature and subject matter of the dispute at hand. For instance, non-arbitrability is ultimately reflected in criminal or divorce cases. In commercial disputes, it has been usually upheld concerning: (a) competition and antitrust claims, (b) securities claims, (c) certain IP disputes (as discussed here), or (d) bankruptcy.<sup>56</sup>

Therefore, although parties to an IP transaction might consider it mutually beneficial to agree to an arbitration proceeding to solve any potential disputes,<sup>57</sup> this agreement may end up not being effective to a certain extent (*i.e.* partial invalidity), if at all. Even if the parties enter into a valid arbitration agreement having fulfilled the substantive and formal requirements under the chosen contract law, or the applicable one according to conflict-of-law rules pursuant to the *Separability Doctrine*,<sup>58</sup> the arbitration agreement will not be effective on grounds of invalidity. This results from the mandatory provisions on allocation of jurisdiction embodied

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<sup>55</sup> Zivilprozessordnung [ZPO] [Code of Civil Procedure], § 1030(1) (Ger.) (for an illustrative example); Dennis Solomon, *The Interpretation and Application of the New York Convention in Germany*, in RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRAL AWARDS: THE INTERPRETATION AND APPLICATION OF THE NEW YORK CONVENTION BY NATIONAL COURTS 329, 364–65 (George A. Berman ed., 2017) (for a report of the application under the New York Convention).

<sup>56</sup> BORN (2012), *supra* note 13, at 83–84; COOK & GARCIA, *supra* note 12, at 51; PAULSSON, *supra* note 47, at 117, 123; Certilman & Lutzker, *supra* note 23, at 56.

<sup>57</sup> See a general analysis of ADR mechanisms (but mainly of arbitration) as mutually beneficial agreements in Shavell, *supra* note 38, at 42–46, 43 (for an example); LOUIS KAPLOW & STEVEN SHAVELL, CONTRACTING 11–12 (2004). Regarding desirable enforceability of such agreements, see the limitations outlined in Shavell, *supra* note 38, at 45; *see also* Section III.A (*et seq.*), *infra*.

<sup>58</sup> *See, e.g.*, Article 16(1) (2d and 3d sent.) Model Law; this research falls short to discussing *Separability Doctrine*; *see* John J. Barceló III, *Who Decides the Arbitrators' Jurisdiction? Separability and Competence-Competence in Transnational Perspective*, 36 VAND. J. TRANSNAT'L L. 1115, 1116 (2003); COOK & GARCIA, *supra* note 12, at 55.

in the arbitration law<sup>59</sup> and/or in the applicable IP law.<sup>60</sup> Noticeably, ineffectiveness of an agreement will at best only extend to non-arbitrable matters.

For the sake of clarification, it is not the mandatory nature of rules what *per se* obstructs arbitration, but the public interest and policies that they usually enshrine. Arbitrators have the duty to enforce mandatory rules in private proceedings, like antitrust law.<sup>61</sup> All are illustratively laid down by the New York Convention, whose Article II(1) reads:

1. Each Contracting State shall recognize an agreement in writing under which the parties undertake to submit to arbitration all or any differences which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not, *concerning a subject matter capable of settlement by arbitration*.<sup>62</sup>

Alternatively, but on the same grounds, violation of the mandatory rules on allocation of jurisdiction may lead state courts of the country in which the arbitration was seated to set aside an international award, according to the

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<sup>59</sup> Maria del Pilar Perales Viscasillas, *Arbitrabilidad de los Derechos de la Propiedad Industrial y de la Competencia*, in ANUARIO DE JUSTICIA ALTERNATIVA 11, 40 (2017) (Stating, “[a]n arbitration agreement over a non-arbitrable matter is invalid and the arbitrators cannot render a valid arbitration award.”). Additionally, following BORN (2012), *supra* note 13, at 111, it must be noticed that the reference is not made to domestic (*i.e.* national) civil procedure law but to domestic arbitration law, which also establishes the national legal framework for conducting arbitration at an international level. Arbitration laws worldwide are usually modeled on the Model Law, as exemplified by Karl Hienz Böckstiegel et al., *Part I: Germany as a Place for International and Domestic Arbitrations—General Overview*, in ARBITRATION IN GERMANY: THE MODEL LAW IN PRACTICE 4, 5 (Karl Heinz Böckstiegel, Stefan Kröll & Patricia Nacimiento eds., 2d ed. 2015) (“[f]orty-one sections of the new German arbitration law contained in the 10th Book of the Code of Civil Procedure (§§ 1025–1066 ZPO) are to a large extent a verbatim adoption of the Model Law.”).

<sup>60</sup> See *Sulamerica CIA Nacional de Seguros, S.A. v. Enesa Engenharia S.A.* [2012] EWCA Civ. 638 (UK) (The Court of Appeals, confirming the decision of the High Court of Justice Queen’s Bench Division, considered that the applicable law to the enforcement of the disputed arbitration agreement contained in the insurance policy was the law of the seat of arbitration chosen by the parties, *i.e.*, English law, instead of Brazilian law, which was the law governing the rest of the contract); BORN (2012), *supra* note 13, at 82.

<sup>61</sup> PAULSSON, *supra* note 47, at 133–34; Viscasillas, *supra* note 59, at 45; Blessing, *supra* note 54, at 24; see also *Mitsubishi Motors Corp.*, 473 U.S. at 639 n.21; see *infra* Section II.C.2 (for further discussion).

<sup>62</sup> Convention on the Recognition and Enforcement of International Arbitral Awards Article II(1), June 10, 1958, 21 U.S.T. 2517 [hereinafter New York Convention]; *cf.* Eur. Convention on Int’l Comm. Arb. 1961, Article VI(2), which reads: “[t]he courts may also refuse recognition of an arbitration agreement if under the law of their country the dispute is not capable of settlement.”; *but cf.* CHROCZIEL ET AL., *supra* note 3, at 11.

well-known *Second Look Doctrine*.<sup>63</sup> Finally, a foreign award can also simply be left unrecognized and unenforced at the jurisdiction where enforcement is later sought by the winning party. This occurs under the auspices of the New York Convention, although courts are often unclear whether it is a matter of arbitrability or public policy pursuant to arts. V(2)(a) and (2)(b), respectively:

Recognition and enforcement of an arbitral award may also be refused if the competent authority *in the country where recognition and enforcement is sought* finds that:

- (a) The subject matter of the difference is *not capable of settlement by arbitration under the law of that country*; or
- (b) The recognition or enforcement of the award would be *contrary to the public policy of that country*.<sup>64</sup>

In conclusion, it is evidenced that control of arbitrability may take place in three main stages of every international arbitral proceeding. In addition, and probably more disrupting, an agreement to arbitrate or a resulting award may end up reviewed under different laws:<sup>65</sup>

- i. At the outset, if a party to arbitration files a claim in a state court challenging the enforceability of an arbitration clause on grounds of non-arbitrability of the disputed matters, substantive and formal issues of the agreement to arbitrate will be subject to the choice-of-law clause, if any. Instead, non-arbitrability is based on mandatory rules on allocation of jurisdiction contained in IP laws or the arbitration framework of the state where the arbitration proceedings are seated. Notwithstanding this, parties' challenges to

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<sup>63</sup> See the leading decisions: *C-126/97, Eco Swiss China Time Ltd. v. Benetton Int'l NV*, 1999 E.C.R. I-3055 (concerning competition law); *Mitsubishi Motors Corp.*, 473 U.S. at 639 n.21 (also concerning competition law). The latter upheld antitrust claims as arbitrable in international proceedings because U.S. courts will have, at the subsequent stage of enforcement, an opportunity to "second look" and to ensure that the legitimate interest in the compliance with antitrust laws has been addressed in arbitration. Therefore, the U.S. Supreme Court adopted a deferential position towards arbitrability doctrine decided by the arbitral tribunal at the commencement of the proceedings.

<sup>64</sup> Article V(2)(a) & (b) New York Convention (emphasis added); UNCITRAL MODEL LAW Article 1(5) (U.N. Comm'n on Int'l Trade L.) reads in similar terms [hereinafter UNCITRAL MODEL LAW].

<sup>65</sup> L. Yves Fortier, *Arbitrability of Disputes*, in *GLOBAL REFLECTIONS ON INTERNATIONAL LAW, COMMERCE AND DISPUTE RESOLUTION: LIBER AMICORUM IN HONOUR OF ROBERT BRINER* 269, 274–79 (Asken et al. eds., 2005); and COOK & GARCIA, *supra* note 12, at 53–55; for control of arbitrability on public policy grounds see Section II.C.3, *infra*.

arbitral jurisdiction are procedurally limited. Such submissions are only possible if they are lodged no later than the constitution of the tribunal or when a preliminary ruling on jurisdiction is challenged before the courts of the seat, both pursuant to arts. 6 and 16(3) of the Model Law as adopted by many national laws.<sup>66</sup>

Preferably, any control over arbitrability is usually decided by the arbitral tribunal itself. This results from the doctrine of *Kompetenz-Kompetenz*.<sup>67</sup> Here again, parties are generally curtailed by procedural law from submitting challenges to arbitral tribunals' jurisdiction any later than by the submission of the defense statement.<sup>68</sup> The tribunal's own decisions on competence are to be conceptually seen as a trade-off with the above-mentioned *Second Look* doctrine. Therefore, the more jurisdictional leeway arbitrators are granted with at the commencement of the proceedings, the stricter the review of state courts will be at a later phase (of award recognition and enforcement)—and vice versa.

- ii. Arbitrability is also reviewed at the final stage of recognition and enforcement of the resulting award. On the one hand, by filing an

<sup>66</sup> In this regard, *see, e.g.*, Zivilprozessordnung [ZPO] [Code of Civil Procedure], § 1032(2) (Ger.) (“(2) Bei Gericht kann bis zur Bildung des Schiedsgerichts Antrag auf Feststellung der Zulässigkeit oder Unzulässigkeit eines schiedsrichterlichen Verfahrens gestellt werden.” [“Until the arbitral tribunal has been formed, a petition may be filed with the courts to have it determine the admissibility or inadmissibility of arbitration proceedings.”] Official translation, *Code of Civil Procedure*, BUNDESMINISTERIUM DER JUSTIZ UND FÜR VERBRAUCHERSCHUTZ, [https://www.gesetze-im-internet.de/englisch\\_zpo/englisch\\_zpo.html](https://www.gesetze-im-internet.de/englisch_zpo/englisch_zpo.html) (last visited Feb. 26, 2019).)

<sup>67</sup> For all see Cour de cassation [Cass.] [supreme court for judicial matters] 1<sup>e</sup> civ. June 26, 2001, Bull. Civ. I No. 287 (Fr.) (*Am. Bureau of Shipping v. Jules Verne et al.*, in which the French highest court, stating that the principle of validity of international arbitration agreements and the *Kompetenz-Kompetenz* principle are material rules of French international arbitration law; upholding that French courts cannot conduct a substantive, in-depth examination of the arbitration agreement. The exception is whenever the agreement is void or manifestly inapplicable); *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 942 (1995). In the positive law, UNCITRAL MODEL LAW Article 16(1) (U.N. Comm’n on Int’l Trade L.) (see first sentence). In the literature, CHROCZIEL ET AL., *supra* note 3, at 25; Certilman & Lutzker, *supra* note 23, at 61, 63 (distinguishing “Positive Kompetenz-Kompetenz” and “Negative Kompetenz-Kompetenz”—being the latter only operable in cases where a challenge before a state court is filed at the outset of the dispute resolution); BORN (2012), *supra* note 13, at 52–53. Any further discussion about *Kompetenz-Kompetenz* falls well beyond the scope of the present research. For an accurate analysis at an international level see Barceló, *supra* note 58, at 1116, 1122 (*et seq.*).

<sup>68</sup> UNCITRAL MODEL LAW Article 16(2) (U.N. Comm’n on Int’l Trade L.); Barceló, *supra* note 58, at 1115, 1118.



action in the courts of the seat with the purpose of enforcing or, on the contrary, setting aside an award, this is in accordance with Article 36(2)(b)(i) in conjunction with Article 6 of the Model Law, which takes into account the non-arbitrability policy as adopted by the law of the seat.<sup>69</sup> If non-arbitrability arguments finally succeed, the award will be annulled and, in principle, deemed without effect worldwide.<sup>70</sup>

On the other hand, during the proceedings aimed at recognizing and enforcing a foreign award elsewhere, non-arbitrability policies can either be raised as a defense by the award-debtor or even acknowledged *ex officio* by the judge. Conspicuously, the law of the seat is no longer relevant but the law of the jurisdiction where recognition and enforcement of the award is sought is. This is provided in the above-excerpted Article V(2)(a) of the New York Convention.<sup>71</sup>

- iii. A third, intermediate stage for control over arbitrability is available when a party seeks to plead in parallel proceedings in state courts. This is the case if national proceedings are commenced later than an international arbitration, which is thus not stayed.<sup>72</sup> This scenario, however, should not occur often *provided that* state courts

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<sup>69</sup> The limited grounds for vacating and award include: “[t]he subject matter of the dispute was not capable of settlement by arbitration under the law of the state,” as set forth by UNCITRAL MODEL LAW Article 34(2)(b)(i); see COOK & GARCIA, *supra* note 12, at 58–59; CHROCZIEL ET AL., *supra* note 3, at 2–3. Cf. the grounds laid down in Eur. Convention on Int’l Comm. Arb. 1961, Article IX(1), as pointed out by LOUISE HAUBERG WILHELMSEN, INTERNATIONAL COMMERCIAL ARBITRATION AND THE BRUSSELS I REGULATION 137–38 (2018).

<sup>70</sup> Concerning the jurisdiction in which the award is to be set aside see *Electric Corp. v. Bidas S.A. Petrolera*, 745 F. Supp. 172 (S.D.N.Y. 1990); in the literature, BORN (2012), *supra* note 13, at 109–10. Regarding cessation of the legal existence of an award as well as exceptional international recognition of annulled awards see HOF Amsterdam 28 Apr. 2009 (Yukos Capital/Rosneft) (Neth.); cf. BORN (2012), *supra* note 13, at 338–341. For the applicable law, see the discussion as follows.

<sup>71</sup> Haas, *supra* note 53, at 486–87 (making clear that the grounds for denial are exhaustive, thus a national law cannot provide for additional ones. However, the author considers the debate on whether state courts have discretion to apply them.); Certilman & Lutzker, *supra* note 23, at 60; COOK & GARCIA, *supra* note 12, at 59; Maria del Pilar Perales Viscasillas, *Some Specific Issues about Arbitrability in Spain: Back to the Past?*, LXV ANNALS OF THE FACULTY OF LAW IN BELGRADE, BELGRADE L. REV. 28, 31 (2017); CHROCZIEL ET AL., *supra* note 3, at 27.

<sup>72</sup> See UNCITRAL MODEL LAW Article 8(2); PAULSSON, *supra* note 47, at 78. The constellation of scenarios concerning parallel proceedings and jurisdictional issues, on grounds of arbitrability before the enforcement of an award, is further discussed in Section III.D.2.c, *infra*.

must refer parties to the IP arbitration proceedings upon petition by the defendant under Article II(3) of the New York Convention. Otherwise, parties assume a high risk of an inconsistent duplicity of rulings. Notwithstanding, when deciding on the referral, the state court may take into account non-arbitrability arguments.<sup>73</sup>

Article II(3):

[t]he court of a Contracting State, when seized of an action in a matter in respect of which the parties have made an agreement within the meaning of this article, shall, at the request of one of the parties, refer the parties to arbitration, unless it finds that the said agreement is null and void, inoperative or incapable of being performed.

2. *Multiplicity of Jurisdictions*

The traditional approach to arbitrability is almost exclusively focused on any control over agreements and resulting awards by courts of the seat. As argued in this research, this focus is incorrectly put, due to its exclusive character, not to its substantive importance. Intuitively, this so-called classic view can be explained, on the one hand because IP disputes are only in recent decades largely surpassing national borders. On the other hand, parties tend to agree on successful arbitration agreements drafted from a short-sighted standpoint.

An example could be a practical note on *factors that parties should consider when drafting an arbitration clause in a patent license agreement* under U.S. law. Out of seven pages, only one paragraph at the very end addresses the international enforcement of a resulting award.<sup>74</sup>

“Short-sighted” accommodates a basic assumption that market-players only have in mind the two threats posed by the chosen place of arbitration when drafting an arbitration clause for an IP contract. First, scrutiny over an

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<sup>73</sup> In tune with this, see UNCITRAL MODEL LAW Article 8(1) as adopted by Zivilprozessordnung [ZPO] [Code of Civil Procedure], § 1032(1) (Ger.); COOK & GARCIA, *supra* note 12, at 58; CHROCZIEL ET AL., *supra* note 3, at 26–27, 91; Adamo, *supra* note 13, at 21. Cf. *infra* Section III.D.2.a.b (for post-award revocation of rights and risk of contradicting *inter-partes* awards and *erga omnes* judgements).

<sup>74</sup> Jeffrey M. Prokop, Alex V. Chachkes & Jamie L. Shookman, *Arbitration Clauses in Patent License Agreements*, PRACTICAL LAW 7 (2017), <http://s3.amazonaws.com/cdn.orrick.com/files/ArbitrationClausesinPatentLicenseAgreements.pdf>. See Mantakou, *supra* note 22, at 271 (Stating: “[d]iversity of national systems with regard to arbitrability of IP disputes are factors which require the parties’ extreme caution in drafting arbitration clauses involving IP issues.”).

arbitration agreement on grounds of substantive and formal validity under the applicable contract law, together with any violation of the arbitrability notion enshrined by the mandatory laws on allocation of jurisdiction. Second, by the same token but down the way of the arbitral procedure, the risk of getting a final award vacated by the courts of, and in accordance with, the law of the seat.

With the traditional approach, a third equivalent—if not far worse—“far-sighted” threat result is seemingly disregarded.<sup>75</sup> A central claim of this research is thus that closer attention must be paid to arbitrability review by state courts from the jurisdiction in which an arbitral award is ultimately sought to be recognized and enforced. This becomes of the utmost importance whenever an award-debtor does not voluntarily comply with the arbitral award. Adjectives “worse” and “far-sighted” are well justified by the following considerations:

- i. Not only do all jurisdictions but also all laws become relevant when adjudicating arbitrability. Regarding the former, although international arbitration is purportedly a centralized mechanism of dispute resolution globally, unity of proceedings is more than doubtful.<sup>76</sup> Even if an award does not contravene non-arbitrability policies at the chosen place of arbitration, there is no guarantee for the award-creditor that due enforcement will be granted elsewhere. Furthermore, resorting to *double exequatur* is not possible either. In Europe, for example, the recast Regulation (EU) no. 1215/2012 of 12 December 2012 prevents litigants from enforcing a judgment that declares an international award enforceable in its country of origin instead of enforcing an award directly. In a nutshell: there is no default jurisdiction to adjudicate arbitrability.<sup>77</sup>

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<sup>75</sup> Grantham, *supra* note 24, at 193–94; De Werra, *supra* note 13, at 375.

<sup>76</sup> See GARY B. BORN, INTERNATIONAL COMMERCIAL ARBITRATION 2816–17 (2d ed. 2014) [hereinafter BORN (2014)]; BORN (2012), *supra* note 13, at 10–11; CHROCZIEL ET AL., *supra* note 3, at 2–3.

<sup>77</sup> CHROCZIEL ET AL., *supra* note 3, at 27 (“[e]ven after an award has been rendered, the question of the arbitrability of IP issues may still arise.”). Beyond Europe, *double exequatur* relies on ever-growing treaties and multilateral conventions on international direct recognition of judgments. See Böckstiegel et al., *supra* note 59, at 48–49.

- ii. As to the laws,<sup>78</sup> a judge who knows about a litigant's request for enforcement of an international award is to apply the domestic mandatory framework on allocation of jurisdiction. This is per Article V(2) of the New York Convention, whose paragraph (a) states "the subject matter of the difference is not capable of settlement by arbitration *under the law of that country*." Perhaps even also under public policy considerations, per Article V(2)(b), non-enforcement will then occur because the state courts of the countries in which enforcement is sought apply a stricter policy on non-arbitrability than the one in the place of arbitration.<sup>79</sup>

On top of that, parties' choice-of-law and choice-of-seat clauses would already be futile at this stage of foreign recognition and enforcement. When concluding an arbitration clause, commercial parties may anticipate arbitrability outcomes by deciding on the substantive law and agreeing upon an arbitration-friendly seat, as provided by Article 20(1) of the Model Law.<sup>80</sup> Courts of the state in which enforcement is later sought, however, will apply their own law.

This opens an overwhelming, and not easily predictable, constellation of potential jurisdictions and corresponding laws to be considered when commercial parties are deciding whether and how to arbitrate future disputes. "Unpredictable" stands for the

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<sup>78</sup> Beyond the specific discussion here, a single international commercial conflict may have vital connections with many different laws. BLACKABY ET AL., *supra* note 13, at 3, 58 (Sorting out four laws as the relevant ones for any international arbitration: "[f]irst, the law that governs the international recognition and enforcement of the agreement to arbitrate. [Second] there is then the law—*lex arbitri*—that governs the actual arbitration proceedings themselves. Next [third] there is the law or set of rules that the arbitral tribunal is required to apply to the substantive matters in dispute [either the underlying contract and/or the arbitration agreement itself]. Finally, [fourth] there is the law that governs the international recognition and enforcement of the award of the arbitral tribunal."); and CHROCZIEL ET AL., *supra* note 3, at 5. It is also worth mentioning here the constellation of laws laid down in Article 61 of the WIPO Arbitration Rules.

<sup>79</sup> CHROCZIEL ET AL., *supra* note 3, at 27; Certilman & Lutzker, *supra* note 23, at 55, 59.

<sup>80</sup> This is another manifestation that a right choice of seat is key in international arbitration. BORN (2012), *supra* note 13, at 85, 105; TIBOR VÁRADY ET AL., INTERNATIONAL COMMERCIAL ARBITRATION: A TRANSNATIONAL PERSPECTIVE 124 (Tibor Várady et al. eds., 6th ed. 2015); Adamo, *supra* note 13, at 23. As a rule, see *Star Shipping AS v. China Nat'l Foreign Trade Trans. Corp.* [1993] 2 Lloyd's Rep. 445 (UK) (about the linkage, on grounds of validity, between an express agreement as to the place of arbitration and an implied choice of a floating proper law).

following two reasons. Countries in which recognition and enforcement will ultimately be necessary are, first, not always anticipable at the time of entering into a contract. Enforcement elsewhere is often economically and legally crucial given the physical location of the defendant's assets or registered office, factual location of the goods, third parties licensors, etc.<sup>81</sup> Second, arbitrability polices on IP disputes are usually not clearly laid down and subject to changes of criteria, as proven by the comparative survey below.

- iii. State courts of the place where award-enforcement is sought may *ex officio* entertain the issue of non-arbitrability, as established in Article V(2)(a) of the New York Convention.<sup>82</sup> This is a key procedural trait with far-reaching strategic consequences worth taking into account when anticipating potential international litigation. It can well amount to a problem of asymmetric information in case one of the parties knowingly sitting in a jurisdiction where courts apply a stringent concept of non-arbitrability.
- iv. Given the multiplicity of laws and jurisdictions subject to unpredictable changes in criteria based on national political or economic needs,<sup>83</sup> there is legal uncertainty looming over commercial parties. If international awards are not recognized and enforced at the destination country, where it really matters for practical reasons, this results in micro- and macro economically devastating consequences.<sup>84</sup> On top of that, this all happens after parties have endured a long and expensive international arbitration

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<sup>81</sup> CHROCZIEL ET AL., *supra* note 3, at 8.

<sup>82</sup> *E.g.*, Article V(2) New York Convention (As an illustrative example. "Recognition and enforcement of an arbitral award may also be refused if the competent authority in the country where recognition and enforcement is sought finds that" in conjunction, for instance, with Zivilprozessordnung [ZPO] [Code of Civil Procedure], § 1059(2)(2) (Ger.), which reads: (2) Ein Schiedsspruch kann nur aufgehoben werden, [. . .] 2. wenn das Gericht feststellt, dass ["An arbitration award may be reversed only if: [. . .] 2. The court determines that."]). In the literature, Böckstiegel et al., *supra* note 59, at 43; CHROCZIEL ET AL., *supra* note 3, at 10; Viscasillas, *supra* note 71, at 31; Haas, *supra* note 53, at 486–87 (presenting the discussion whether a state court has discretion).

<sup>83</sup> Viscasillas, *supra* note 71, at 29–30, 33, 47.

<sup>84</sup> For the economic analysis of IP arbitrability, see the Section III.A (*et seq.*), *infra*.

proceeding. In initial stages of an arbitration procedure, a party may make tactical moves aimed at hampering the arbitration. However, at a post-award phase, non-enforcement transforms the conduct of proceedings into a full loss.<sup>85</sup> This loss can only be seen as *sunk cost* for a party who needs to start state-court proceedings anew in the country where enforcement was sought.

As a rule of thumb, legal systems worldwide resort to similar rationales to justify limitations to commercial arbitration on grounds of non-arbitrability. Namely, affectation of mandatory rules enshrining public policies or interest, violation of exclusive competence of state courts, or negative impact on unrelated third parties.<sup>86</sup> In the following sections, they are narrowed down to IP arbitrability as discussed in this research.

### 3. Arguments for Non-Arbitrability of IP Validity

The first argument,<sup>87</sup> labeled *subjective*, refers to the parties involved. Exploitation disputes are, most of the time, between two or more parties bound by a business transaction. The relevant institutions supporting the transaction are contract law and its enforcement by courts or arbitral tribunals. This entails liability rules with *inter-partes* effect.

In stark contrast, IP rights are exclusionary rights, supported by statutory IP provisions and enforced by the competent register and/or courts.<sup>88</sup> This entails property rules with *erga omnes* effect. International IP disputes over contractual or tort issues in which the respondent asserts an invalidity defense combine both. As a consequence, there is the possibility that a decision

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<sup>85</sup> Certilman & Lutzker, *supra* note 23, at 56 (Stating: “[w]ithout state consent to arbitrate the claims, there is no enforceability of the outcome. Without enforceability, the efforts and expense of obtaining an arbitral award may prove largely futile.”).

<sup>86</sup> Blessing, *supra* note 54, at 27; Fortier, *supra* note 65, at 269–70; Viscasillas, *supra* note 71, at 32, 39 (classifies non-arbitrability arguments in: (1) arbitrability *rationae materiae*, (2) subjective arbitrability (authority, capacity), and pointing out that some authors acknowledge a third category of arguments known as (3) *rationae jurisdictionis* (or *institutionis*)).

<sup>87</sup> Smith, *supra* note 42, at 306–13 (distinguishing between *legal arguments* (those presenting some obstacle to arbitrability) and *policy* ones (addressing the advisability of keeping non-arbitrability obstacles)).

<sup>88</sup> Mantakou, *supra* note 22, at 268; Certilman & Lutzker, *supra* note 23, at 59; COOK & GARCIA, *supra* note 12, at 68–69, 71–72; Smith et al., *supra* note 42, at 306–07; CHROCZIEL ET AL., *supra* note 3, at 14.

rendered by a private dispute resolution body negatively affects third parties, given *erga omnes* effect conferred to IP rights.<sup>89</sup> Third parties are, in principle, unrelated to the dispute and most of the time are very difficult to determine. Whereas an arbitrator has no authority over third parties,<sup>90</sup> it remains questionable whether an arbitral award can serve as a title for amending the public register.<sup>91</sup> Likewise, the same questions arise as regards the arbitrability of registered real property and of certain corporate disputes, as seen below.<sup>92</sup>

On the flip side, it is not necessarily true that only a decision registered with *erga omnes* effect could actually serve the interests of a litigant asserting IP (in)validity, while preserving legal certainty for third parties. As discussed below, it may be in the very interest of a party to merely have *inter-partes* effect. One party is not willing to incur IP litigation for the benefit of its competitors; the other is not taking the risk of losing an exclusionary right for a minor contractual or infringement lawsuit. In both scenarios, the IP right deemed “invalidated” by the arbitral tribunal does not cease to exist as regards third parties but the claim in contracts or torts is solved between the parties.<sup>93</sup>

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<sup>89</sup> COOK & GARCIA, *supra* note 12, at 7–8 (“[t]he value of an IPR lies in the fact that, unlike a contractual obligation, it is effective against all persons and organizations in the particular country in which it subsists.”).

<sup>90</sup> Smith et al., *supra* note 42, at 307; Grantham, *supra* note 24, at 220.

<sup>91</sup> See below the third argument and Section III.D.2.b, *infra*. Böckstiegel et al., *supra* note 59, at 23–24; Christian Seiler, *Kommentar zur Schiedsfähigkeit § 1030 ZPO*, in *ZIVILPROZESSORDNUNG (ZPO) 1420* (Heinz Thomas & Hans Putzo eds., 39th ed. 2018); Mantakou, *supra* note 22, at 267–68; COOK & GARCIA, *supra* note 12, at 35; CHROCZIEL ET AL., *supra* note 3, at 15. This is totally consistent with the economics of arbitration as analyzed by Shavell, *supra* note 38, at 45 who identifies two limits: “[F]irst, it may be that a party to an agreement was not properly informed about the relevant information—[. . .] character of ADR. Second, it may be that an agreement to use ADR would *negatively affect third parties*” (emphasis added). Finally, COOK & GARCIA, *supra* note 12, at 7 point out that some infringements of IP rights can be considered as crimes under Article 61 TRIPs. These are generally cases of piracy and counterfeiting.

<sup>92</sup> See below the *jurisdiction* argument as to arbitrability of real property disputes. For corporate disputes see Christian Duve & Philip Wimalasena, *Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Corporate Law Disputes in Germany*, in *ARBITRATION IN GERMANY: THE MODEL LAW IN PRACTICE* 927, 930, 960 (Karl-Heinz Böckstiegel, Stefan Kröll & Patricia Nacimientos eds., 2d ed. 2015). In Germany, for instance, an award declaring the validity or nullity of shareholders’ resolutions can only be entered into the commercial register upon declaration of enforceability by a state court under § 1060 ZPO.

<sup>93</sup> COOK & GARCIA, *supra* note 12, at 71; see Sections III.B.4 and III.D.2.b, *infra*.



The second argument, *substantive*, addresses the disputed matter. Lawsuits of IP exploitation largely concern claims of an economic nature or issues disposable by parties under the watch of applicable mandatory laws.<sup>94</sup> Nevertheless, IP disputes also dangerously involve moral aspects<sup>95</sup> and/or matters of public interest. Both are considered to be better protected with mandatory rules enforced by state courts than by self-selected tribunals.<sup>96</sup> This becomes clear when questioning the ownership or validity of patents, utility models, registered designs, or trademarks in the course of international commercial litigation. Each IP right creates, in essence, a geographically limited temporal monopoly over a valuable immaterial asset. They have a market-organizing function that attempts, in a controlled fashion, against one of the very basic public interests: market competition.<sup>97</sup>

The material argument against arbitrability on the subject matter is, therefore, intertwined with *public policy* considerations, which explains a not always clear application of paragraphs (a) or (b) of Article V(2) of the New York Convention.<sup>98</sup> On top of that, mandatory norms that encapsulate social

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<sup>94</sup> Cf. CODE CIVIL [C. CIV.] [CIVIL CODE] Article 2059 (Fr.) (“Toutes personnes peuvent compromettre sur les droits dont elles ont la libre disposition.” [“All persons may make arbitration agreements relating to rights of which they have the free disposal.”] Official translation at, <https://www.legifrance.gouv.fr/content/download/1950/13681>); in line with Arbitration Act Article 2(1) (60 2003) (Spain), and Zivilprozessordnung [ZPO] [Code of Civil Procedure], § 1030(1) (Ger.); Viscasillas, *supra* note 71, at 29; Mantakou, *supra* note 22, at 265; Erik Schäfer, *Part IV: Selected Areas and Issues of Arbitration in Germany, Arbitration of Intellectual Property Related Disputes in Germany, in ARBITRATION IN GERMANY: THE MODEL LAW IN PRACTICE* 907, 909 (Karl-Heinz Böckstiegel, Stefan Michael Kröll & Patricia Nacimiento eds., 2d ed. 2015).

<sup>95</sup> This is commonly the case for copyrights as stressed by Mantakou, *supra* note 22, at 266, who also points out the linkage between moral rights of authors and their personality, honor and dignity.

<sup>96</sup> Certilman & Lutzker, *supra* note 23, at 74; Blessing, *supra* note 54, at 24; De Miguel Asensio, *supra* note 13, at 83, 94 (concluding that, by the same token, the imposition of compulsory licenses should not be arbitrable).

<sup>97</sup> PILA & TORREMANS, *supra* note 12, at 4, 29–30; COOK & GARCIA, *supra* note 12, at 6–8, 15, 64; CHROCZEL ET AL., *supra* note 3, at 95; Carroll, *supra* note 22, at 16; Certilman & Lutzker, *supra* note 23, at 67, 83 (“IP has deep connections to competition law and because of the exclusionary nature of IP, its improper use often carries antitrust concerns with it.”). See also Miriam Martínez Pérez, *Patent Law versus Competition Law in the European Union: A Complementary Relationship?*, 10 CUADERNOS DE DERECHO TRANSNACIONAL 372, 381–82 (2018) (distinguishing between a legal and an economic monopoly when it comes to industrial IP rights).

<sup>98</sup> De Werra, *supra* note 13, at 373; Haas, *supra* note 53, at 519–20; Grantham, *supra* note 24, at 179, 220; COOK & GARCIA, *supra* note 12, at 50, 64–65, 67 (stating: “[a]rbitrability and public policy constitute *inextricable* issues” (emphasis added); however, the authors also stress that it is not accurate solving non-arbitrability with public policy arguments).



and economic policies are extremely variate across jurisdictions.<sup>99</sup> In principle, private resolution of disputes over industrial registered IP rights does not *per se* violate mandatory rules in many countries.<sup>100</sup> Arbitrators are under the duty to enforce imperative laws between the parties, which also explains an acceptance of the *inter-partes* effect of international awards.<sup>101</sup> Something different is, however, that private parties in self-selected commercial arbitral tribunals negatively impact third parties and affect public interests, like market competition, without the intervention of public state-authorities.<sup>102</sup> This explains both the grounds for vacation of awards at the seat and for denial of enforcement under Article V(2) of the New York Convention elsewhere.

This is the case both in the European Union and in the United States of America. The notion of public policy, against which arbitral awards are scrutinized, includes competition law concerns, even when the topics are considered to be arbitrable.<sup>103</sup> In the E.U., the decision in *Eco Swiss China Time Ltd. v. Benetton International*, establishes that national courts are to set aside an award, on grounds of public policy, that contravenes Article 101

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<sup>99</sup> Bundesgericht [BGer] [Swiss Federal Supreme Court] Mar. 8, 2006, 4P\_278/2006, 132 ATF III 389 (Switz.) (Where the Swiss high court ruled in, *Tensacciai SPA v. Freyssinet Terra Armata SRL*, regarding enforcement of awards, that antitrust law is not part of public policy. This of course reduces the risk of annulments for awards made in this international arbitration-friendly seat.); CHROCZIEL ET AL., *supra* 3, at 95, 127. Interestingly, in France, the notion of *international public policy* evokes to a more restrictive standard for setting aside an award on grounds of public policy; see Cour d'appel [CA] [regional court of appeal] Paris, civ., Mar. 23, 2006, 04/19673 (Fr.) (SNF SAS v. Cytec Industries BV (confirmed by the Cour de Cassation in 2008)).

Beyond this discussion on arbitrability and competition law, any attempt to further elaborate on the notion of public policy in arbitration is far from the purpose of this work. Further references on spillovers between IP rights and competition law under the auspices of international commercial arbitration can be found in CHROCZIEL ET AL., *supra* note 3, at 123–27. For the notion of public policy pursuant to Article V(2)(a) New York Convention see Haas, *supra* note 53, at 520–25 (article commentary).

<sup>100</sup> Blessing, *supra* note 54, at 24–27; Grantham, *supra* note 24, at 182.

<sup>101</sup> *Mitsubishi Motors Corp.*, 473 U.S. at 639 n.21; COOK & GARCIA, *supra* note 12, at 62; PAULSSON, *supra* note 47, at 133–34; CHROCZIEL ET AL., *supra* note 3, at 123; Viscasillas, *supra* note 71, at 45.

<sup>102</sup> An example could be *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) discussed in Section III.D.2.a, *infra*.

<sup>103</sup> As to validity of arbitration clauses, the conclusions of the Advocate General, Niilo Jääskinen, in Case C-352/13, *Cartel Damage Claims Hydrogen Peroxide SA v. Akzo Nobel NV*, 2015 E.C.R. (point that was finally not addressed by the CJEU on 21 May 2015, c-352/13), when interpreting Article 101 TFEU, questioned it to the extent that an arbitration clause assumes jurisdiction on antitrust claims without a party being aware of it.

TFEU. In the United States, the relevant decision is *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, in which the arbitrability of antitrust claims was accepted, subject to ultimate state courts' review at the enforcement stage.

This was alleged, but finally denied by the CJEU, in *Genentech Inc. v. Hoechst GmbH and Sanofi-Aventis Deutschland GmbH* c-567/14, of 7 July 2016. Genentech sought to set aside an award dealing with payment of royalties under a patent licensing contract before the Paris Cour d'Appel on grounds of violation of EU competition law. Genentech's argument was that a tribunal's order on payment of royalties for a deemed invalid patent places the licensee on a clear competitive disadvantage.<sup>104</sup>

The third argument refers to *jurisdiction*, being a direct consequence of the other two arguments above. International arbitration is a creature of contract and parties therefore agree on subjecting economic and disposable IP matters to the jurisdiction of a private authority. But when the underlying IP rights are conferred (*i.e.* created) upon a public examination that applied formal and substantive statutory criteria, it is argued that only the public authority should be competent to modify the decision, to make an amendment to the public register on grounds of non-existence or invalidity.<sup>105</sup> Thus, the very nature of the property protected explains why arbitrability of real property disputes is, in comparison, more accepted. While a successful validity challenge against an IP right eliminates the intangible property, the land does not disappear. Only the entitlement of a person to the land is modified. An award with such effect can thus more easily enter into the public register under the watch of the competent court or authority.<sup>106</sup>

To sum up, given either public policy implications or the nature of the IP rights, some IP disputes should fall into the exclusive jurisdiction of governmental agencies, public registers and state courts. Possibly, expertise

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<sup>104</sup> See *infra* Section III.D.2 (on post-award confirmation or revocation of IP rights asserted during arbitration); CHROCZIEL ET AL., *supra* 3, at 94, 97, 125–28.

<sup>105</sup> Grantham, *supra* note 24, at 184–86; Certilman & Lutzker, *supra* note 23, at 59, 67 (Formulating the idea that the state is “[b]oth gatekeeper and grantor of the registered IP rights.”); De Miguel Asensio, *supra* note 13, at 87; CHROCZIEL ET AL., *supra* note 3, at 15; COOK & GARCIA, *supra* note 12, at 64–65. Cf. with the Belgian and Swiss approaches discussed in Section II.C.3.a, *infra*, and whether an award could be a title to amend the register in Section III.D.2.b, *infra*.

<sup>106</sup> COOK & GARCIA, *supra* note 12, at 69–70 n.83.

is not the rationale behind this *per se* non-arbitrability.<sup>107</sup> Arbitral tribunals are generally highly qualified to decide on complex IP issues. It is rather a question of state sovereignty: a self-selected mechanism for dispute resolution must not distort acts of state.<sup>108</sup>

Two additional remarks speak for this argument on *jurisdiction*. On the one hand, even though international arbitration is not always confidential, it is surely private. At all events, these traits pose concerns as to whether full record of the proceedings should be kept when dealing with registered IP rights. Also, whether unrelated third parties should have knowledge of the dispute or even be able to take part in it.<sup>109</sup> On the other hand, entries in records of public registers largely enjoy a presumption of validity. Arguably, this presumption can only be removed by an act of state and not by a privately rendered award.

#### 4. Legal Comparative Survey

Against a comparative background, national policies on non-arbitrability prove to be highly controversial. First, the limits of the notion might be obscure, resulting in little predictability, as illustrated by comparing the Spanish and United States' frameworks for international IP arbitration. Second, if clear, they are heterogeneous and subject to changes in the criteria. In either case, it is the result of an overlap between the territoriality of IP law and, to some extent, the lack of a uniform international arbitration framework.<sup>110</sup> The UNCITRAL Model Law intended to remedy that by

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<sup>107</sup> See Mantakou, *supra* note 22, at 268 (coining this concept).

<sup>108</sup> It also relates to the territoriality of IP law, as explained by PILA & TORREMANS, *supra* note 12, at 29–30. Smith et al., *supra* note 42, at 306; Certilman & Lutzker, *supra* note 23, at 68 (considering: “[n]ot surprisingly, these roles have historically driven national resistance to arbitration of IP claims.”); COOK & GARCIA, *supra* note 12, at 63.

<sup>109</sup> For the informative function of IP litigation as positive externality see Section III.D.3, *infra*. Smith et al., *supra* note 42, at 315–17 (Stating: “[c]onfidentiality and recordkeeping can also be problematic for states that wish to subject the potential public policy issues of [IP] patent arbitration to more scrutiny”; Certilman & Lutzker, *supra* note 23, at 74. As to the controversial trait of confidentiality of international arbitration see BORN (2014), *supra* note 76, at 2781 (clearly distinguishing between *privacy* (“only parties to the arbitration agreement—and not third parties—may attend arbitral hearings and participate in the arbitral proceedings”) and *confidentiality* (“obligations not to disclose information concerning the arbitration to third parties”)).

<sup>110</sup> PAULSSON, *supra* note 47, at 118.

setting forth a set of rules upon which national arbitration laws could have been consistently modeled.<sup>111</sup>

*a. Three General Categories*

*Absolute Non-Arbitrability*

The patent law of the People's Republic of China, in conjunction with its Arbitration Act, jointly curbs the arbitrability of IP validity defenses. China, perhaps together with South Africa, is the largest representative of absolute non-arbitrability worldwide. Consequently, if an invalidity defense of an IP right is raised in the course of a contractual or infringement international lawsuit, Chinese and South African laws will cease arbitral jurisdiction in favor of the state authorities.<sup>112</sup> This is not a minor finding, given the worldwide role played by China as goods manufacturer. Section 18(1) of the South African Patent Act of 1978 reads as follows: “[s]ave as is otherwise provided in this Act, no tribunal other than the commissioner shall have jurisdiction in the first instance to *hear and decide any proceedings*, other than criminal proceedings, *relating to any matter under this Act*.”<sup>113</sup>

Some of the common law leading economies, such as the United Kingdom or Singapore, provide for a relative arbitrability of registered intellectual property rights with limited *inter-partes* effect. This mostly encompasses patents and trademarks.<sup>114</sup> Notably, both jurisdictions are seen as being international arbitration-friendly worldwide.<sup>115</sup> Canada seems to also share this approach, it allows arbitrability of IP disputes with the limited effects *inter-partes*. This view is primarily derived from the landmark

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<sup>111</sup> Viscasillas, *supra* note 71, at 29–30 (pointing out that neither the 1985 UNCITRAL Model Law, nor its revision in 2006 set forth a model rule on arbitrability. Furthermore, she refers to the official records, during which it was stated that: “[t]he prevailing opinion was that the Model Law should not contain a provision delimiting non-arbitrable issues” (A/CN.9/216, 23 Mar. 1982, No. 30), <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/V82/252/94/PDF/V8225294.pdf?OpenElement>).

<sup>112</sup> COOK & GARCIA, *supra* note 12, at 51; CHROCZIEL ET AL., *supra* note 3, at 20; Grantham, *supra* note 24, at 204.

<sup>113</sup> Patent Act 57 of 1978 § 18.1 (S. Afr.) (emphasis added).

<sup>114</sup> Patents Act 1977, 37, § 52(5) (Eng.) (as amended in 2014) (establishes that full arbitrability of patents is, however, only allowed under the sanction of the state courts); Singapore Patents Act Sec. 58(6) (establishes that the whole or part of the proceedings—including questions of validity (para. 3)—can be referred to arbitration); for both see CHROCZIEL ET AL., *supra* note 3, at 20–21, 23.

<sup>115</sup> Nottage, *supra* note 13, at 65.

decision *Desputeaux v. Éditions Chouette*, which interpreted the Code of Civil Procedure of Québec in favor of a liberal understanding of the subject matters over which an arbitration agreement can extend.<sup>116</sup>

As demonstrated by Spain, *inter-partes* arbitrability of validity claims concerning registered industrial IP rights is nowadays increasingly adopted by continental civil law jurisdictions. In France, as also explained below, the decision of the Cour d'Appel Paris on the matter between *Liv Hidravlika D.O.O. v. Diebolt, S.A.*, confirmed an award incidentally deciding on the validity of the industrial property right at stake.<sup>117</sup> The tendency in Germany also shifted from the early *Interim Award* (1989) in the ICC case no. 6097, ICC Bulletin vol. 4, issue 2 (1993); however, guiding case law on the topic is still missing.<sup>118</sup> Recent scholarly opinions also seem to be in favor of the arbitrability with limited *inter-partes* effect. Notwithstanding that, there are ongoing discussions about the interpretation of § 1030 ZPO in conjunction with §§ 27, 61, 65, 73 PatG (Patent Act), which confer jurisdiction over validity issues to the German Patent and Trade Mark Office, and to the *Bundespatentgericht* (the Federal Patent Court).

In other civil law countries, the approach to arbitrability is even more disputed. According to the definition of “a claim involving economic interest falling within the jurisdiction of the ordinary courts” laid down in § 582 of the Austrian Code of Civil Procedure, it is argued that validity defenses concerning IP rights fall outside of allowed arbitrability.<sup>119</sup> Reaching the same result, arts. 80–81 of the Dutch Patent Law 1995 (as amended in 2008) exclude arbitration by giving exclusive jurisdiction to the District Court of The Hague over patent validity and infringement issues.<sup>120</sup>

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<sup>116</sup> *Desputeaux v. Éditions Chouette* [2003] S.C.R. 178 (Can.); Fortier, *supra* note 65, at 279–81, 284; CHROCZIEL ET AL., *supra* note 3, at 20.

<sup>117</sup> Cour d'appel [CA] [regional court of appeal] Paris, civ., Feb. 28, 2008, 05/10577 (Fr.); Edouard Fortunet, *Arbitrability of Intellectual Property Disputes in France*, 26 ARB. INT'L 281, 293–94 (2010); CHROCZIEL ET AL., *supra* note 3, at 21; Mantakou, *supra* note 22, at 270; *see below* Section III.D.1, *infra*.

<sup>118</sup> Seiler, *supra* note 91, at 1420, para. 6 (stating: “der Parteidisposition entzogene Streitigkeiten [. . .] wie Nichtigerklärung oder Zurücknahme von Patenten, zumal diese Entscheidungen für und gegen jedermann wirken” (Author's translation: disposition of conflicts by the parties [. . .] such as the annulment or withdrawal of patents, especially as these decisions are effective for and against anyone)); Certilman & Lutzker, *supra* note 23, at 93; CHROCZIEL ET AL., *supra* note 3, at 21–22; Schäfer, *supra* note 94, at 915. For the opposing view *cf.* Münch, *supra* note 53, at 33; Adamo, *supra* note 13, at 16.

<sup>119</sup> *See* CHROCZIEL ET AL., *supra* note 3, at 19 (for an interpretation of § 582 Ö. ZPO).

<sup>120</sup> Smith et al., *supra* note 42, at 339 (“[s]ubstantive patent law issues do not appear to be arbitrable in the Netherlands.”). These provisions are, however, subject to conflicting interpretations, *cf.* Patent Act

Beyond national legal systems, further concerns on disruptive non-arbitrability policies are raised by bodies of supranational law, in Europe, by the *Unified Patent Package*. This new body of law includes an international agreement aimed at establishing a Unified Patent Court.<sup>121</sup> As laid down in its Article 1,<sup>122</sup> it has competence to unitarily adjudicate disputes as regards the newly created Europe-wide IP right (EU Unitary Patent)<sup>123</sup> and other existing European patents. In addition, the EU-UPC Agreement inaugurates a specific arbitral institution to adjudicate contractual and infringement lawsuits. In particular, the controversy as to arbitrability is raised by Article 32(1) of the UPC Agreement, which establishes that the Unified Patent Court will be the exclusive competent tribunal to decide on the validity of disputes concerning IP rights: “Article 32. *Competence of the Court*; 1) The Court shall have exclusive competence in respect of: [. . .] (d) actions for revocation of patents and for declaration of invalidity of supplementary protection certificates; (e) counterclaims for revocation of patents and for declaration of invalidity of supplementary protection certificates . . . .”<sup>124</sup>

The problem, again, is to what extent a validity issue raised as a defense in the course of a contractual lawsuit over an IP right listed in Article 1 of the UPC Agreement can be incidentally adjudicated by an arbitral tribunal. On top of that, whether an award will be later *inter-partes* enforced by the state courts of the EU member states. Award enforcement may be disputed, assumedly on grounds of non-arbitrability, if one follows the argumentation of decision CJEU of 13 July 2006 case C-4/03 *GAT*. In it, the CJEU

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57 of 1978 § 18(1) (S. Afr.) (as amended in 2002). For all, see again CHROCZIEL ET AL., *supra* note 3, at 22–23.

<sup>121</sup> Council Agreement on a Unified Patent Court 2013 O.J. (C 175) 1 (EU) [hereinafter UPC-Agreement]. Further information is, European Patent Court, *Unified Patent Court*, EPO.ORG., <https://www.epo.org/law-practice/unitary/upc.html#tab1> (last visited Feb. 26, 2019).

<sup>122</sup> Tevor Cook, *Update on the Unitary Patent Court and the European Patent with Unitary Effect*, 20 J. INTELL. PROP. RTS. 185, 186 (2015); De Miguel Asensio, *supra* note 13, at 96 (discussing the purpose of the EU UPC Agreement: “[t]ribunal común para todos los Estados miembros contratantes” (author’s translation: a common court for all contracting members) stressing that Spain is not part); see Schäfer, *supra* note 94, at 915; and CHROCZIEL ET AL., *supra* 3, at 1–2 (discussing that UPC’s arbitration and mediation center will be a structural element of the new European dispute resolution system).

<sup>123</sup> The Unitary Patent Court Agreement consists of two EU regulations: Regulation 1257, 2012 O.J. (L 361) 1 (EU); Regulation 1260, 2012 O.J. (L 361) 1 (EU).

<sup>124</sup> UPC-Agreement, *supra* note 121, Article 32(1).

interpreted Article 16(4) of the Brussels Convention of 27 Sept. 1968<sup>125</sup> as meaning that “[a]ll proceedings relating to the registration or validity of a patent, irrespective of whether the issue is raised by way of an action or a plea in objection” fall within the exclusive jurisdiction of state courts. Scholars now consider otherwise, leaving practitioners with unpredictable outcomes.<sup>126</sup>

The Regulation (EC) No 44/2001 of 22 December 2000 “Brussels I Regulation” (O.J. L 12/1, 16 Jan. 2001, entered into force in Mar. 2002) and, later, its subsequent recast Regulation (EU) No 1215/2012 of 12 Dec. 2012 (O.J. L 351/1, 20 Dec. 2012, entered into force in Jan. 2013) superseded for many EU member states the former 1968 Convention. Arts. 22(2) and 24(4), respectively, lay down the exclusive jurisdiction of state courts, regardless of domicile “[i]n proceedings concerned with the registration or validity of patents, trademarks, designs, or other similar rights required to be deposited or registered [. . .].” Furthermore, recital 34 of the Recast Regulation 1215/2012 clearly provides for continuity between the three instruments and particularly stresses “[t]he same need for continuity applies as regards the interpretation by the Court of Justice of the European Union (CJEU) of the 1968 Brussels Convention and of the Regulations replacing it.”<sup>127</sup>

#### *Absolute Arbitrability*

The third group of cases is placed at the opposite side of the spectrum. Arts. 51(1) and 73(6) of the Belgian Patent Act establish the full positive arbitrability of validity disputes by deeming an arbitral award *res judicata* (*chose jugée*), capable of being registered with *erga omnes* effect. In Belgium, the process of becoming *res judicata* is, however, subject to the opposition right of third parties. Unfortunately, as regards trademarks, the Belgian law does not clarify the question of arbitrability. The first of the above provisions reads:

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<sup>125</sup> 1968 Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, 1972 O.J. (L 299).

<sup>126</sup> Certilman & Lutzker, *supra* note 23, at 69; Schäfer, *supra* note 94, at 915 (“[a]t the same time, the wording chosen indicates that a decision declaring with effect *inter-partes* that a Unitary Patent is fully or partially invalid, or a decision that implicitly deals with this type of issue as question precedent, is likely to fall within the competence of an arbitral tribunal. *Future case law will tell.*” (Emphasis added)).

<sup>127</sup> For decisions of the CJEU on the topic see HAUBERG WILHELMSEN, *supra* note 69, at 4–6.



§ 51(1) Lorsqu'un brevet est annulé, en totalité ou en partie, par un jugement ou un arrêt ou par une *sentence arbitrale*, la décision d'annulation a contre tous l'autorité de la chose jugée sous réserve de la tierce opposition. Les décisions d'annulation passées en force de chose jugée sont inscrites au Registre. (Emphasis added).<sup>128</sup>

Switzerland is another jurisdiction that upholds a positive arbitrability policy on invalidity claims over registered IP rights, corresponding with a pro-arbitration seat internationally recognized.<sup>129</sup> After the decision of the *Institut fédéral de la propriété intellectuelle* on 15 December 1975 PMMB1 1976 I S.9E,<sup>130</sup> an arbitral award can be the basis for entries in the register and therefore serve to cancel a patent right with *erga omnes* effect. However, such effect is subject to state courts' control, since awards must be accompanied by a certificate of enforceability issued by the Swiss court at the seat of the arbitral tribunal. The distinction must be noticed: *erga omnes* effect is conferred upon registration, not to the award itself.<sup>131</sup> The dispositive part of this landmark decision reads:

4. [...] dass Schiedsgerichte befugt sind, über die Gültigkeit gewerblicher Schutzrechte zu entscheiden. Demgemäß vollzieht das Amt in den bei ihm geführten Registern Schiedssprüche über die Gültigkeit gewerblicher Schutzrechte, wenn sie mit einer Article 44 des Konkordats über die Schiedsgerichtsbarkeit entsprechenden Vollstreckbarkeitsbescheinigung versehen sind.<sup>132</sup>

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<sup>128</sup> Loi sur les brevets d'invention [Patent Law] of Mar. 27, 1984, MONITEUR BELGE [M.B.] [Official Gazette of Belgium] § 51(1) (revised 2008) (Author's translation: "[w]hen a patent is annulled, in whole or in part, by a judgment or an *arbitral award*, the decision to annul is *res judicata* against anyone, subject to third party opposition. Decisions on annulments that have become *res judicata* are entered in the Register" (emphasis added)); CHROCZIEL ET AL., *supra* note 3, at 19; COOK & GARCIA, *supra* note 12, at 51.

<sup>129</sup> NIKLAUS MEIER & BERNHARD STEHLE, IPR-PRÜFSCHEMEN ZUM INTERNATIONALEN PRIVAT- UND ZIVILVERFAHRENSRECHT DER SCHWEIZ 422–23 (2018) (for a schematic presentation of the subject matters accepted to be arbitrable in international proceedings); Ramon Mabillard & Robert Briner, *Article 177 IPRG*, in BASLER KOMMENTAR—INTERNATIONALES PRIVATRECHT (IPRG) para. 9 (Honsell et al. eds., 3d ed. 2013).

<sup>130</sup> *Swiss Trademark Law Decisions*, DECISIONS.CH, <http://www.decisions.ch/smi.html> (Auskunft des Amtes nach Konsultation der eidgenössischen Justizabteilung [information from the Office after consultation with the Federal Department of Justice], see 1976, at 37–38); see also Mabillard & Briner, *supra* note 129, at para. 15.

<sup>131</sup> Grantham, *supra* note 24, at 211; COOK & GARCIA, *supra* note 12, at 51; CHROCZIEL ET AL., *supra* note 3, at 24; De Miguel Asensio, *supra* note 13, at 83; Mantakou, *supra* note 22, at 267.

<sup>132</sup> Author's Translation:



In conclusion, it is undisputed that the lack of default jurisdiction (and law) for adjudicating on arbitrability reveals itself to be particularly jeopardized whenever arbitrators decide on invalidity defenses of registered industrial IP rights raised during international contractual or tortious lawsuits. For example, a patent registered in Switzerland, Spain, Germany and South Africa can be fully invalidated by an arbitral tribunal in the first, whereas in the other two, the decision would only be enforced, at best, with *inter-partes* effect. Finally, in the last, enforcement would be rejected.<sup>133</sup>

Beyond the heterogeneous approaches identified by the systems surveyed above, the present research focuses on a further peril: the vagueness of legal systems as regards *inter-partes* arbitrability. The discussion is based on a bottom-up review of two arbitration frameworks in order to better exemplify the problem. It also illustrates the effort that, in practice, potential parties to an arbitration must undertake when thinking of it as a dispute mechanism.<sup>134</sup>

#### *b. Spanish Law: Undefined inter-partes Arbitrability*

The Spanish Act 60/2003 on Arbitration (B.O.E. 2003, 309), of 26 December (hereinafter LA), as amended by Act 11/2011,<sup>135</sup> governs the arbitral proceedings, recognition and enforcement of foreign awards in

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[. . .] therefore that arbitral tribunals are empowered to decide on the validity of industrial property rights. Accordingly, the Office will enforce arbitral awards on the validity of industrial property rights in its registers if they are accompanied by a certificate of enforceability corresponding to Article 44 of the Concordat on Arbitration.

<sup>133</sup> CHROCZIEL ET AL., *supra* note 3, at 123.

<sup>134</sup> Certilman & Lutzker, *supra* note 23, at 71, 75 (highlighting: “[a]s a result of this lack of worldwide consistency, claimants in IP Disputes will need to use careful analysis to ensure the objective arbitrability of their claims as a preliminary step to proceeding with arbitration. This requires that parties become familiar with the public policies of the arbitration *situs* as well as that of each country in which it is anticipated that enforcement of the award will be required [. . .]” (Emphasis added)). See also Mantakou, *supra* note 22, at 271.

<sup>135</sup> Act 60/2003 of 23 Dec. on Arbitration (B.O.E. 2003, 309) (Spain); Ministerio de Justicia, *Act 60/2003 of 23 Dec. on Arbitration, Official English Translation*, [https://www.mjusticia.gob.es/cs/Satellite/Portal/1292426982249?blobheader=application%2Fpdf&blobheadername1=Content-Disposition&blobheadervalue1=attachment%3B+filename%3DAct\\_on\\_arbitration\\_%28Ley\\_60\\_2003\\_de\\_arbitraje%29.PDF](https://www.mjusticia.gob.es/cs/Satellite/Portal/1292426982249?blobheader=application%2Fpdf&blobheadername1=Content-Disposition&blobheadervalue1=attachment%3B+filename%3DAct_on_arbitration_%28Ley_60_2003_de_arbitraje%29.PDF) (last visited Feb. 27, 2019). Jointly with the new arbitration law, it is noticeable that Spain has signed more than 50 BITs, most incorporating arbitration clauses, and also ratified the 1958 New York, 1927 Geneva, and 1965 Washington conventions; Viscasillas, *supra* note 71, at 33–35.

Spain.<sup>136</sup> Whether an arbitration is deemed international or not, however, must not be confused with the domestic or international character of an award.<sup>137</sup> The law, largely modeled on the 1985 UNCITRAL Model Law, adopts a monist system unifying international and domestic arbitration. It keeps a few necessary, special rules addressing aspects of international disputes.<sup>138</sup> Furthermore, as established in Article 1(3), the LA adopts a default position yielding priority to other specific types of arbitration provided in particular legislations.<sup>139</sup>

Despite legislative competences conferred to its seventeen Autonomous Regions (Comunidades Autónomas), the Arbitration law is unitary for the entire Spanish jurisdiction. It was enacted by virtue of Central State's exclusive competence in civil, mercantile and procedure laws per arts. 149.1.6 and 8.a Spanish Constitution. Beyond the substantive ground, a policy explanation for this is that a purpose of the LA was to attract international arbitration by presenting Spain as an attractive seat. Accordingly, a unique framework provides certainty to international players.<sup>140</sup>

The arbitrability policy under Spanish law corresponds with the French approach. Arts. 2(1) and 41(1)(e) of the LA address issues of validity of arbitration agreements and award annulment, both designating Spain as the seat of arbitration. Parties can arbitrate to the extent they can validly dispose or settle on a given subject matter. The limits to that are raised by public

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<sup>136</sup> In many procedural matters, the LA should be read in conjunction with the Law of Civil Procedure L.E.Civ. 1/2000 of 7 Jan., BOE No. 7, of 8 Jan. 2000 (Spain).

<sup>137</sup> Article 46 LA defines the "foreign status" of an award whenever "it is delivered outside Spain."

<sup>138</sup> Viscasillas, *supra* note 71, at 34 (noting that Article 3 LA defines "international arbitration" very broadly and flexibly. One of the rules applying exclusively to international arbitration is, as discussed below, Article 9(6) LA on validity of the agreement to arbitrate.).

<sup>139</sup> Ana Montesinos García, *El Arbitraje en Materia de Propiedad Intelectual*, 1 RIEDPA: REVISTA INTERNACIONAL DE ESTUDIOS DE DERECHO PROCESAL Y ARBITRAJE 1, 8 (2013) (focusing on the arbitral proceedings set forth in the Intellectual Property Act (Copyright)). Act 21/2014 of 4 Nov. (B.O.E. 2014, 268) (amending the Intellectual Property Act approved by Royal Legislative Decree 1/1996, of 12 Apr. and the Law of Civil Procedure 1/2000, of 7 Jan.).

<sup>140</sup> Viscasillas, *supra* note 71, at 33–35. Pablo Martínez-Gijón Machuca, *La Doctrina del Tribunal Constitucional en materia de arbitraje*, 31 REVISTA ARANZADI DE DERECHO PATRIMONIAL 189, 192–93 (2013) (Upholding, at least from a constitutional viewpoint, that arbitration is regarded in Spain as a jurisdictional equivalent to state-court civil procedure.).

interest as enshrined by mandatory rules.<sup>141</sup> One of these is labor disputes, expressly excluded by Article 1(4) of the LA and accordingly interpreted by the case law.<sup>142</sup> Article 34(2) of the LA rules on the applicable substantive law for deciding on the merits. Together with Article 9(6), they set a particular rule favoring arbitrability for international proceedings:

Article 9. Form and content of the arbitration agreement

[. . .]

6. In international arbitration, the arbitration agreement will be valid *and the dispute arbitrable* if the requirements laid down in any of the following are met: the legal rules chosen by the parties to govern the agreement; the rules applicable to the substance of the dispute; or the rules laid down in Spanish law.<sup>143</sup> (Emphasis added).

Accordingly, parties can validly incorporate a choice-of-law clause that allows arbitrability of IP validity defenses. In principle, this agreement will be respected if an international arbitration is seated in Spain, regardless of whether it would be otherwise possible under Spanish law. Notwithstanding that, a decision of T.S.J. Madrid, Nov. 3, 2015 (No. 79) has somehow contradicted the *favour arbitris* principle enshrined by this provision.<sup>144</sup> Although deciding on a different type of conflict, the Superior Court of Madrid upheld that state courts are entitled to review the facts and the law applied by an arbitral tribunal to determine arbitrability. Particularly, to the extent that the subject matter of the dispute could affect public policy. Spillovers between arbitrability and public policy arguments become evident again.<sup>145</sup> In stark contrast, for *exequaturs* of international awards in Spain, Article. 46(2) of the LA sets forth a direct remission to the Convention or, if applicable, to other more favorable texts.<sup>146</sup> In accordance with Article

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<sup>141</sup> Cf. Code Civil [C. Civ] [Civil Code] Article 2059 (Fr.) (excerpted above); see De Miguel Asensio, *supra* note 13, at 88 for a parallel example of arbitrability in cases of applicable mandatory antitrust rules; García, *supra* note 139, at 11.

<sup>142</sup> T.S.J. Cataluña, Feb. 4, 2016 (No. 6/2016) (Spain) (The decision of T.S.J. Cataluña, it was controversial the nature of a non-compete clause incorporated at a sales contract for the purpose of applying the LA.).

<sup>143</sup> Arbitration Act (B.O.E. 2003, 60) (Spain).

<sup>144</sup> T.S.J. Madrid, Nov. 3, 2015 (No. 79/2016) (Spain).

<sup>145</sup> Viscasillas, *supra* note 71, at 41–42.

<sup>146</sup> Arbitration Act (B.O.E. 2003, 60) (Spain).

V(2)(a)(b), the Spanish legal framework is thus only relevant when it comes to enforcement of awards incidentally adjudicating on IP validity.<sup>147</sup>

All in all, the notion of IP arbitrability in Spain also results from the overlap of arbitration rules with applicable IP laws. This research concerns Law 24/2015 on patents (including utility models in its thirteenth title);<sup>148</sup> Law 17/2001 on trademarks;<sup>149</sup> and Law 20/2003 on industrial designs.<sup>150</sup> The latter two do not refer to arbitration in IP litigation but provide this ADR mechanism for solving registration controversies, which, surprisingly, have a rather administrative character. As to the former, Article 136(1) of the Patent Law lays down IP arbitrability in contractual and infringement lawsuits.<sup>151</sup> Notwithstanding that, paragraph (2) further defines the notion of “free choice matters” contained in Article 2(1) of the Act 60/2003 by expressly excluding patent validity from arbitration:

2. No son de libre disposición, y quedan excluidas de la mediación o el arbitraje, las cuestiones relativas a los procedimientos de concesión, oposición o recursos referentes a los títulos regulados en esta Ley, cuando el objeto de la controversia sea el cumplimiento de los requisitos exigidos para su concesión, su mantenimiento o su validez.<sup>152</sup>

Whereas the wording of Article 136(2) (first sentence) is clearly exclusionary, it is nowadays admitted by scholars that validity is incidentally arbitrable in Spain and enforced with *inter-partes* effect, mainly for the purpose of solving contractual or infringement lawsuits.<sup>153</sup> This results from

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<sup>147</sup> In the case law, e.g., the S.A.P. Alicante, July 23, 2012 (no. 345) (Spain) (SAP A 2198/2012 enforced an ICC award on infringement of a communitarian trademark under the auspices of Article 46 LA). Among the scholars, De Miguel Asensio, *supra* note 13, at 95.

<sup>148</sup> BOE 2001, 924 (Spain). See Eduardo Galán Corona, *Ley 24/2015, de 24 de julio, de Patentes: BOE n° 177, de 25-VIII-2015*, 4 CRÓNICA DE LEGISLACIÓN—ARS IURIS SALAMANTICENSIS 296, 298–99 (2016); Pérez, *supra* note 97, at 372, 383–84 (for an analysis of the intersection between Spanish patent law and competition law).

<sup>149</sup> Legal Protection of Industrial Design Law (B.O.E. 2003, 20) (Spain).

<sup>150</sup> Patent Law (B.O.E. 2015, 24) (Spain).

<sup>151</sup> B.O.E. 2001, 924 Article 136(1) (Spain).

<sup>152</sup> Arbitration Act (B.O.E. 2003, 60) (Spain) (Author’s translation: “They are not of free choice, and therefore *excluded from mediation or arbitration*, those subject-matters relating to the procedures for granting, opposing, or appeals to, rights regulated in this Law, *when the object of the controversy* is compliance with the requirements for its granting, maintenance or *validity*.” (Emphasis added)).

<sup>153</sup> De Miguel Asensio, *supra* note 13, at 91, 95 (elaborating on the topic by discussing the whether an arbitrator could also declare the expiration of a patent); Viscasillas, *supra* note 71, at 36–37, 39 (stressing the arbitral function of the patent and trademarks regulatory agency of Spain, OEPM, pursuant to Article 3 Royal Decree No. 1270/1997, of 24 July 1997).

the fact that the excerpted exclusion of arbitrability is only applicable whenever “the object of the controversy” concerns patent validity, understood as the principal claim in a dispute. Such a solution is applicable by analogy to other registered industrial IP rights, such as trademarks or industrial designs. Unfortunately, the answer is still undefined, since no clarification by courts or lawmakers has shed light on these questions yet.<sup>154</sup> As seen next, this falls short of the competitive framework established by U.S. federal law.

*c. U.S. Federal Law: Defined inter-partes Arbitrability*

Title 9 of the United States Code, or the Federal Arbitration Act (FAA), articulates a basic statutory regime for arbitration in the United States.<sup>155</sup> Chapter 2 establishes the framework for international arbitration by implementing the New York Convention, which was ratified by the United States in 1970. This created a so-called dualist system since chapter 1 addresses inter-state and certain foreign commerce, while Chapter 2 is applicable to those matters falling within the scope of the Convention. As to enforcement of international awards in the United States, there is a “presumptive recognition of awards,” which is subject to the exceptions of the New York Convention.<sup>156</sup>

Although the FAA does not lay down an express preemptive provision as regards its interaction with state laws, it has been affirmed by the United States Supreme Court that the FAA preempts state law addressing the same subjects.<sup>157</sup> In *AT&T Mobility LLC v. Concepcion*, the Court considered a class-wide arbitration clause contained in cellular telephone contracts.<sup>158</sup> The Supreme Court reversed the judgment of the Court of Appeals, which held that § 2 of the FAA did not preempt a state law precedent of the California

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<sup>154</sup> T.S.J. Madrid, Jan. 30, 2013 (No. 95 of 30) (Spain) (STSJ MAD 2005/2013 denied *res judicata* effect to an extrajudicial award to support the registration of a notorious trademark at the register. Although it was disputed whether it constituted arbitration or expert determination).

<sup>155</sup> 9 U.S.C. §§ 1–16; BORN (2014), *supra* note 76, at 152.

<sup>156</sup> BORN (2014), *supra* note 76, at 159; Maria Chedid & Amy Endicott, *Chapter 31—International Arbitration of Intellectual Property Disputes in the United States*, in *INTERNATIONAL ARBITRATION IN THE UNITED STATES* 708 (Laurence Shore et al. eds., 2017).

<sup>157</sup> BORN (2014), *supra* note 76, at 161–62 (citing, among others, *American Ins. Ass’n (et al.) v. Garamendi*, 539 U.S. 396 (2003)).

<sup>158</sup> *AT&T Mobility LLC v. Concepcion*, 563 U.S. 333, 333 (2011).

Supreme Court on unconscionable clauses.<sup>159</sup> Thus § 2 of the FAA, which reads “[a]n agreement in writing to submit to arbitration an existing controversy arising out of such contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract,” prevails.<sup>160</sup>

Notwithstanding the federal statutory background, the notion of arbitrability is rather complex under U.S. law. This is mostly attributable to two cumulative facts. First, the case law of the Supreme Court has been largely confusing when deciding on (non-)arbitrability and the scope of arbitration.<sup>161</sup> The best example is the decision *First Options of Chicago v. Kaplan*, in which the Supreme Court referred to an arbitrability question as an issue of arbitral jurisdiction.<sup>162</sup> Second, the provisions of the FAA do not expressly define the notion of arbitrability, which has to be identified by application of other statutes.<sup>163</sup> As to intellectual property, 35 U.S.C. § 294(a) addresses arbitrability of validity claims in patent disputes accordingly applied by the federal courts, as in *Rhone-Poulenc Specialties Chimiques v. SCM Corp.*:<sup>164</sup>

*Voluntary arbitration*

(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 (emphasis added).<sup>165</sup>

As to trademarks, there is no clear statutory provision, but it is generally interpreted by case law. The landmark decision is *Cara's Notions, Inc. v.*

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<sup>159</sup> *Id.* at 357.

<sup>160</sup> 9 U.S.C. § 2 (2012).

<sup>161</sup> For an elaborate discussion of the topic see George A. Bermann, *The 'Gateway' Problem in International Commercial Arbitration*, 37 YALE J. INT'L L. 1, 4, 29 (2012); PAULSSON, *supra* note 47, at 72–73.

<sup>162</sup> *First Options of Chicago, Inc.*, 514 U.S. at 938–41.

<sup>163</sup> BORN (2014), *supra* note 76, at 964–65.

<sup>164</sup> *Id.* at 991–92; 35 U.S.C. § 294(a); *Rhone-Poulenc Specialties Chimiques v. SCM Corp.*, 769 F.2d 1569 (Fed. Cir. 1985) (but note that 35 U.S.C. § 294(a) was enacted after this case was decided).

<sup>165</sup> 35 U.S.C. § 294(a).

*Hallmark Cards, Inc.*,<sup>166</sup> in which the court followed the pro-arbitration approach taken by the U.S. Supreme Court in *AT&T Technologies, Inc. v. Communications Workers of America* and *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*<sup>167</sup> For the purpose of this research, however, another important feature of U.S. law for international IP arbitration, as opposed to Spain, is found at 35 U.S.C. § 294 (c), (d), and (e). The first paragraph sets forth the *inter-partes* effect of awards while articulating a consistent interplay with the Federal Circuit:

(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 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 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 (emphasis added).<sup>168</sup>

Sections 294(d) and (e) subject the enforcement of awards to a notification regime of the U.S. Patent and Trademark Office.<sup>169</sup> As argued below,<sup>170</sup> IP litigation has a socially valuable information function that is herewith ensured. The duty of notification sponsors such positive externality by providing third parties with knowledge about IP litigation in a controlled way. Overall, the defined U.S. notion of *inter-partes* arbitrability, together with its accurate interplay with state courts and the Office, sets up an advantageous framework for conducting international IP arbitration. Notably, it ensures predictable outcomes to foreign market players. Section 294 states:

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth

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<sup>166</sup> *Cara's Notions, Inc. v. Hallmark Cards, Inc.*, 140 F.3d 566, 571–72 (4th Cir. 1998).

<sup>167</sup> *AT&T Tech., Inc. v. Communications Workers of Am.*, 475 U.S. 643 (1986); *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 639 n.21 (1985); *see also* BORN (2014), *supra* note 76, at 992 (and further case law cited therein); Adamo, *supra* note 13, at 9, 14–15; Mantakou, *supra* note 22, at 266–67; CHROCZIEL ET AL., *supra* note 3, at 24.

<sup>168</sup> 35 U.S.C. § 294(c) (emphasis added).

<sup>169</sup> 35 U.S.C. § 294(d) and (e).

<sup>170</sup> *See infra* Sections III.D.2.b and 3.

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.<sup>171</sup>

### III. A STUDY IN TRANSACTION COST ECONOMICS OF INTERNATIONAL IP ARBITRABILITY

#### *A. The Contract Principle for Coordination*

“Consent guarantees mutual gains, which is the basis for the efficiency of competitive markets.”<sup>172</sup> This statement from Thomas Miceli accommodates, on the one hand, the notion that agreements are in principle mutually beneficial and a vehicle for *Pareto Efficient Changes*. This is because an agreement allows parties to secure an advantage—*i.e.* again—of some kind, resulting in a *Pareto superior* reallocation of resources. In short, this is making one party better off without making another party worse off.<sup>173</sup>

Following Miceli’s model-based analysis,<sup>174</sup>  $U_1(A)$  and  $U_2(A)$  represent the utility functions of two individuals given an arbitrary initial allocation of resources (A). Any point within the area ABC represents a new, consented *Pareto superior* allocation. With the move of the utility functions, both parties are as well off as in the previous one (A) and at least one of them is strictly better off without the other being worse off. However, the agreed reallocation will only be *Pareto efficient* (*i.e.*, optimal) if a point is on the curve BC. This means, if it ends up located on the *Utility Possibility Frontier*,

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<sup>171</sup> 35 U.S.C. § 294(d) & (e).

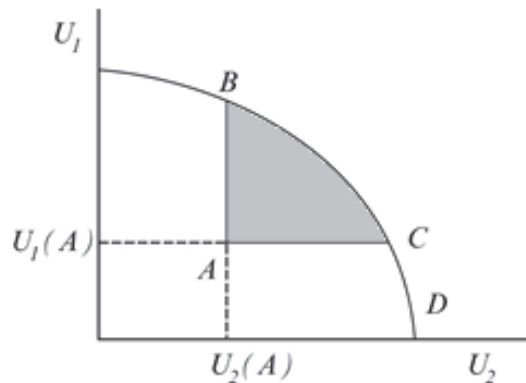
<sup>172</sup> THOMAS J. MICELI, CONTEMPORARY ISSUES IN LAW AND ECONOMICS 6 (2009).

<sup>173</sup> KAPLOW & SHAVELL, *supra* note 57, at 2–5; EJAN MACKAAY, LAW AND ECONOMICS FOR CIVIL LAW SYSTEMS 479 (2013); COOTER & ULEN, *supra* note 1, at 283 (focusing on enforceability); Shavell, *supra* note 38, at 42–46. *See also* MICELI, *supra* note 172, at 6 (who compares the actual consent required for *Pareto superior* reallocations with an implied consent for a *Kaldor-Hicks criterion* and further elaborates on the limitations of the *Pareto criterion*).

<sup>174</sup> MICELI, *supra* note 172, at 4–6.



that would be the situation whenever no further reallocation is *Pareto superior* to it without making one party worse off. Arguably, this is achieved in contracting by incorporating terms that add net value to the bargain. Such terms are those bringing more value for a party than they cost to another.<sup>175</sup>



Graph 1.  
Adapted from  
MICELI, *supra* note  
172, at 5.

On the other hand, Miceli's statement triggers the idea that consent allows individuals to coordinate in order to continuously innovate and specialize, which results in competitive advantages. Whenever parties resort to a formal institutional framework to ensure such coordination, we talk about *contracting*, since contracts are, in principle, legally enforceable promises.<sup>176</sup> IP contracting enables market players to use, exploit and exchange specialized or innovative outcomes for other specialized or innovative outcomes. This also sponsors the improvement of such specialized or differentiated resources on a continuous base.<sup>177</sup> First, specialization promotes productivity as everyone can devote a bigger part of their resources to more efficiently do one single activity. From an organizational view, for instance, a firm can more efficiently produce certain

<sup>175</sup> KAPLOW & SHAVELL, *supra* note 57, at 6–7 (in law and economics literature it is known as “enlarging the contractual pie.” They identify six examples of gains to be secured through agreements: (1) differences in valuation, (2) advantages in production, (3) complementarities, (4) borrowing and lending, (5) allocation of risk, and (6) different expectations; see *infra* Section III.B.3.

<sup>176</sup> See *infra* Part I; Merges, *supra* note 5, at 1515 (transactions are not necessarily contracts).

<sup>177</sup> Lemley, *supra* note 11, at 750 (Arguing: “[a] patent system that encourages innovation needs to encourage the diffusion of knowledge. Inventors are not working in isolation.”).

IP-protected technologies. Second, innovation allows us to do an activity in a singular fashion, for which a company can charge higher prices. A clear example is innovative product positioning.<sup>178</sup>

Besides contracting, one can argue that there are alternative sources to achieve consent between strangers at a relatively cheap cost. In new institutional economics, they are commonly known as informal institutions.<sup>179</sup> These may be, for instance, the threat of social sanctions in parties' familiar environment, or reputational punishments within a particular industry. Also, the adoption of a *tit-for-tat* strategy in *relational contracts*.<sup>180</sup> However, in stark contrast with contract law, none of these alternatives is always desirable from a market efficiency perspective, since both somehow reduce (international) market competition.

- i. Market competition is *materially* curtailed because reliance on social sanctions, as an ultimate source of trust for coordination consent, limits the scope of activity. Social sanctions are not effective, probably not even existent, if a market player wants to operate beyond its social sphere, beyond the scope in which it develops its normal business. For example, the reputational punishment is only significant for a market player within a specific industry and limited to a concrete environment.
- ii. Relational contracts *subjectively* reduce cross-border market competition. Any increase of trust is, by definition, based on prospective interactions with the same party or within a limited group of participants. Competition on concluding long-term contracts will then replace competition on prices.<sup>181</sup>

The point to be made is that protection of specialization and innovation provided by IP rights does not *per se* suffice. Clearly, reliance on enforcement of IP rights worldwide reduces the risks of investing in

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<sup>178</sup> WILLIAM VAN CAENEGEM, *INTELLECTUAL PROPERTY LAW AND INNOVATION* vii, 3 (2007) (“[a]ppplied technologies also require further compatible technologies to function efficiently”); PORTER (2009), *supra* note 2, at 263, 372, 375; Barnett, *supra* note 9, at 789.

<sup>179</sup> Williamson, *supra* note 7, at 598 (referring to: “[i]nformal constraints [like] sanctions, taboos, customs, traditions, and codes of conduct”); Vertinsky, *supra* note 10, at 227–29.

<sup>180</sup> See also COOTER & ULEN, *supra* note 1, at 299–305 (further explanation on the concept of Relational Contracts).

<sup>181</sup> ROBERT D. COOTER & HANS-BERND SCHÄFER, *SOLOMON’S KNOT: HOW LAW CAN END THE POVERTY OF NATIONS* 88, 90 (2012).

innovation. Having an undisputed market-organizing function by granting temporal monopolies, IP rights are the first step for rewarding efforts in R&D, fostering technologic development and innovation. Beyond this *incentive theory*, IP rights play two crucial transactional roles by affecting precontractual liability and enforcement flexibility.<sup>182</sup> However, new institutional economics literature stresses that this is only part of the story.<sup>183</sup> As demonstrated in this work, reliable international enforcement—frequently by arbitral tribunals—is a pivotal aspect of channeling IP contracting in order to coordinate specialized innovators. This not only results in a higher compensation of R&D efforts but ultimately accommodates sustainable competitive advantages at the micro- and macroeconomic levels.<sup>184</sup>

On the flip side, this dynamic creates massive interdependencies among individuals. From a firm boundaries approach, coordination of specialization and innovation by means of IP contracting poses a complex trade-off. One must opt for less-innovative or less-specialized integrated firms with cheaper coordination costs, or highly innovative or highly specialized disintegrated firms incurring major costs of coordination.<sup>185</sup> For example, those companies or industries operating in countries with weak IP rights and poor contract enforcement reduce technology transfer in general and they only specialize or innovate through vertical integration or other company-like arrangements.<sup>186</sup>

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<sup>182</sup> Merges, *supra* note 5, at 1487–89; JAFFE & LERNER, *supra* note 28, at 7.

<sup>183</sup> See *infra* Part I; Heald, *supra* note 4, at 474; Williamson, *supra* note 7, at 597; Vertinsky, *supra* note 10, at 220–22.

<sup>184</sup> Carroll, *supra* note 22, at 1380–81 (pointing out that an intellectual property system leaves compensation to the right-investor to market—*i.e.*, on a transaction structure that “requires courts to enforce rights and licenses”—as opposite to direct compensation system or compensation by taxes); VAN CAENEGEM, *supra* note 178, at 4; PORTER (2009), *supra* note 2, at 226, 261.

<sup>185</sup> BENITO ARRUÑADA, *TEORÍA CONTRACTUAL DE LA EMPRESA* 25–26, 45, 90–106, 153–56 (1998) (stating that “[l]a especialización no tiene sentido sin intercambio” [Author’s translation: “specialization makes no sense without exchange”]; describing companies as a mechanism to minimize such coordination costs); Barnett, *supra* note 9, at 838 (stating: “[i]f firms could rely on patents to contract safely over intellectual assets with third parties in order to minimize commercialization costs, then transfer of risk could be mitigated and integrated structures would not be necessary in order to capture innovation returns.”). See also JOSEPH A. SCHUMPETER, *CAPITALISM, SOCIALISM, AND DEMOCRACY* 84–85 (1975); see *infra* Section III.C; PORTER (2009), *supra* note 2, at 369 (as to the trade-off in terms of competitive advantages).

<sup>186</sup> Rephrased from Barnett, *supra* note 9, at 836–37. URS SCHWEIZER, *SPIELTHEORIE UND SCHULDRECHT* 153 (2015); COOTER & ULEN, *supra* note 1, at 283; Buccafusco et al., *supra* note 17, at 6; cf. Williamson, *supra* note 7, at 602–03 (correlating transaction hazards and their cost economizing safeguards on a NIE basis. From simple to complex forms of governance, his scheme shows conditions for replacing credible commitments with vertical integration, and vice versa.).

Assume three players,  $P_1, P_2, P_3$ , operating in three markets,  $M_1, M_2, M_3$ , whose characteristics for the good,  $D$ , are close to perfect competition and separated by national borders. Each Player has the capacity to produce three types of products  $A, B$  and  $C$ , all of them integrant parts of a final product  $D$ . If each Player opts for producing all three goods, they will have to split their resources to carry out such production internally. They will, however, avoid any interdependence and therefore reduce coordination costs. Conversely, if  $P_1$  produces  $A$ ;  $P_2$ ,  $B$ ; and  $P_3$ ,  $C$ , they will competitively specialize and innovate as they will be able to dedicate most of their resources to perfect one single activity. However, they will need to cross-border coordinate each other to obtain the two missing components of the final product  $D$ . This principally occurs at the intercompany level, creating firm-to-firm dependencies. However, it can also take place at the intra-company level, *i.e.* among the units of firm with a global strategy.

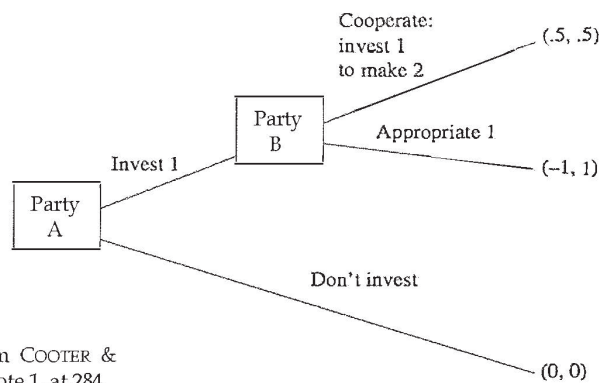
- i. Coordination costs are significant because consent is hard to achieve. Lack of trust between interdependent but unknown individuals generally looms over any exchange whose performance is not simultaneous. It inevitably hampers the conclusion of an otherwise mutually beneficial agreement. *Deferred exchanges* create risks of exploitation and, therefore, uncertainties in cooperation and they increase transaction costs. These hazards hold particularly true on the occasion of international coordination. Among many other factors, cross-border IP transactions are affected by: cultural differences, heterogeneity of legal backgrounds, reluctance to solve future disputes before certain courts, and geographical distance. All this contributes to reduce trust and, ultimately, to hinder consent.<sup>187</sup> This is neatly exemplified by the following agency game:

While the arrows indicate courses of action (cooperate or appropriate), the numbers represent the pay-offs for each player ( $A, B$ ). The game assumes an overall *Pareto Superior* change of 1, which is equally distributed (0, 5). If Party  $A$  decided to trust Party  $B$  and to cooperate by initially performing (invest 1), the latter has

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<sup>187</sup> See PORTER (2009), *supra* note 2, at 369 (including also *problems of incentives* for an intracompany, global coordination).

the option to cooperate (0, 5) or to exploit (1). In this modeled scenario, an economically rational Party B will exploit A if the pay off of exploiting (1) is higher than that of cooperating (0, 5).<sup>188</sup> If Party A anticipates such exposure to exploitation, it will never trust Party B. As a result, it will not coordinate to enter into a mutually beneficial agreement.



Graph 2.  
Adapted from COOTER &  
ULEN, *supra* note 1, at 284.

- ii. Furthermore, coordination costs are high because consent is expensive. Any attempts to create trust between interdependent strangers leads them to incur *transactions costs*. These costs are usually higher at an international level given many of the aforementioned factors.<sup>189</sup> Initially, searching costs are incurred trying to identify a reliable potential counterparty. Later, information costs arise in setting up reliability by eliminating information asymmetries. Bargaining overcomes such asymmetries by means of credible disclosure of significant information. For instance, by providing lengthy representations and warranties or with overwhelming tables of due diligence.<sup>190</sup>

<sup>188</sup> HACKER, *supra* note 19, at 29 (for the concept of *homo economicus*).

<sup>189</sup> ARRUÑADA, *supra* note 185, at 145.

<sup>190</sup> IP law is, in some occasions, also aimed at reducing transaction costs as discussed by Antoni Rubí Puig, *Copyright Exhaustion Rationales and Used Software: A Law and Economics Approach to Oracle v. UsedSoft*, 4 J. INTELL. PROP. INFO. TECH. & ELEC. COM. L. 159, 161 (2013) (concerning

Other trust-enhancing measures could be signing a creditworthy parent company as collateral or opening a letter of credit only payable against a clean bill of lading.<sup>191</sup>

Contract law, understood as institution,<sup>192</sup> solves the coordination problem by redistributing parties' pay-offs. Whenever a deferred exchange takes place, contract law paves the path for consent by enabling credible promises at a low cost. This stems from one of the key roles of contract law: enforcing contracts by raising the costs of non-performance in an *ex post* scenario. As a result, it removes the risks of exploitation and uncertainty in cooperation *ex ante*. "The first purpose of contract law is to enable people to cooperate by converting games with non-cooperative solutions into games with cooperative solutions" (emphasis added).<sup>193</sup>

Back to the agency model: As seen in absence of the coordination effect of contract law, the game had non-cooperative solutions. If, instead, one can rely on contract enforcement, the economically rational strategy for Party B is now to cooperate. In this second scenario, the pay-off of exploiting (-0, 5) is lower than of cooperating (0, 5). This is so because contract law redresses the pay-offs. In case of breach, Party B is obliged to return the appropriated investment (1) and pay expectation damages (0, 5). If Party A anticipates such enforcement on the breaching party B, it will trust B. As a consequence, it will consent to enter into a mutually beneficial exchange and cooperate in the opening move.

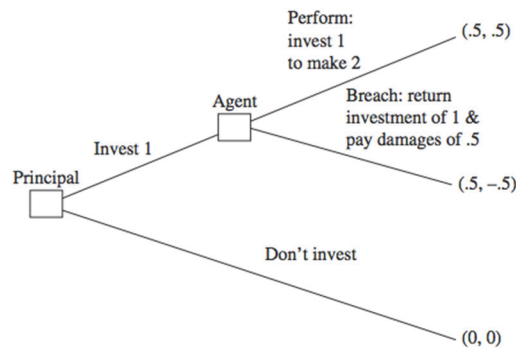
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exhaustion of copyright). Cf. STEVEN SHAVELL, FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW 312–13 (2004) (as regards the trust-enhancing effect of specific investments).

<sup>191</sup> For a view on legal drafting see David Echenberg, *Negotiating International Contracts: Does the Process Invite a Review of Standard Contracts from the Point of View of National Legal Requirements*, in BOILERPLATE CLAUSES, INTERNATIONAL COMMERCIAL CONTRACTS AND APPLICABLE LAW 15–16 (Guiditta Cordero-Moss ed., 2011); Fabio Bortolotti, *Ch. 6—Drafting, Negotiating and Concluding International Contracts*, in DRAFTING AND NEGOTIATING INTERNATIONAL COMMERCIAL CONTRACTS: A PRACTICAL GUIDE 103–04 (2013). For the economics: MACKAAY, *supra* note 173, at 492; KAPLOW & SHAVELL, *supra* note 57, at 26; ARRUÑADA, *supra* note 185, at 143.

<sup>192</sup> Fernando Gómez Pomar, *El Incumplimiento Contractual en Derecho Español*, 3 INDRET 1, 4–6 (2007); for the concept of institutions, particularly as regards a study in new institutional economics see Williamson, *supra* note 7, at 596–97; Vertinsky, *supra* note 10, at 227–29.

<sup>193</sup> COOTER & ULEN, *supra* note 1, at 285 (emphasis added); see SCHWEIZER, *supra* note 186, at 156–70 (for the constellation, in economics terms, of breaches of contract and corresponding remedies).



Graph 3.  
Adapted from COOTER &  
ULEN, *supra* note 1, at 285.

In short, according to the *Contract Principle for Coordination*,<sup>194</sup> contract law basically enables people to credibly commit to doing what they say without the need to incur excessive transaction costs to prove themselves trustworthy in front of a counter party. In exactly the same way, “transaction cost economics subscribe to the idea that the transaction is the basic unit of analysis, and *governance* is an effort to craft order, thereby to mitigate conflict and realize mutual gains” (emphasis added).<sup>195</sup>

Whenever contracts are perceived to be properly enforced, parties anticipate that contract law will punish non-cooperative moves. Relevant *ex ante* effects of the *Contract Principle for Coordination* are crucially reliant on an *ex post* scenario. Namely, creating trust for consent crucially depends on certainty in enforcing a promise. Contract law enforces promises by implementing a redistribution of pay-offs, for instance, by imposing expectation damages to a breaching party.<sup>196</sup> Nevertheless, mere perception of timely enforcement is often sufficient, perhaps even more desirable, than its real implementation.<sup>197</sup> Back to the model above, if the new rewards for

<sup>194</sup> COOTER & SCHÄFER, *supra* note 181, at 83.

<sup>195</sup> Williamson, *supra* note 7, at 599. In the author’s classification, “governance” includes contracts and contract law as formal institutions.

<sup>196</sup> COOTER & ULEN, *supra* note 1, at 283 (stating: “[e]conomic efficiency usually requires enforcing a promise if the promisor and promisee both wanted enforceability when it was made.”); SCHWEIZER, *supra* note 186, at 153–54.

<sup>197</sup> Vertinsky, *supra* note 10, at 231: “[t]he capacity for *feasible foresight* allows parties to limit some of the negative effects of this opportunism by constructing mechanisms that allow for credible commitments to behave cooperatively” referring to Williamson, *supra* note 7, at 10. This is so because

each party 0, 5, -0, 5 were perceived as enforced, performance turned to be *ceteris paribus* the best strategy. Since economically rational individuals can anticipate that, they opt for due performance in the first place.

To sum up, parties can fall back on contract law to cheaply consent to mutually beneficial agreements for innovation and specialization. Together with IP rights, enforcement of IP contracts results in *Pareto Superior* exchanges and in fostering competitive advantages. Ultimately, it all leads to the efficiency of competitive markets. “The first purpose of contract law is to enable people to *convert games with inefficient solutions into games with efficient solutions*” (emphasis added).<sup>198</sup>

## *B. Economics of Non-Enforcement of International IP Awards*

### *1. Application of the Model to International IP Arbitration*

Countries’ policies on IP arbitrability, however, particularly as regards invalidity questions of registered industrial IP rights, impair contract enforcement as perceived by parties. From an economic view, they hamper individuals’ chances to make, at a reasonable cost, credible commitments in the context of international IP contracting. For many reasons,<sup>199</sup> parties to an international IP agreement may consider state court litigation as unable to guarantee contract enforcement in the same way that a private arbitral tribunal does. As discussed, the venue of such contract non-enforcement is the procedure for recognition and enforcement of international awards under the auspices of the New York Convention. In it, non-arbitrability policies are considered *ex officio* by, or raised as defense before, state courts of the country where enforcement of an IP contract may be ultimately needed.

Assume, for instance, a valid license contract between a Swiss IP-holder and a German trader with a Spanish branch, for a patent registered in

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the goal is always to conclude a “self-enforcing contract” to save implementation costs of enforcement. Max Raskin, *The Law and Legality of Smart Contracts*, 1 GEO. L. TECH. REV. 305, 314–15 (2016) (exemplifying this concept with the vending machines case); ARRUNADA, *supra* note 185, at 173.

<sup>198</sup> COOTER & ULEN, *supra* note 1, at 286 (emphasis added); SCHWEIZER, *supra* note 186, at 154.

<sup>199</sup> See *infra* Section III.B.3 (discussing the reasons to opt for international arbitration in IP disputes).



Switzerland, Germany and Spain.<sup>200</sup> Upon breach of contract by the Hamburg-based trader, the parties commenced an ICC arbitration seated in Zürich. During litigation, the German company raised a defense of invalidity against the underlying patent in dispute. In the award, the arbitral tribunal merely declares invalidity unsubstantiated and grants damages for breach of contract to the Swiss IP-holder and orders the German trader to cease the current sale of products in Hamburg and in Barcelona. As outlined elsewhere,<sup>201</sup> this award does not contravene—at least regarding IP non-arbitrability policies—the law of the seat. However, non-arbitrability policies of both destination States may deny enforcement of the award, requiring the commencement of proceedings before the German and Spanish courts.

The failure to reliably enforce the new pay-offs adjudicated by the Zürich-seated tribunal, without a court proceeding commenced anew, somehow unwinds the *Contract Principle for Coordination*. If the Spanish provisions Article 2(1) of the LA Act and Article 136(2) of the Patent Law (relevant at the enforcement stage as a result of Article 46(2) of the LA Act in light of Article V(2) of the New York Convention) are interpreted as to deny *exequatur* to the international award, the underlying IP agreement is left unenforced at the country where such is desperately needed. This obstructs the *ex ante* trust-creating effect of contract law, making the Swiss and German parties unable to make cheap credible commitments by falling back on contract law. With it, coordination on specialization and innovation protected by IP rights results are disrupted, curbing competitive advantages.<sup>202</sup>

Since not all IP agreements deserve to be enforced, the argument of this research should not be misconstrued. Economically, contract enforcement is proven to be a pillar for achieving *Pareto superior* gains, which result from

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<sup>200</sup> This hypothetical is partly based on CHROCZIEL ET AL., *supra* note 3, at 123. *See infra* Section III.D (discussing an important, real case).

<sup>201</sup> *See infra* Section II.C.3 (from a legal comparative viewpoint).

<sup>202</sup> *See infra* Sections III.A and III.C; SCHUMPETER, *supra* note 185, at 84–85; PORTER (2009), *supra* note 2, at 369, 372, 375; ARRUNADA, *supra* note 185, at 25–26, 88 (discussing how exchange allows specialization, resulting in greater productivity and overall efficiency of markets). For IP scenario, *see* Carroll, *supra* note 22, at 20–21 (stressing that an intellectual property system “[r]equires courts to enforce rights and licenses” (emphasis added) to assure compensation to right-holders). In the hypothetical above, the Swiss IP-holder was assumedly specialized in developing patentable technologies while the German trader was so into innovatively commercialize new technologies. With affordable and reliable coordination, both get higher returns on their investments in R&D.

the exchange of specialized or innovative resources protected by IP rights. These transactions sponsor firms' competitive advantages, upholding efficiency in competitive markets. On the flip side, however, two main limitations must be respected as regards contract enforcement, also pointed out from an economic standpoint:<sup>203</sup>

- (a) validity in the formation of the contract; and
- (b) impact of contract performance on third parties.

Whereas validity of contract provides most of the arguments for the traditional approach to non-arbitrability policies on certain IP disputes, the latter is a central rationale of an up-to-date debate. All concerns raised by the affectation of third parties are at the center of a discussion that insistently reviews IP non-arbitrability policies at the subsequent stage of recognition and enforcement of international awards.<sup>204</sup>

## 2. Synthesis

For the sake of further clarification, the argument is neither that non-arbitrability policies on IP validity suppress enforcement of IP rights or the opportunity to conclude mutually beneficial contracts. Namely, IP rights and their transactions are nevertheless supported by applicable IP law and contract law. However, in this event, state courts will enforce them. In particular, IP coordination will still exist to the extent that parties identify entering into certain agreements as mutually beneficial, on grounds of sustainable competitiveness and *Pareto* changes in their resources. Namely, only in those scenarios in which transactions costs at the moment of the contract's conclusion are higher than its expected returns, will individuals refrain from contracting.

The synthesis of this research is more relaxed. Economically rational parties will react non-efficiently, as long as they anticipate that an international award incidentally dealing with validity of an IP right will lead

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<sup>203</sup> Shavell, *supra* note 38, at 45; *but cf.* COOTER & ULEN, *supra* note 1, at 283 (aiming to "replace" the bargain theory in answering the question "why contracts should be enforced?"); COOTER & ULEN, *supra* note 1, at 289–90 (referring to effects on third parties). From a law and economics view, the notion of *Efficient Breach* has been suggested as third limitation. 35 U.S.C. § 294 (A suitable positive example: paragraph (a) reads: "[a]rbitration of any dispute relating to patent validity or infringement arising under the contract. [. . .] 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" (emphasis added)).

<sup>204</sup> See *infra* Sections II.C.2, III.D, and Conclusion.

to problematic enforcement in certain jurisdictions under the New York Convention. On the one hand, (3) parties will renounce to any *increment of net value* what an agreement on international arbitration as an ADR mechanism for IP disputes could have brought to their cross-border bargain. On the other hand, even if opting for arbitration, (4) parties will incur higher transaction costs, adopting *non-efficient contractual protections* aimed at overcoming troubles in making affordable, credible commitments. From a market-efficiency perspective, all this will result in sub-optimal coordination between, or among, interdependent players.

### 3. Ten Losses of Net Value: Falling Short of the Utility Possibility Frontier

In principle, an arbitration agreement amounts to a net value increment for a given bargain. In other words, it enlarges the contractual pie by approximating the resulting *Pareto* change to the parties' *Utility Possibility Frontier* given their resources.<sup>205</sup> Handbooks on international commercial arbitration identify at least nine arguments to support the adoption of this ADR mechanism over litigation before state-courts: (1) Neutrality; (2) centralized dispute resolution; (3) enforceability of agreements and awards; (4) cost and speediness; (5) expertise and commercial competence; (6) confidentiality or privacy; (7) finality of the decisions; (8) procedural flexibility and party autonomy; (9) arbitration involving states and state entities.<sup>206</sup>

From an economic analysis viewpoint, each of these arguments potentially accommodates a net-value-adding term for, at least, one of the parties to a contract. An example could be the case where a party faces the risk of incurring massive reputational losses, for instance, if the

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<sup>205</sup> KAPLOW & SHAVELL, *supra* note 57, at 11, 26, 49, 51 (presenting the concept of enlarging the contractual pie); *see infra* Graph 1. For constellation of real cases *see* Heike Wollgast, *WIPO Alternative Dispute Resolution—Saving Time and Money in IP Disputes*, WIPO MAGAZINE, Nov. 2016, at 32 (as well as for “TMT cases” (Technology, Media and Telecommunications)); Ignacio De Castro, Leandro Toscano & Andrzej Gadkowski, *An Update on International Trends in Technology, Media and Telecoms Dispute Resolution, Including Intellectual Property Disputes*, LES NOUVELLES—INTERNATIONAL TRENDS, 2018, at 116, 116–19.

<sup>206</sup> *See* BORN (2012), *supra* note 13, at 9, 10–16 (for a summary table, § 1.02); BLACKABY ET AL., *supra* note 13, at 28–39.

particularities of the dispute reach the media. An arbitration agreement complemented with a confidentiality obligation,<sup>207</sup> both incorporated at the purchase contract with one of its suppliers, may add net value to the overall bargain. The result would be making one party even *more* better off without the other worse off. In other terms, an arbitration agreement places the results from the exchange closer to the Utility Possibility Frontier.

In the context of cross-border IP transactions and in tune with conferring *inter-partes* effect to international awards as the suggested solution,<sup>208</sup> this work stresses a tenth argument for adopting international commercial arbitration as a net-value-adding term: *parties' interest*. In short, why would a market player be willing to do the arduous work of invalidating an IP right for the advantage of its competitors? Why would an IP-holder be interested in risking its exclusionary power for a discrete contractual or tort dispute? Whereas this would be the case of state-court litigation, whose rulings can affect third parties, commercial arbitration offers the possibility to incidentally address IP validity, with a limited effect, in order to adjudicate on the contractual or tort lawsuit. This may be in the exclusive interest and benefit of the litigants, whose only purpose is resolving the contractual or tort claim.<sup>209</sup>

It must be stressed that an all-or-nothing approach to IP validity does not reflect reality. Usually in IP litigation, invalidity claims only concern part of the scope protected by the IP right challenged. In others, arbitrators or judges only grant partial IP invalidity. Nevertheless, the reasoning behind this binary approach equally applies to partial nullity of IP rights. The questions formulated above, for instance, do not vary: Why would a market

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<sup>207</sup> Smith et al., *supra* note 42, at 314–15. *See infra* Section II.C; *see also* BORN (2014), *supra* note 76, at 2781 (distinguishing privacy from confidentiality in arbitration).

<sup>208</sup> *See infra* Sections III.D. and IV.

<sup>209</sup> *See* WIPO, *Why Arbitration in Intellectual Property?*, WORLD INTELLECTUAL PROP. ORG., [www.wipo.int/amc/en/arbitration/why-is-arb.html](http://www.wipo.int/amc/en/arbitration/why-is-arb.html) (last visited Mar. 7, 2019) (for arguments to adopt arbitration in IP disputes); Adamo, *supra* note 13, at 28; COOK & GARCIA, *supra* note 12, at 39 (identifying the argument of parties' interest with (1) the arbitrator's lack of powers to invalidate a disputed IP right. The authors enumerate a set of other arguments: (2) readily worldwide enforceability of arbitral awards; (3) unity of cross-border or global proceedings; (4) neutrality; (5) flexibility; (6) room for party autonomy to choose the decision-makers; and (7) lack of appeal. Finally, they refer to (8) the speediness; (9) lower costs of arbitration and (10) confidentiality). *See also* Smith et al., *supra* note 42, at 302. Concerning positive externalities of IP litigation that could be curtailed by *inter-partes* effect of arbitral awards, *see infra* Sections III.D.2.c and 3.

player be willing to invalidate one of the claims of a patent, or partly cancel a trademark, for the benefit of its competitors? Why should an IP-holder risk part of the scope of protection vested by its right against third parties?<sup>210</sup>

In addition to better accommodating parties' private interests when resolving a dispute over IP rights exploitation, individuals will find international arbitration particularly attractive whenever they face a multijurisdictional or global lawsuit. As a rule, the recognition and enforcement of arbitral agreements and awards worldwide guaranteed by the New York Convention allows parties to contract around highly costly and time-consuming litigation. Otherwise, the extremely fragmented cross-border IP litigation, resulting from the limited jurisdiction of state courts,<sup>211</sup> would force parties to virtually commence a court proceeding in every single country with which an IP conflict has connections.<sup>212</sup> Cost and time savings are neither the exclusive drivers for adopting international arbitration in this kind of dispute but also, and arguably way more significantly, avoiding contradicting rulings.

Notwithstanding, the perception of non-recognition and non-enforcement of international awards incidentally adjudicating on IP validity makes arbitration less attractive: "arbitration would be robbed of its advantages."<sup>213</sup> Without certainty in its advantages, parties will walk away from this ADR mechanism. In conclusion, they will irremediably give up its ten net-value-adding features and, as a consequence, they will fall short of their Utility Possibility Frontier.

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<sup>210</sup> See *infra* Section III.D.2 (as to partial revocations of industrial IP rights).

<sup>211</sup> De Werra, *supra* note 13, at 354–55.

<sup>212</sup> BLACKABY ET AL., *supra* note 13, at 29 (stressing that, in contrast to an arbitration clause, a forum-selection clause does not benefit from worldwide recognition and enforcement). 2012 O.J. (L 351) 20 (EU) (the EU Regulation on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters is, perhaps, the most salient exception).

<sup>213</sup> KAPLOW & SHAVELL, *supra* note 57, at 51; for the argument in the legal side see, e.g., Haas, *supra* note 53, at 519 (stating: "[i]f one completely removes subject matters from the jurisdiction of arbitral tribunals, then the business community is deprived of an effective method of resolving conflicts in the area of international business transactions."); De Werra, *supra* note 13, at 376–77.

#### 4. Contractual Protective Measures: From Integrative to Distributive Bargaining

Without walking away from arbitration, the usual solution would be to contractually allocate the risk of bad IP-dispute resolution to one of the parties. Namely, this risk is the lack of proper, reliable enforcement of international awards and the subsequent need to initiate multiple court procedures anew. From a law and economics viewpoint, parties will overcome this issue by incurring drafting and bargaining costs<sup>214</sup> aimed at proving themselves trustworthy. For instance, by adding a compliance guarantee sanctioned with a fixed sum on damages to be paid in case state courts of a relevant jurisdiction deny enforcement to a resulting award. As just pointed out, this increases transaction costs in a two-fold scheme of consequences.

In an extreme case, high transaction costs could cause parties to refrain from entering into an agreement at all, whenever its conclusion is costlier than the expected returns. In a second scenario, the economics of contract drafting illustrate that parties will only allocate risks at the moment of contract conclusion (*ex ante*), if the transaction costs of doing so are lower than the potential losses of not allocating them.<sup>215</sup> The latter figure results from the materialized losses *ex post*, taking into account the allocation otherwise conducted by applicable default rules, multiplied by the probability that the event occurs.

*allocating a risk* > *allocating a loss* × *its probability* → *leave gap*,  
*allocating a risk* ≤ *allocating a loss* × *its probability* → *fill gap*

Robert Cooter and Thomas Ulen resort to this formula to illustrate, on a general contractual basis, the minimization of transaction costs in contract drafting.<sup>216</sup> For the subject matter of this research, *allocating a loss* stands for all materialized losses whenever an international award is not enforced at a given jurisdiction on grounds of non-arbitrability of—incidentally decided—IP invalidity.

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<sup>214</sup> Echenberg, *supra* note 191, at 13–14; Bortolotti, *supra* note 191, at 100–01 (emphasizing self-sufficient contracts).

<sup>215</sup> KAPLOW & SHAVELL, *supra* note 57, at 49.

<sup>216</sup> COOTER & ULEN, *supra* note 1, at 293.

Contract drafting measures, however, cannot fully work in addressing the outlined problem. On the one hand, beyond the possibility of a voluntary compliance with an arbitral decision, any added trust-enhancing clause will anyways remain affected by the non-enforcement uncertainty itself. Whenever an award-debtor sits in a jurisdiction whose state courts are to apply a broad non-arbitrability policy under Article V(2) of the New York Convention, any contractual provisions are also likely to be left unenforced. Therefore, the effect of making a commitment more credible is arguably limited.

On the other hand, whenever the benchmark upon which parties are drafting an agreement is unpredictable, parties have no available loss-allocating default rule from which to deviate. In a comparative survey, this is the case of non-arbitrability policies on IP validity. In too many instances, they are subject to changes in criteria depending on political or economic needs or their unclear meanings are lacking consistent interpretations by high courts. This also results in contradicting arbitrability policies worldwide, posing relevant preliminary information costs to parties.<sup>217</sup>

Conclusively, without the option of legal-drafting engineering, the only operable solution to nevertheless reach an assumedly mutually beneficial exchange is a simple business decision. As stated before, as long as costs of bargaining are lower than expected returns, economically rational parties are going to secure mutual gains of coordinating specialized or innovative resources. In so doing, however, parties will hedge the risk of bad international commercial IP arbitration by agreeing upon a lower price. “Slow, uncertain legal processes cause a rational person to discount the court’s remedy, like a ten-year junk bond.”<sup>218</sup>

Whereas a commercial bargain is primarily a *Pareto Superior* change with which both parties are better off, agreeing on a lower price is a claim of such contractually generated surplus. The former, in which both or at least one party is strictly better off without the other being worse-off, translates into lateral moves of their utility functions. Conversely, with a claim of generated value, one individual results in being better off and the other is

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<sup>217</sup> Viscasillas, *supra* note 71, at 29, 33, 47; Smith et al., *supra* note 42, at 356.

<sup>218</sup> COOTER & SCHÄFER, *supra* note 181, at 91.

worse off. In negotiation terms, it is no longer a bargain to generate *integrative value* but a claim of *distributive value*.<sup>219</sup>

This price-hedging decision, as a distributive claim, has a paramount advantage: to enable mutually beneficial international IP coordination. On the flip side, however, it does not come free of expense. It affects firms in, and GDPs of, countries having stringent non-arbitrability policies under Article V(2)(a)(b) of the New York Convention. Such a business-driven answer entails devastating consequences in terms of competitive advantages at micro- and macroeconomics levels. These are discussed in the following section.

### *C. Two-Fold Consequences on Competitive Advantages*

In the economy paradigm of the 21st century,<sup>220</sup> a companies' performance is no longer reliant on *comparative advantages* but on *competitive advantages*. Companies' competition on obtaining necessary production factors offered at the lowest opportunity cost has been replaced by competition on productivity. This new scenario is given by the fact that firms all around can nowadays more easily equalize comparative advantages but need to highly specialize and innovate. Cutting-edge technologies, product positioning or innovative commercialization are, among other IP-protected factors, what create sustainable competitive advantages.<sup>221</sup>

#### *I. Microeconomics: Learning from Porter's Competitiveness*

Sustainable competitive advantages directly result from two venues: companies' strategies or efficient operations. The latter is primarily upheld by specialization and/or innovation, usually protected by IP rights.<sup>222</sup> Hence,

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<sup>219</sup> For the function see MICELI, *supra* note 172, at 5; as elaborated in Section III.A, *infra*. For the integrative vs. distributive negotiation see Charles B. Craver, *The Inherent Tension Between Value Creation and Value Claiming During Bargaining Interactions*, 12 CARDOZO J. CONFLICT RESOL. 101, 117–18 (2010); KAPLOW & SHAVELL, *supra* note 57, at 53–54; Shavell, *supra* note 38, at 43.

<sup>220</sup> See *infra* Section I.A, introductory remarks; Barnett, *supra* note 9, at 832–38.

<sup>221</sup> PORTER (2009), *supra* note 2, at 225–27, 253 (exemplifying that a cost reduction by 10% as a result of adopting economies of scale can easily be surpassed by developments of new products); PORTER (2009), *supra* note 2, at 374–75; PORTER (1980), *supra* note 2, at 280–81.

<sup>222</sup> PORTER (2009), *supra* note 2, at 366 (explaining how the Value Chain allows the identification of companies' strategies).



efficient operations encompass not only cheaper production than competitors, resulting from specialization, but also differentiation in the market. Differentiation becomes of particular interest whenever it allows charging an extra price higher than the cost of differentiating itself.<sup>223</sup>

Registered industrial IP rights, such as patents and utility models, address technical innovation, which should allow companies to produce at lower costs, with more characteristics or with innovative quality. In turn, trademarks and registered industrial designs are in charge of commercialization and product positioning in a differentiated fashion. International IP coordination fosters exchange, use, exploitation and permanent improvement. As claimed: “[c]ontinuous improvement of competitive advantages is the best way to defend them.”<sup>224</sup> In either case, the key idea is again that not only has worldwide enforcement of IP rights protecting specialization and innovation become crucial, but it requires a proper enforcement of IP contracting.

As mentioned, this synthesis holds equally true for intra- or inter-company approach, since both entail major interdependencies. On the one hand are the cross-border up- and downstreams of efficient operations between business units, protected by IP rights inside a unique, truly global company. On the other hand, cross-border outsourcings of specialization and innovation protected by IP rights in the market.<sup>225</sup> The latter transactions principally occur at the expense of affordable contractual coordination, finally reliant on the proper international enforcement of contracts. As a consequence, the business, price-driven decision of hedging bad international IP arbitration utterly collapses—at least for one party—most of the gains in competitiveness that result from a cross-border IP coordination.

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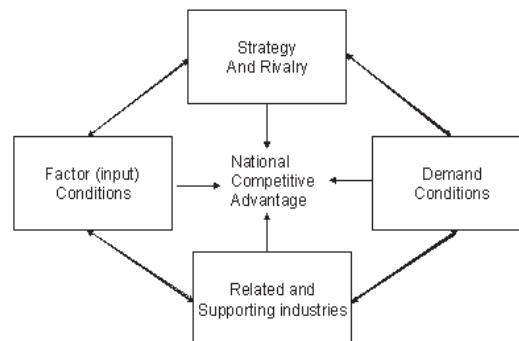
<sup>223</sup> PORTER (1980), *supra* note 2, at 280 (for IP-intense industries); *see generally* PORTER (2009), *supra* note 2, at 363–65.

<sup>224</sup> PORTER (2009), *supra* note 2, at 226, 229, 231, 263. For all, *see* SCHUMPETER, *supra* note 185, at 84–85 (defining competition on innovation); VAN CAENEGEM, *supra* note 178, at 4 (referring to the Schumpeter’s “Gale of Creative Destruction.”). From the IP law perspective *see* Lemley, *supra* note 11, at 711, 715, 750.

<sup>225</sup> *See infra* Part I, Introduction. The current economy favors innovative (risk-taking) products, which require that companies find a fit in the supply chain management and efficiency in outsourcing. One of the important drivers to so achieve is the transfer of intellectual property rights from an OEM to its retailers (downstream) up to its suppliers (upstream), for all on the supply chain management implications. *See* Stephan M. Wagner, Pan Theo Grosse-Ruyken & Feryal Erhun, *The Link Between Supply Chain Fit and Financial Performance of the Firm*, 30 J. OPERATIONS MGMT. 340, 340–42 (2012); PORTER (1980), *supra* note 2, at 296–97; PORTER (2009), *supra* note 2, at 229, 374; Barnett, *supra* note 9, at 795–97.

Companies in jurisdictions where courts apply unclear or changing, disruptive non-arbitrability policies under Article V(2)(a)—and perhaps (b)—of the New York Convention must pay higher, or are forced to receive lower, prices for cross-border IP coordination. Uncertainty in the enforcement of international awards incidentally deciding on IP validity results in firms facing significant troubles for an affordable cross-border IP contracting. Hence, they have, from a business view, already lost too much on competitive advantages. Given the massive interdependencies existing in today's economic paradigm, these aggrieved firms cannot keep up with the challenging race to become sustainably superior in specializing or in differentiating.

This conclusion is supported by Professor Porter's diamond-model on geographical location as a source of productivity—*i.e.* of competitive advantages.<sup>226</sup> Taking into account the judiciary system and legislation as specialized *Factor (Input) Conditions* of a country, the diamond-model illustrates the forces behind firms' turnovers. It explains why companies in certain jurisdictions achieve greater degrees of specialization and innovation, hence an advanced competition on productivity.<sup>227</sup>



Adapted from PORTER (2009), *supra* note 2, at 231–32.

<sup>226</sup> PORTER (1980), *supra* note 2, at 286; PORTER (2009), *supra* note 2, at 231–32, 376–77 (for nations and companies respectively); PORTER (2009), *supra* note 2, at 360 (for an introduction on the relevance of location for global companies).

<sup>227</sup> PORTER (1980), *supra* note 2, at 286 (highlighting “[p]olicies by home governments that are disadvantageous to their firms in international operations.”). See also PORTER (2009), *supra* note 2, at 225–26, 251, 253, 260, 262 (stressing that circumstances of a country must foster innovation; otherwise, a company has no other choice than moving its operations and activities (including headquarters) to another country providing a better international framework for specialization and innovation). See also SCHUMPETER, *supra* note 185, at 84–85; Barnett, *supra* note 9, at 836–37 (from a firms’ organizational standpoint).

2. *Macroeconomics: Learning from Cooter and Schäfer's Solomon's Knot*

Taking a broader view, in aggregate terms, the overall economies of those countries with dysfunctional legal polices face a clear competitive disadvantage. Lack of national productivity, understood as lack of *national* sustainable competitive advantage, is what has a most significant negative impact on the overall economic performance. For healthier GDPs, better labor markets, and higher life-levels for citizens, nations should replace any competition on comparative advantages for competition on competitive advantages. Countries must replace an institutional framework aimed at offering low-cost production factors for institutions that support international coordination of IP-protected innovation and specialization.<sup>228</sup>

Worldwide unpredictable, vague, or inconsistent arbitrability policies barring recognition and enforcement of international awards are clear-cut examples of dysfunctional law. In principle, unreliable cross-border award enforcement may not *per se* obstruct companies' participation in the cross-border IP in-and-out flows. State courts are going to enforce contract law when required. Nevertheless, whenever parties opt for international commercial arbitration, such dysfunctional law makes IP coordination costlier. Losses of net value, lower incomes or extra costs collapse competitive advantages of the firms in those affected jurisdictions.<sup>229</sup>

Mirroring the argumentation suggested by Professors Cooter and Schäfer,<sup>230</sup> this is exemplified by the data collected by the World Bank<sup>231</sup> on contract enforcement. This must be additionally correlated with the countries occupying the top positions in the OECD high-income rank. Namely, jurisdictions with efficient contract enforcement, in terms of delays, costs and good practices in solving commercial disputes by filing a lawsuit in a first-

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<sup>228</sup> See *infra* Section III.C.

<sup>229</sup> For different arbitrability policies worldwide see *infra* Section II.C.4; for an economic study of their impact on parties to IP transactions see *infra* Section III.B.2.3.4. Williamson, *supra* note 7, at 608 (neatly stressing the relevance of the institutional environment for nation development).

<sup>230</sup> COOTER & SCHÄFER, *supra* note 181, at 91–92; Certilman & Lutzker, *supra* note 23, at 71, 75. For examples of the impact of contract enforcement on the easier with which to get bank financing or on the participation in foreign direct investment see *Enforcing Contracts*, DOING BUSINESS 2013 (World Bank Pub.) Oct. 12, 2012 at 90.

<sup>231</sup> *Enforcing Contracts*, *supra* note 230, at 90–93; World Bank Group, *Doing Business 2015, Going Beyond Efficiency* 90–95 (2015).

instance court, largely correspond with high-incomes nations. Also vice versa.

The following table ranks countries, over June 2011 to June 2012, in terms of contract enforcement. To do so, the rank takes into account the average resulting from:

- (1) the number of days needed to resolve a commercial dispute;
- (2) attorney, court and overall costs in relation to claims' value; and
- (3) the use of good practices promoting quality and efficiency of court proceedings.

*Where contract enforcement is easiest and most difficult according to Doing Business (FR 2013, p. 90)*

<b>Easiest</b>	<b>Rank</b>	<b>Most difficult</b>	<b>Rank</b>
Luxemburg	1	Syrian Arab Rep.	176
Korea, Rep.	2	Central African Rep.	177
Iceland	3	Benin	178
Norway	4	Honduras	179
Germany	5	Suriname	180
United States of America	6	Sao Tomé and Príncipe	181
Austria	7	Bangladesh	182
France	8	Angola	183
Finland	9	India	184
Hong Kong	10	Timor-Leste	185

As stated by these authors, “besides delays [costs and bad practices] another defect is vague laws with unpredictable consequences.”<sup>232</sup> This seems to be the case, among many others, of arbitrability policies on international disputes over certain IP rights, as discussed here. It can be thus normatively stated that adopting an arbitration-friendly policy on IP validity when enforcing multijurisdictional or global awards constitutes one location-factor to create key competitive advantages at a micro- and, subsequently, at a macroeconomic level. Hence, to somehow contribute to an aggregate higher income and, perhaps, as a little help to end the poverty of nations.

<sup>232</sup> COOTER & SCHÄFER, *supra* note 181, at 92.

The law, as a legal institutional framework provided by countries, should play the *indirect* role of supporting a desirable competition on productivity.<sup>233</sup> For instance, by granting *inter-partes* effect to an international award under Article V(2) of the New York Convention, as adopted in the United States and examined below. Principally, regarding the ever-growing use of commercial arbitration for adjudicating IP exploitation-disputes in a cross-border arena.<sup>234</sup>

#### D. Is the U.S. System One Step Ahead?

##### I. Application of the Synthesis

As studied elsewhere,<sup>235</sup> Section 294 of the U.S. Code grants *inter-partes* effect to awards adjudicating on patent validity or infringement arising under the contract. The rule further lays down a consistent interplay between arbitral awards, the Patent Office and state courts. It comes as no surprise that this provision dates back in 1982, when the entire federal judicial system to enforce U.S. patent law was enacted. The Court of Appeals for the Federal Circuit (CAFC) was established to hear, in a centralized and predictable fashion, all appeals of patent cases. As result: “The *improved enforceability* of granted patents encouraged applications by making the patent right more economically valuable.”<sup>236</sup>

Relevant data support this conclusion, which is in tune with the *double-trust dilemma of innovation* examined by Professors Cooter and Schäfer.<sup>237</sup>

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<sup>233</sup> PORTER (2009), *supra* note 2, at 251–52 (“indirectly” basically stands for the need to avoid rent-seeking in lobbying the law-makers to enact, for instance, industry-specific protective legislation).

<sup>234</sup> For empirical data supporting this affirmation, see Section I.A, *infra*; WIPO, *WIPO Caseload Summary*, WORLD INTELLECTUAL PROP. ORG., <http://www.wipo.int/amc/en/center/caseload.html> (last visited Mar. 2, 2019).

<sup>235</sup> See *infra* Section II.C.4 (on a comparative analysis highlighting the U.S. arbitration system for patents).

<sup>236</sup> JAFFEE & LERNER, *supra* note 28, at 10 (emphasis added) (The authors also report how the redesign of the income system for the U.S. Patent Office in 1990 affected patent applications. Replacing the former tax-based financing by a fee-based one incentivized the U.S. Patent Office to grant more patents in less time. Hence, the Patent Office dangerously loosened the standards of “non-obvious” and “novelty” to be applied in the examination procedure of patent applications.). See also Barnett, *supra* note 9, at 832.

<sup>237</sup> COOTER & SCHÄFER, *supra* note 181, at 27–30. The dilemma points out how asymmetric information and mistrust disrupts the combination of innovation and capital. In short, investors are unwilling to pay for innovative ideas without a previous evaluation. On the flip side, innovators are very

Before 1981, the statistics reveal that small companies were performing less than 5% of industrial R&D in the United States. In 2002, 21 years later, small companies were performing 25%. Such increase by 20% came together with an increase of Venture Capitalist (VC) financing: Between 1980 and 2007, VCs invested in aggregate \$550 billion in start-ups.<sup>238</sup> Furthermore, a sound survey proved that firms financed by VC had a tendency to increase patenting activity. One of the suggested reasons is that innovators sought to secure VCs' finance, who, in return, insisted in protecting innovation and intangible assets with U.S. patents.<sup>239</sup>

U.S. legislative enactments help demonstrate a key synthesis of this research. Namely, the importance, in an *ex ante* stage of IP contracting, of how individuals perceive enforcement *ex post*. In particular, from a transactional perspective, not only enforcement of rights but also of contracts. In law and economic terms, not only of property rules but also of liability rules.<sup>240</sup> Both legislative modifications targeted it: whereas a newly established CAFC addressed patents enforcement, a consistent arbitration policy guaranteed enforcement of certain IP transactions. On top of that, the provisions in the U.S. patent legislation were neatly enacted, signaling legal certainty and predictability.

With all this in mind, the following judgment is chosen to illustrate the shift adopted by a developed country (No. 8 in the OECD high income rank) regarding non-arbitrability of IP disputes. Namely, the French IP system moved its institutional framework somehow closer to the U.S. model but

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reluctant to disclose ideas without receiving payment in advance. COOTER & SCHÄFER, *supra* note 181, at 32–33 (the authors illustrate how the institutional framework solves such a dilemma. In a three-level chart, they explain the role of law of property to obtain relational finance, contracts for private finance, and business organizations for public finance). *See infra* Section ILC.4.c (these rationales also hold true for other types of registered industrial IP rights beyond patents, for which, however, it still lacks a specific regulation in the United States).

<sup>238</sup> Barnett, *supra* note 9, at 833 (pointing out, from an organizational viewpoint, how VCs externally fulfilled the financing function that otherwise should be satisfied by internal capital in integrated firms); COOTER & SCHÄFER, *supra* note 181, at 32.

<sup>239</sup> *See* Stuart H. Graham, Robert P. Merges, Pam Samuelson & Ted Sichelman, *High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey*, 24 BERKELEY TECH. L.J. 1255, 1277, 1280–82 (2009) (for the data compiled by the Berkeley Center for Law and Technology (BCLT) in its 2008 survey, and how it contradicts previous statistics).

<sup>240</sup> Buccafusco et al., *supra* note 17, at 30.

without sustaining it on any legislative enactment. Before 2008,<sup>241</sup> an award incidentally dealing with IP validity could not be enforced and, if appropriate, was set aside by a French state court. Nonetheless, the Cour d'Appel Paris turned the tide in its ruling of 28 Feb. 2008; Cour d'Appel [CA] [regional court of appeal] Paris, Civ., Feb. 28, 2008, 05/10577, on the matter between *Liv Hidravlika D.O.O. vs. Diebolt, S.A.*<sup>242</sup>

In that case, a Slovenian company, *Liv Hidravlika*, sought to set aside an ICC award rendered on 23 Mar. 2005. The decision was in favor of a French company, *Diebolt*, on grounds that a patent dispute cannot be arbitrated per Article 1502-5° of the French Code of Civil Procedure. In particular, *Liv Hidravlika* argued that third parties have an interest in the patent assignment and validity, which makes the dispute fall under the exclusive jurisdiction of domestic courts.<sup>243</sup> The sole arbitrator had assumed jurisdiction upon an arbitration clause contained in a distribution contract and a patent license contract entered into by the two companies.

The Paris Court of Appeal confirms the arguments upon which the arbitrator had already rejected the objection to its jurisdiction: “même un litige concernant la validité d'un brevet ou d'une marque peut être résolu par arbitrage, en acceptant la limite de la juridiction de l'arbitre, à savoir qu'une telle résolution n'a d'effet qu'entre les parties de l'arbitrage.”<sup>244</sup> The decision further confirms that arbitrator's potential finding on validity issues would not be *res judicata* as it would not be part of the operative part of an award.

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<sup>241</sup> Grantham, *supra* note 24, at 206; BORN (2014), *supra* note 76, at 962–63 (for the evolution of non-arbitrability in France).

<sup>242</sup> Cour d'appel [CA] [regional court of appeal] Paris, Civ., Feb. 28, 2008, 05/10577 (Fr.); Smith et al., *supra* note 42, at 333 (explaining the rationale in the following terms: “[s]ince a patent is a public title granted by an administrative authority, it concerns *ordre public*, and questions related to its grant of validity cannot be subject to arbitration.”). It must be nevertheless noted that CODE DE PROCÉDURE CIVILE [C.P.C.] [CIVIL PROCEDURE CODE] Article 1502-5° (Fr.), enumerating the grounds to reject enforcement, refers to *ordre public international*.

<sup>243</sup> Under French law, without being an exception as compared to other jurisdictions, the distinction between public policy and arbitrability appears rather blurred. Haas, *supra* note 53, at 519 (pointing out that countries are replacing the specific policies for controlling arbitrability by a more generic control on grounds of public policy). See the discussion in Section II.C.3, *infra*.

<sup>244</sup> See Phillipe Pinsolle, Thomas Clay & Thomas Voisin, *Decision of the Paris Court of Appeal 1st Chamber (Section C) of 28 Feb. 2008, no. 05/10577—English translation*, in FRENCH INTERNATIONAL ARBITRATION LAW REPORTS 8 (2008) (for the English translation of the case, upon this abstract is also partly based: “[e]ven a dispute on the validity of a patent or a trademark can be settled by arbitration, by accepting the limited jurisdiction of the arbitrator, *i.e.* that the arbitrator's decision only has effect on the parties to the arbitration.”); Fortunet, *supra* note 117, at 281.

Hence, third parties can always request the patent to be declared void for the same reasons. Consequently, the issue of patent validity can be submitted to arbitration when discussed incidentally in relation to a contractual dispute.

On the one hand, this ruling is not an isolated opinion. It is safe to say that nowadays there seems to exist an international tendency, both at courts' and academics' level, to accept the *inter-partes* effect of international awards incidentally dealing with invalidity issues of registered industrial IP rights. This solution, known as validity decided *in personam*, has been embraced by other European civil law countries like Germany or Spain.<sup>245</sup> All results, perhaps, from pressure made by businesspeople and some practitioners (*e.g.*, lawyers or arbitrators), who are responsive to the economic impact of non-arbitrability polices. Consequently, they seek operable solutions on a daily basis. Mostly, whenever they need not only enforcement of IP rights but a reliable IP coordination at the cross-border level to secure a larger contractually generated welfare and competitive advantages.

On the other hand, one must be aware that the *inter-partes* effect of foreign IP awards is nothing more than a second-best solution, affected by important shortcomings as discussed in the next sections. Notwithstanding that, a consistent legal framework, like that in the United States, definitely provides a much better starting point to tackle them. This is so because it offers market players, who are usually foreigners, an invaluable predictability. Unfortunately, such clear institutional environment is still missing in many jurisdictions and, for this reason, the United States seems to be one step ahead.

## 2. Legal Limitations

### a. A Constellation of Scenarios

What happens if a tribunal decides on a contractual or tort claims preliminary finding for the validity of an IP right, whose award is enforced

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<sup>245</sup> See, *e.g.*, Schäfer, *supra* note 94, at 915; CHROCZIEL ET AL., *supra* note 3, at 120; De Werra, *supra* note 13, at 359; COOK & GARCIA, *supra* note 12, at 70; Certilman & Lutzker, *supra* note 23, at 83; Nuria Bouza Vidal, *La Arbitrabilidad de los Litigios en la Encrucijada de la Competencia Judicial Internacional y de la Competencia Arbitral*, 52 REVISTA ESPAÑOLA DE DERECHO INTERNACIONAL 371, 374–75 (2000); Viscasillas, *supra* note 59, at 28; Smith et al., *supra* note 42, at 356–57; De Miguel Asensio, *supra* note 13, at 91, 95, 101. See *infra* Section II.C.4 (for a comparative study).



with *inter-partes* effect, but the right is later revoked by state-courts? Or vice versa? What if an IP right simply continues to appear on the public register, thus becoming enforceable against third parties, but contractual or tort claims are left unenforced on grounds of IP invalidity with *inter-partes* effect? And if a party commences state court proceedings parallel to an IP arbitration?

In practice, either the application of *lis pendens* principles<sup>246</sup> or given the substantive expertise of arbitrators and state judges, it seems not too naïve to assume that part of the rulings should tend to be consistent as to the validity of registered industrial IP rights. However, this is neither a general rule nor does it solve numerous questions regarding the interplay between international IP awards, national courts and registers.

As stated elsewhere,<sup>247</sup> a final analytical remark is important concerning a seemingly binary view taken in the next sections. In a large part of IP cases, the invalidity claim only partly affects the IP right challenged. For instance, perhaps only some claims of a patent are deemed invalid while the rest are upheld. Being aware of this reality and for the sake of clarity, the discussion is synthesized by taking an all-or-nothing approach to IP validity. This is justified because most of the underlying rationales of a binary approach are equally applicable to partial revocations.

#### *b. Arbitral Tribunal Found for Validity of the Underlying IP Right*

The first scenario groups those cases in which an award had adjudicated on an IP contractual dispute by a preliminary finding for the validity of the underlying right, which is later revoked by a state court decision and deleted from the administrative register. 35 U.S.C. § 294 is advantageous because, despite its drawbacks, it provides a predictable answer procedurally consistent with the federal judicial system. In this regard, paragraph (c) reads:

[. . .] 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

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<sup>246</sup> As regards *lis pendens* in international arbitration, see BORN (2014), *supra* note 76, at 3803–04 (discussing the decision *Carter Holt Harvey Ltd v. Genesis Power Ltd.*, [2006] 3 NZLR 794 (HC) (N.Z.)).

<sup>247</sup> In the economics of IP arbitration as a net-value-adding term, *see infra* Section III.B.3.

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.<sup>248</sup>

The rule lays a straightforward solution for enforcing IP arbitration in the United States. Whereas it may firstly come at odds that a final IP award can be later modified by U.S. state courts, the provision is strictly based upon party autonomy. International players are hereby provided with an institutional framework that enables them to anticipate a solution, which otherwise they would have had to reach under the *shadow of the award*.<sup>249</sup> Notwithstanding, reasonable concerns loom over the enforcement of court-amended awards outside the United States. For jurisdictions with less clear legislative backgrounds, it remains uncertain whether and to what extent they are to recognize and enforce awards—amended or not—upon non-existent IP rights. In order to analytically cover these countries, contract and infringement lawsuits are treated separately.

For contract issues, following the decision *Genentech Inc. v. Hoechst GmbH and Sanofi-Aventis Deutschland GmbH*, an obligation of payment of royalties upon a non-existent IP right is considered as an exclusive contractual duty. In the case, the parties had foreseen that payments of license royalties were due even in case of IP right revocation. Hence, because of their separate grounds, the obligation was enforced by an arbitral tribunal despite the question of IP validity; payment of royalties is based on contract validity in IP law. As a consequence, whenever parties already have contractually allocated the risk of IP invalidity, subsequent or parallel state court judgments on IP revocation are unlikely to affect awards dealing with such contractual matters. Royalties, breach, interpretation, etc., are to be exclusively decided by an arbitral tribunal if it was so agreed by the parties.<sup>250</sup>

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<sup>248</sup> 35 U.S.C. § 294(c).

<sup>249</sup> JUAN-JOSE GANUZA & FERNANDO GÓMEZ POMAR, THE STRATEGIC STRUCTURE OF CONTRACT LAW 136, 161 (2013) (Explaining the concept of *bargaining under the shadow* in the context of contract remedies for breach. For instance, whenever a party insists on specific performance in scenarios where this remedy is dramatically expensive for the other party, what that party seeks is to renegotiate a larger damages award still cheaper than specifically performing. The party expects to obtain them as a result of the leverage that a “threat of the costs that will be imposed if the negotiations for the larger amount of damages break down and specific performance will hit the party in default.” A readily enforceable award can also be used as a threat to renegotiate the outcomes of an IP dispute avoiding state court proceedings.).

<sup>250</sup> CHROCZIEL ET AL., *supra* note 3, at 94 (“[t]he obligation to pay royalties flowed not from the use of a technology protected by valid patents but from the license agreement alone.”). Cour d’appel [CA]

In the dispositive part of the decision, the CJEU interprets that Article 101(1) of the TFEU:

[n]ot precluding the imposition on the licensee [. . .] of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licensed patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice.<sup>251</sup>

Another example is the arbitral tribunals' power to enforce contractual obligations that extend beyond the term of protection of a licensed IP right. By the same token, above, if a licensee had undertaken a contractual duty to pay royalties after an IP right expires, it is because it was in its interest to lower the royalty rate over a longer period of time. Party autonomy determines whether to extract "a higher rate over a shorter period of time or [. . .] a lower rate over a longer period of time."<sup>252</sup> It is to be upheld by courts and tribunals regardless of whether the IP right keeps it enforceable. Nonetheless, on grounds of antitrust law, this was forbidden by the highly criticized decision of the U.S. Supreme Court, *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).<sup>253</sup> In it, the Court missed that competitors are free to use the patented process upon patent expiration, irrespective of how royalties are paid in a particular license agreement.<sup>254</sup>

Less clear-cut solutions are found for infringement cases in which IP validity was ancillary adjudicated. In these scenarios, parties have neither anticipated nor, by definition, allocated risks: the law must do so. Nonetheless, it appears counterintuitive that a market player can tortiously harm something that does not lawfully exist. If the invalidity of an asserted

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[regional court of appeal] Paris, civ., July 7, 2016, c-567/14 (Fr.) (*Genentech Inc. v. Hoechst GmbH and Sanofi-Aventis Deutschland GmbH*) (In this case, the French court raised anti-competition issues. In this regard, the CJEU affirmed that, if certain requirements are fulfilled (agreement was to avert patent litigation; the licensee can terminate the license agreement by giving notice; and the licensee retains freedom of action after terminating the license) EU competition was not affected.); see *infra* Section II.C.3.

<sup>251</sup> Cour d'appel [CA] [regional court of appeal] Paris, civ., July 7, 2016, c-567/14 (Fr.) (*Genentech Inc. v. Hoechst GmbH and Sanofi-Aventis Deutschland GmbH*).

<sup>252</sup> WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 380 (2003).

<sup>253</sup> *Id.* at 418 (Referring to *Brulotte v. Thys Co.* judgment as "one of the all-time economically dumb Supreme Court decisions.").

<sup>254</sup> *Id.* at 380–81.

industrial IP right is declared after an award on infringement was rendered, the suggested solution resides with the expertise of the arbitrators appointed. An arbitral tribunal should take the shortcomings here explained into account and render a far-sighted decision. For instance, as suggested by some authors: “[arbitrators could include] a relief for an undertaking of repayment of the award-creditor to the award-debtor in case a disputed IP turns to be declared invalid after the enforcement of the award.”<sup>255</sup>

*c. Arbitral Tribunal Found for Invalidity of the Underlying IP Right*

In contrast, a second group of rare post-award cases encompasses state court judgments that uphold the validity of an IP right, which was deemed invalid by the arbitral tribunal when deciding on contractual or tort claims. Much more often, the case concerns an award that preliminarily based the non-enforcement of contractual or infringement claims on the invalidity of an IP right, while this IP right is simply kept in the register and enforceable upon third parties. This occurs whenever the right is not challenged in the state court or administrative proceedings.<sup>256</sup> The question, addressed jointly in contracts and torts, is in what position third parties are left such as other licensees of the IP owner or other potential infringers?

IP litigation informs market players about the status of a certain IP right and, therefore, has positive externalities on third parties. IP arbitration, whose international awards are merely enforced *inter-partes*, disrupts such informative function of IP litigation. On top of that, the discussion is aggravated by two of the characteristics of arbitral proceedings: privacy and, sometimes, confidentiality.<sup>257</sup> The fundamental question is, conclusively, whether the *inter-partes* effect must accommodate a social welfare

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<sup>255</sup> CHROCZIEL ET AL., *supra* note 3, at 94, 130 (further elaborating on the restitution claims under German law). See *infra* Section III.D.2.c (for scenarios at the pre-enforcement stage).

<sup>256</sup> See *infra* Section II.B; Mantakou, *supra* note 22, at 269–70 (“[v]ery often, issues involving, for example, validity or ownership may arise in the form of preliminary issues in the context of a dispute involving a license agreement.”).

<sup>257</sup> De Miguel Asensio, *supra* note 13, at 94. From an economic viewpoint, Posner, *supra* note 20, at 126 (discussing that the lack of published awards reduces predictability of legal outcomes for future parties). For the discussion of the concepts in regard to international arbitration, see Sections II.C.3 and III.B.3, *infra*.

perspective or welfare has to be reduced to the notion of contractual parties' surplus. As explained above, it may be in the very interest of the parties to have a limited *inter-partes* effect when solving an IP dispute. Neither party seeks to invalidate a right for the free benefit of its competitors, nor is the other willing to risk losing an exclusionary right against the whole market.<sup>258</sup>

Here again, the U.S. Patent system provides an advantageous starting point. Sec. 294(d)(e) of the U.S. Code subjects the *inter-partes* enforcement of an award to a notification mechanism. On grounds of predictability, this solution somehow intends to accommodate the very private interests of the litigants with positive externalities that the informative function of IP litigation has. In other words, it sponsors a view of welfare reduced to parties' contractual surplus that does not obstruct a social welfare perspective. While third parties are informed of potential issues concerning an identified IP right, which still appears at the register, neither of the IP-holders risk their rights in a dispute before third parties, nor do traders do the work for their competitors.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director. 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.<sup>259</sup>

For other jurisdictions lacking a clear legislative source, a line of argument suggests that an agreement to arbitrate IP disputes encompasses particular remedies *per se*, such as specific performance relief as regards registration of rights.<sup>260</sup> Conceptually, the right-holder is free to limit, revoke

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<sup>258</sup> See *infra* Section III.B.3.

<sup>259</sup> 35 U.S.C. § 249(d) & (e).

<sup>260</sup> For specific remedies in arbitration of disputes over industrial IP rights see Smith et al., *supra* note 42, at 327 (USA), 332 (Canada), 338–39 (Germany), 345 (India), 351 (Australia), 355–56 (Japan); CHROCZIEL ET AL., *supra* note 3, at 99 (*et seq.*) Generally, on specific performance relief referred as

or transfer its right by waiver, assignment, restriction or sale, as well as bring about the cancellation of it.<sup>261</sup> Hence, by consenting to arbitrate an IP dispute, an IP-holder could be compelled by a resulting award with *inter-partes* effect to surrender or agree upon the revocation of an asserted right with *erga omnes* effect.<sup>262</sup> Nonetheless, by the same token that payment of royalties over a non-existing patent was deemed not problematic in the CJEU decision *Genentech Inc. vs. Hoechst GmbH and Sanofi-Aventis Deutschland GmbH* c-567/14, of 7 July 2016, it seems a preferable solution to understand that “the arbitral tribunal would have somehow conferred an irrevocable royalty free license.” One is based on a contractual duty, the other on IP law. The underlying IP right, thus, can still be enforced against third parties as it is not removed from the public register.<sup>263</sup>

At all events, this holds true only for those cases in which parties have not agreed on specific remedies together with the arbitration clause. Whenever parties consent to empower an arbitral tribunal to grant relief on transfer or revocation, such specific performance should be generally admitted. For example, imposing an obligation on the debtor to relinquish the asserted patent before the public register with, of course, *erga omnes* effect.<sup>264</sup>

#### *d. Jurisdictional Issues and Parallel Proceedings before Award Enforcement*

Major problems also arise at a pre-award stage, whenever arbitration proceedings are stayed because one of the parties challenges the validity of

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“specific-performance oriented remedy, a remedy of conduct or a preventive remedy” see DOUGLAS LAYCOCK, *MODERN AMERICAN REMEDIES: CASES AND MATERIALS* 3–5 (4th ed. 2010).

<sup>261</sup> COOK & GARCIA, *supra* note 12, at 70 (Stating that: “[e]ntering into an agreement to arbitrate may constitute a perfectly acceptable contractual waiver of certain rights. Specifically, because parties can dispose of their [economic] rights, they can agree that based on the decision of an arbitrator they would not be entitled to enforce between them the rights conferred by the IPR in issue.”).

<sup>262</sup> Schäfer, *supra* note 94, at 915; De Miguel Asensio, *supra* note 13, at 100.

<sup>263</sup> COOK & GARCIA (2010), *supra* note 12, at 68; *see also* De Werra, *supra* note 13, at 359–60. For the decision see Section III.D.2.a, *infra*.

<sup>264</sup> CHROZIEL ET AL., *supra* note 3, at 16, 28 (Stating that: “[a]lternatively, the parties may agree that the arbitral tribunal’s remedial powers include orders of specific performance requiring a party to apply for revocation or transfer of an IP right. Such provision may go some way towards giving an award *erga omnes* effect.”).

the underlying IP right before competent state courts. This could also be the case if a regulatory authority investigates the subject matter to be decided by the arbitral tribunal.<sup>265</sup> Secondly, whenever courts wrongly assume jurisdiction over the whole dispute without referring them to the ongoing arbitral procedure pursuant to Article II(3) of the New York Convention. Likewise, in cases where a party timely objects to the jurisdiction of an arbitral tribunal, which declines it in favor of state courts, but that party never claims IP invalidity before the competent authorities. Hence, in all scenarios, jurisdictional questions about the underlying IP rights are impairing a reliable enforcement of the transaction in dispute. At an international level, the high fragmentation of IP laws aggravates the problem by creating a significant risk of different answers across jurisdictions.

In these scenarios, a preferable solution is applying the principle of *lis pendens* to suspend arbitral proceedings only in those cases where a party has rightfully challenged the validity of an asserted IP right before the competent state courts or is investigated by a regulatory agency. This is correct to the extent that domestic procedural laws provide answers consistent with the timing of arbitration.<sup>266</sup> Such a solution minimizes the risk of duplicity of proceedings while assuring enforcement of IP transactions in a predictable fashion. In all other cases, pursuant to Article 8(2) of the Model Law, arbitral tribunals should continue to decide on the dispute and, when necessary, incidentally adjudicate on IP validity with *inter-partes* effect. Only this way avoids situations in which domestic parallel proceedings obstruct international contract enforcement by the time it is necessary.<sup>267</sup> For example, when a party objects to arbitration but does not claim IP invalidity before state courts, the right is neither removed from public registers nor its transaction reliably enforced *inter-partes*.<sup>268</sup>

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<sup>265</sup> *Id.* at 96–97 (giving the example of national antitrust agencies); COOK & GARCIA, *supra* note 12, at 51.

<sup>266</sup> HAUBERG WILHELMSEN, *supra* note 69, at 193–95 (pointing out that Recast Brussels I Regulation No. 1215/2012 does not lay down unified, specific rules concerning parallel proceedings. She surveys several EU jurisdictions (Sweden, Germany, England, France) concluding that they do not share a common approach).

<sup>267</sup> PAULSSON, *supra* note 47, at 118–19.

<sup>268</sup> Schäfer, *supra* note 94, at 915 (stating: “[d]eclining to entertain the defense of invalidity for lack of objective arbitrability would then lead to a procedurally awkward situation, especially if the arbitration would be suspended and the concerned party would not file a nullity action.”); PAULSSON, *supra* note 47, at 78.

This holds true even if the underlying IP right is revoked by a court, and subsequently eliminated from the public register, either during the arbitral proceedings or after the arbitral tribunal renders a decision but before it is enforced.<sup>269</sup> In case the decision is relevant for the outcome of the arbitration, which will be likelier for infringement cases than for contractual ones, as discussed above, an award-debtor may bring proof about the IP revocation into the arbitral proceedings under the applicable rules. Otherwise, it can seek to set aside the resulting award under the law of the seat or, better, get it modified in accordance with Article 34(4) of the Model Law, insofar as it is adopted by the applicable arbitration law:

The court, when asked to set aside an award, may, where appropriate and so requested by a party, suspend the setting aside proceedings for a period of time determined by it in order to give the arbitral tribunal an opportunity to resume the arbitral proceedings or to take such other action as in the arbitral tribunal's opinion will eliminate the grounds for setting aside.<sup>270</sup>

Two shortcomings must be pointed out. On the one hand, costs of interim measures granted during arbitration must be restituted.<sup>271</sup> On the other hand, the action to set aside faces the short timings of Article 34(3) of the Model Law:

An application for setting aside may not be *made after three months* have elapsed from the date on which the party making that application *had received the award* or, if a request had been made under article 33 (correction and interpretation of award), from the date on which that request had been disposed of by the arbitral tribunal.<sup>272</sup>

### 3. Practical Limitations

#### *a. Engineers' Response: Designing Around the Award from a Different Location*

A complete understanding of innovation must take into account its sequential nature. This means considering already existing innovations

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<sup>269</sup> The constellation of cases after award-enforcement was just discussed above in Sections III.D.2.a and b, *infra*.

<sup>270</sup> UNCITRAL MODEL LAW Article 34(4).

<sup>271</sup> For restitution claims under German law see CHROCZIEL ET AL., *supra* note 3, at 94.

<sup>272</sup> UNCITRAL MODEL LAW Article 34(3) (emphasis added).



generally protected by IP rights. A market player thus faces the decision whether to obtain a license on these existing IP rights and, so innovate “on,” or undertake an innovative step on its own—or outsource it—whose result falls outside of a right’s scope, and so innovate “around.”<sup>273</sup> From an economic view, it is submitted that the more transaction costs loom over parties, the less innovating “on” will occur; innovators would rather invest in developing new creations.<sup>274</sup> As seen, unpredictable, divergent non-arbitrability policies for the enforcement of international awards increase the cost of IP contracting, since parties are forced to contractually allocate such risk or hedge it into the contractual price. At the margin, some players will be inhibited from innovating “around” and others, who still are building “on,” will partially lose competitiveness.

By lowering uncertainty in enforcing IP transactions, a reliable enforcement of international awards with *inter-partes* effect enables parties to solve this conundrum, however, only to some extent. They can opt for innovating “on” whenever it is their economically best option and the optimal alternative from a social welfare perspective.<sup>275</sup> Nonetheless, on the flip side, *inter-partes* effect eliminates the informative function of IP litigation as a positive externality. Without effecting amendments at the public register, the available information about other rights’ scope would be inaccurate so that innovating “around” will become more expensive, if possible at all, for third parties.

Finally, there are cases in which modifications are not substantive-or technology-driven but aimed at falling beyond the concept protected by, for instance, the asserted patent claims. A solution to this issue resides with the arbitral tribunal’s capability and expertise in drafting its decision, since it should be accurate and far-sighted enough to grant relief to prevent this behavior from the debtor in the future.<sup>276</sup> Arbitrators should emulate the

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<sup>273</sup> Based on the model of Buccafusco et al., *supra* note 17, at 7. (For the so-called “On/Around (O/A) decision.” In New Institutional Economics terms the authors point out three other factors that, added to the (1) Legal Framework, crucially affect the “O/A decision.” They are grouped in (2) Market; (3) Behavior of Innovators; and (4) Technological & Artistic.) See also Dan L. Burk, *Inventing Around Copyright*, 109 NW. L. REV. 547, 548 (2015) (for copyright).

<sup>274</sup> Buccafusco et al., *supra* note 17, at 68.

<sup>275</sup> *Id.* at 64–65 (exemplifying the bargain over sequential innovation). *Id.* at 60, 63 (stating “[t]he goal of IP policy is not to maximize creativity and innovation, but rather to *optimize* [them]” but without providing a clear-cut answer on what is the “O/A decision” to best achieve so).

<sup>276</sup> CHROCZIEL ET AL., *supra* note 3, at 130–31.

“patent law doctrine of equivalents.”<sup>277</sup> At the international level, however, an award-debtor could move to a jurisdiction in which not even *inter-partes* effect is granted by the state courts. As a consequence, even when an award is masterly rendered, the IP-creditor will be forced to start costly and lengthy state-court IP proceedings anew, seeking injunction against the redesigned version. Geographical location of the operations, at inter- or intracompany levels, appears once more to be of the utmost importance, even in a post-award phase.

### *b. Predatory Litigation of Patent Trolls*

As shown by empirical data, improvement of enforcement as perceived by parties promotes IP litigation. In the United States, in the period between 1983 and 2002, the number of patent suits tripled.<sup>278</sup> Arguably, enforcement of international awards with *inter-partes* effect may become an additional tool to carry out anti-competitive practices such as predatory litigation at a cross-border level.<sup>279</sup> This is principally sponsored by companies non-operating in the industry, so-called patent trolls.<sup>280</sup> Given that a patent troll does not risk losing its IP right against third parties in the market, precisely because of the limited effects recognized to an international award, it is *ex ante* more incentivized to commence frivolous or anticompetitive suits. In addition, arbitration is assumedly cheaper and faster than state court proceedings, thus further increasing incentives to initiate a larger number of anti-competitive lawsuits.

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<sup>277</sup> In the case law, *London v. Carson Pirie Scott & Co.*, 946 F.2d (Fed. Cir. 1991) (Stressing that the application of the doctrine of equivalents is exceptional. It clarifies “[w]here an infringer, instead of inventing around a patent by making a substantial change, merely makes an insubstantial change, essentially misappropriating or eve ‘stealing’ the patented invention, infringement may lie under the doctrine of equivalents.”). In the literature, Burk, *supra* note 273, at 551–52.

<sup>278</sup> JAFFEE & LERNER, *supra* note 28, at 14 (see chart therein).

<sup>279</sup> Economically, Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 516 (2003) (stressing the decreasing marginal cost of predatory litigation as efforts and reputation can be subsequently used: “[p]redatory litigation has an advantage over predatory pricing because the cost to the predator declines after the first lawsuit.”).

<sup>280</sup> Another type of anticompetitive practice concerning IP rights are the *Patent Thickets*. Carl Shapiro, *Navigating the Patent Thicket: Cross Licenses, Patent Pools, and Standard Setting*, in INNOVATION POLICY AND THE ECONOMY 120 (Jaffe et al. eds., 2009) (defining it as: “[a] dense web of overlapping intellectual property rights that a company must hack its way through in order to actually commercialize new technology.”); Martínez Pérez, *supra* note 97, at 392–93.

On the flip side, however, it must be stressed that enforcement with *inter-partes* effect of an award incidentally adjudicating on IP validity may also be in favor of respondents. On the one hand, nothing prevents a patent troll from initiating state court litigation, so eliminating IP arbitration is not a panacea. On the other hand, if an international award is not *inter-partes* enforced because of an arbitrability policy, respondents cannot claim IP invalidity to ward frivolous contractual or infringement claims off. As a result, respondents are deprived of a crucial defense to be raised against anti-competitive practices. In conclusion, the threat of rent-seeking by anti-competitive lawsuits does not necessarily speak against *inter-partes* effect of international IP awards.

#### IV. CONCLUSIONS: IN MEDIO STAT VIRTUS

The conclusions of this research are two-tiered:

- i. The *positive* conclusion is a reinforcement of the idea that law is about trade-offs. On the one hand, international commercial arbitration, as a mechanism to solve cross-border IP disputes, sponsors enforcement of IP coordination as desired by parties. It is a reliable enforcement of contracts, not only of property rights *per se*, which enables credible commitments at low costs. This results in greater contractual surpluses and ultimately creates sustainable competitive advantages, by allocating specialization and innovation in a *Pareto Superior* fashion.

On the other hand of the trade-off, the law eliminates contract enforcement whenever it envisages that individuals' coordination is not socially desirable. For example, Article V(2) of the New York Convention leave, even *ex officio*, international awards unenforced on grounds of affecting third parties or public interest. Hence, it denies enforcement to the underlying international IP coordination, even if an agreement to arbitrate was deemed valid under the arbitrability policy of the law of the seat.

- ii. The *normative* conclusion hereto assumes that parties, facing non-enforcement risk, will either walk away from commercial arbitration as a net-value-adding term or hedge bad cross-border IP arbitration by agreeing upon a lower price. Teleologically, and subject to ordinary limits of contract enforceability, a sound

economic argument as regards competitive advantages underpins a halfway position to the arbitrability trade-off. The operable solution is a predictable enforcement of international awards with *inter-partes* effect as early adopted in United States. Here, again, *in medio stat virtus*.

V. TABLE OF CASES\*

<i>Court</i>	<i>Date; Reference</i>	<i>Parties</i>
United States Supreme Court	379 U.S. 29 (1964)	<i>Brulotte v. Thys Co.</i>
Swiss Federal Office of Intellectual Property	15 Dec. 1975; PMMB1 1976 I S.9E	<i>Unreported</i>
United States Supreme Court	473 U.S. 614 (1985)	<i>Mitsubishi Motors, Corp. v. Soler Chrysler-Plymouth, Inc.</i>
United States Court of Appeals, Federal Circuit	769 F.2d 1569 (Fed. Cir. 1985)	<i>Rhone-Poulenc Specialties Chimiques v. SCM Corp.</i>
United States Supreme Court	475 U.S. 643 (1986)	<i>AT&amp;T Tech., Inc. v. Commc'n Workers of Am.</i>
ICC Arbitral Tribunal	1989 (published in 1993); Interim Award in Case No. 6097, ICC Bulletin Vol. 4, issue 2 (1993)	<i>Japanese claimant vs. German defendant</i>
United States Court of Appeals, Federal Circuit	946 F.2d 1534 (Fed. Cir. 1991)	<i>London v. Carson Pirie Scott &amp; Co.</i>

\* Sorted by date in ascending order.

<b>Court</b>	<b>Date; Reference</b>	<b>Parties</b>
Court of Appeal (Civil Div.) (UK)	20 May 1993; 2 Lloyd's Rep. 445	<i>Star Shipping AS v. China Nat. Foreign Trade Trans. Corp.</i>
Ad hoc Arbitral Tribunal	17 Nov. 1994; <i>Ad hoc</i> Award XXI Y.B. Comm. Arb. 13, 18 (1996)	<i>Banque Arabe et Int'l d'Inv. v. Inter-Arab Inv. Guar. Corp.</i>
United States Supreme Court	514 U.S. 938 (1995)	<i>First Options of Chi., Inc. v. Kaplan</i>
United States Court of Appeals, 4th Cir.	140 F.3d 566 (4th Cir. 1998)	<i>Cara's Notions, Inc. v. Hallmark Cards, Inc.</i>
(Former) European Court of Justice	1 June 1999; C-126/97 E.C.R. I-3055 (ECJ)	<i>Eco Swiss China Time Ltd. vs. Benetton Int'l NV</i>
United States Court of Appeals, 2d Cir.	186 F.3d 210 (2d Cir. 1999)	<i>Kahn Lucas Lancaster, Inc. v. Lark Int'l Ltd.</i>
Cour de Cassation (Civ. 1st) (Fr.)	26 June 2001; Case No. 03-12.034	<i>Société ABS Am. Bureau of Shipping v. Copropriété Maritime Jules Verne et autres</i>
United States Court of Appeals, Federal Circuit	297 F.3d 1343 (Fed. Cir. 2002)	<i>Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found.</i>
Supreme Court of Canada	21 Mar. 2003; [2003] 1 S.C.R. 178, 2003 SCC 17	<i>Desputeaux v. Éditions Chouette</i>
United States Supreme Court	537 U.S. 1100 (2003)	<i>Am. Ins. Ass'n v. Garamendi, Ins. Comm'r, CA</i>
Federal Supreme Court (Switz.)	8 Mar. 2006; 4P 278/2006	<i>Tensacciai SPA v. Freyssinet Terra Armata SRL</i>
Cour d'Appel Paris (1st sec. C) (Fr.)	23 Mar. 2006; Rev. Arb. 2007	<i>SNF SAS v. Cytec Industrie BV</i>

<i>Court</i>	<i>Date; Reference</i>	<i>Parties</i>
Court of Justice of the European Union	13 July 2006; c-4/03 ECLI:EU:C:2006:457	<i>Gesellschaft für Antriebstechnik mbH &amp; Co. KG (GAT) v. Lamellen und Kupplungsbau Beteiligungs KG.</i>
Cour d'Appel Paris (1st sec. C) (Fr.)	28 Feb. 2008; Case No 05/10577	<i>Liv Hidravlika D.O.O. vs. Diebolt, S. A.</i>
Amsterdam Court of Appeal (Neth.)	28 Apr. 2009; c-no 200.005.269/01	<i>Yukos Capital SARL v. OAO Rosneft</i>
United States Supreme Court	137 U.S. 1740 (2011)	<i>AT&amp;T Mobility LLC v. Concepcion</i>
Court of Appeal (Civil Div.) (Eng.)	16 May 2012; [2012] EWCA Civ 638	<i>Sulamerica CIA Nacional de Seguros, S.A. v. Enesa Engenharia S.A.</i>
Audiencia Provincial (Regional Court) Alicante (Spain)	23 July 2012; No. 345/2012 Roj: SAP A 2198/2012	<i>Pirelli &amp; C. S.p.A. v. Licensing Projects, S.L.</i>
Cour de cassation (Civ. 1st) (Fr.)	26 Sept. 2012; Case No. 11-26022	<i>Banque Privée Edmond de Rothschild Europe</i>
Superior Court of Justice of Madrid, Administrative Chamber (Spain)	30 Jan. 2013; No. 95/2013 Roj: STSJ MAD 2005/2013	<i>Kardex Sistemas, S.L. v. ET Sys. Global Storage Sol.</i>
Supreme Court of New Zealand	20 June 2014; SC 27/2013 NZSC 75	<i>Carr &amp; Brookside Farm Trust Ltd. v. Gallaway Cook Allan</i>
Court of Justice of the European Union	21 May 2015; c-352/13 ECLI:EU:C:2015:335	<i>Cartel Damage Claims (CDC) Hydrogen Peroxide SA v. Akzo Nobel NV</i>

<i>Court</i>	<i>Date; Reference</i>	<i>Parties</i>
Superior Court of Justice of Madrid, Civil & Criminal Chamber (Spain)	3 Nov. 2015; Judgement No. 79/2015, Docket No. 7/2015 ECLI: ES:TSJM:2015:15511	<i>Transportes Juan José Gil, S.L. v. Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)</i>
Superior Court of Justice of Catalunya, Civil & Criminal Chamber (Spain)	2 Feb. 2016; No. 6/2016, Docket No. 3/2014, TSJCAT: 2016:1280	<i>Individual v. Grupo Electro Stocks, S.L.</i>
High Court of Justice Queen's Bench Division Commercial Court, Financial List (UK)	3 Apr. 2016; [2016] EWHC 465 (Comm.)	<i>Banco Santander Totta S.A. v. Companhia de Carris de Ferro de Lisboa S.A. (et al.)</i>
Court of Justice of the European Union	7 July 2016; c-567/14 ECLI:EU:C:2016:526	<i>Genentech Inc. v. Hoechst GmbH &amp; Sanofi-Aventis Deutschland GmbH</i>