International Intellectual Property Arbitration : How to Use it Efficiently?

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Introduction

The challenges and difficulties of litigating international intellectual property disputes before state Courts are well known. These hurdles may justify why commercial arbitration has emerged as an attractive alternative for solving international intellectual property disputes at the global level and particularly in Asia. There is indeed a strong interest that parties to an international intellectual property agreement (such as a license agreement, a technology transfer agreement or a research and development agreement) have the power to submit their disputes to arbitration, which may allow them to solve all aspects of their dispute before one jurisdictional body: arbitration can thus meet the needs of the parties to centralize proceedings and to avoid costly parallel Court proceedings in various countries, which are particularly frequent in international intellectual property disputes. This trend for promoting arbitration has been reinforced by recent regulatory changes which have been adopted in certain countries (as most recently done by the French legislator) for the purpose of promoting the use of arbitration for intellectual property disputes. The potential use of arbitration for solving international intellectual property disputes, however, needs to be carefully prepared. The goal of this article is thus to discuss two important aspects that must be taken into account by the parties and their counsel in order to ensure the efficiency and thus the success of an intellectual property arbitration. The purpose of promoting the use of arbitration for intellectual property disputes is that of objective arbitrability. As a matter of principle, it appears reasonable to consider that intellectual property rights and intellectual property disputes meet these conditions so that they are fully arbitrable.

The jurisdictional powers of arbitral tribunals are, however, generally considered to reach their outer limits when a dispute would require the arbitral tribunal to render an award on the validity or nullity of industrial property rights (ie, registered intellectual property rights) with effect erga omnes. This may be problematic in certain countries (while others have adopted a liberal approach such as Switzerland and the US), whose legal regimes take the position that only the state authorities in the country of registration of such rights shall have jurisdictional power to decide on such issues.

In any case, if arbitral tribunals do not make a decision on the validity of the relevant intellectual property rights (particularly of relevant industrial property rights, such as patents, trademarks and designs) with an effect erga omnes (which could lead to the cancellation of the industrial property right from the relevant registry), but merely decide on the issue of validity as far as this is required for deciding the dispute between the parties (with an effect inter partes), this should not raise concerns of arbitrability. In this respect, contracting parties may validly define the power of the arbitral tribunals to decide on these issues (with an effect inter partes), which might help overcome the risks which are generally associated with the arbitrability of intellectual property disputes.

Beyond this specific issue of the jurisdiction to decide on the validity of certain registered intellectual property rights, it is generally admitted that other aspects, including aspects relating to the ownership and the transfer of intellectual property rights, are fully arbitrable.

Arbitrability

A threshold question that must be considered first in connection with efforts to arbitrate intellectual property disputes is that of objective arbitrability. As a matter of principle, it appears reasonable to consider that intellectual property disputes shall generally be arbitrable. This liberal approach reflects the fact that intellectual property rights and, more generally, intangible assets, have become standard and alienable corporate assets of companies. Given that the condition of objective arbitrability frequently depends on whether the object of the dispute can freely be alienated by its owner, whether such object has an economic value or whether the arbitrability of such object would violate public policy, it seems appropriate to consider that intellectual property rights and intellectual property disputes meet these conditions so that they are fully arbitrable.

Accordingly, the use of arbitration as a mechanism to resolve such disputes is generally consistent with public policy in most jurisdictions even if certain public policy based restrictions may limit the arbitrability of intellectual property disputes in certain countries. As a result, the grounds of inarbitrability of intellectual property disputes are quite narrow and should not restrict the parties from conceptualizing and planning in advance how an intellectual property arbitration could successfully be structured and what factors should be taken into consideration in this framework.

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Scope of the Arbitration Clause

It is well known that “arbitration is a creature of contract”.22 This bedrock principle of arbitration can, however, sometimes lead to difficulties in the context of international intellectual property arbitration cases because these cases frequently raise issues which go beyond standard breach of contract claims. This situation can typically arise when the claim is made that a contracting party has misused trade secrets which have been disclosed to it (potentially in the course of a technology transfer agreement) given that trade secret misappropriation claims are not based on contract, but are frequently grounded on unfair competition law.23 Unless this is clearly expressed in the arbitration clause, the argument can thus be made by the opposing party that such non-contractual claims fall outside the scope of the arbitration clause and thus are beyond the power of the arbitral tribunal. This argument is of major practical significance particularly because an award which would decide on an issue which would be beyond the power of the arbitral tribunal might not be enforceable under the New York Convention precisely for this reason.24

The point here is thus to make sure that the arbitration clause embraces the “universe of disputes”25 which can arise between the parties. Experience shows, however, that many arbitration clauses are not formulated broadly enough in order to encompass intellectual property related claims (ie, infringement claims26 or claims relating to the validity/nullity of the relevant intellectual property rights) ie, certain clauses have been construed as limited to purely contractual claims.27

It is submitted that it would be fair, as a matter of principle, to maintain that all non-contractual claims which have a certain link with the relevant contract should also fall within the jurisdiction of the arbitral tribunal (this issue being of course subject to the rules of interpretation to be defined according to the standard legal principles governing this question).28 This is particularly important given that practice confirms that it may be difficult in certain circumstances to distinguish whether a given conduct (for instance the non-payment of a royalty by a licensee) constitutes a breach of contract (ie, breach of the license agreement) and/or an infringement of the licensed intellectual property right.29 This confirms the need that the arbitration tribunal shall have the power to decide on all these issues instead of being limited to the contractual claims. Standard clauses provided for by recognised arbitration institutions can provide a basis for making sure that non-contractual claims are within the scope of the arbitration clause.30

Choice of Governing Law

An advantage of submitting an international intellectual property dispute to arbitration, rather than to state Court litigation, results from the broad freedom to choose a single law which shall govern the dispute.31 The choice of law could also cover issues regarding the validity of the relevant intellectual property rights. As long as a decision to be made by an arbitral tribunal as to the validity of a certain industrial property right would only have an inter partes effect, the parties in principle should be able validly to decide that the issue of the validity of a given industrial property right, such as a patent (which would be granted in many countries, which is obviously not unusual in global patent licensing transactions), shall be assessed on the basis of one single patent law, and not by reference to each and every potentially diverging national patent law implicated by the relevant patent.32 This issue consequently also offers room for creativity to the careful contract drafter or, if this issue has not been properly addressed in the relevant contract, to the counsel in charge of the arbitration proceedings.33

It must be emphasized that this broad freedom does generally not exist when litigating before state Courts. This is particularly the case under art 8 of the Regulation (EC) No 864/2007 of the European Parliament and of the Council of 11 July 2007 on the applicable law to non-contractual obligations (Rome II) provides indeed that “[t]he law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is claimed” (art 8 para 1). This choice of law rule is mandatory and thus cannot be derogated from by contract (art 8 para 3). While other systems do not impose mandatory rules, the freedom of choice remains extremely limited (as it is the case under the new Chinese rules of private international law).34

It thus appears that the ability to choose the governing law constitutes another key advantage of arbitration in the sense that it helps to avoid a burdensome and costly piecemeal choice of law solution which would result from the application of multiple national intellectual property laws. But this freedom requires that the parties and their counsel be aware of this issue. In this respect, it would be worth keeping in mind that the scope of the choice of law clause should ideally reflect that of the arbitration clause35; the choice of law clause should indeed mirror the arbitration clause in making sure that all claims that fall within the scope of the arbitration clause shall be governed by the chosen law.

Conclusion

As confirmed by the growth of IP arbitration proceedings36 and by recent case law,37 the use of arbitration for solving international intellectual property disputes is expanding. This trend can be confirmed by the choice made by policy makers to authorise and promote the use of arbitration for solving intellectual property disputes,38 which constitutes a clear sign that arbitration is an adequate method for solving intellectual property disputes that does not threaten in any manner, the powers of the state authorities over intellectual property as such. This global trend can positively affect Singapore as a privileged hub for solving global intellectual property disputes.39

In view of these developments, it is important that all the stakeholders, and particularly the parties and their counsel, shall become aware of the adequacy of arbitration for solving international intellectual property disputes and shall take time to assess in advance the implications of
using arbitration effectively for solving such disputes. This requires moving beyond the threshold issue of arbitrability of intellectual property disputes in order to address the issues which can significantly affect the success of an arbitration in terms of cost, speed and efficiency, particularly the scope of the arbitration clause and the definition of the governing law.

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Notes

1. This also contributes to explain why projects have been conducted in order to harmonize the complex field of private international law of intellectual property. See the publication of the American Law Institute Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes (2008); see also, the European Max-Planck-Group for Conflict of Laws in Intellectual Property (“CLIP”): http://www.cl-ip.eu/ (the final version of the Principles for Conflict of Laws in Intellectual Property has been released on August 31, 2011, see http://www.ip.mpmp.de/de/data/pdf/clip_principles_final.pdf (hereafter: the “CLIP Principles”) and the committee on Intellectual Property and Private International Law (chaired by the Japanese Professor Toshiyuki Kono) set up by the International Law Association in November 2010 (http://www ila-hq.org/en/committees/index.cfm?cid=1037).

2. This paper will not address the arbitration of intellectual property issues under investment law / investment arbitration rules, even if this topic has become of utmost importance, particularly in view of the ICSID case initiated by a tobacco group against Uruguay (see Philip Morris Products S.A. (Switzerland) and Abal Hermanos S.A. (Uruguay) v Oriental Republic of Uruguay, ICSID Case No. ARB/10/7) and of the action which has just been initiated by the same group (Philip Morris) against Australia under the 1993 Hong Kong-Australia Bilateral Investment Treaty in connection with a similar public health driven cigarette (plain packaging) rule which is claimed to violate the trademark rights of the tobacco group as protected by international and bilateral agreements (see Philip Morris S.A. vs Australia Over Cigarette Packaging (November 21, 2011): http://www.bbc.co.uk/news/world-asia-15815311 and the press release of the claimant: http://phx.corporate-ir.net/external/file/item-UGFyZW50SUQMTTE2MTNtENoWkdsU0ZFTTR8VHlwZT0xNct-c1; on this issue, see A. Alemanno, E. Bonadio, “Do You Mind My Smoking? Plain Packaging of Cigarettes Under the WTO TRIPS Agreement” (2011) 10 John Marshall Review of Intellectual Property Law, No. 3).


6. This argument may equally justify the use of Court clauses, see Fairchild Semiconductor Corp. v Third Dimension Semiconductor (D. Maine, Dec. 12, 2008) (enforcing a choice of Court clause before a US Court in a worldwide patent license agreement in spite of the fact that issues of foreign patent law (Chinese) may arise), available at: http://www.parenlyco.com/fairchild.PDF.

7. See art L 331-1 of the French Code of intellectual property law (“Code de la propriété intellectuelle”) for copyright; see also the similar provisions applicable to other intellectual property rights : art L. 615-17 para 2 for patents, art L. 716-4 for trademarks, art L 521-3-1 para 2 for designs, art L 623-31 para 3 for plant varieties, and art L 722-8 al 2 al for geographical indications.

8. For a discussion of other relevant aspects (ie, confidentiality, provisional orders, non-monetary relief and enforcement of foreign awards), see the paper of the author, “Arbitrating International Intellectual Property Disputes: Time to Think Beyond (In) Arbitrability”, to be published in the (2012), International Business Law Review, No 1 and from which this paper is derived.

9. In view of its limited scope, this article cannot present the national solutions and perspectives on the different issues which shall be explored, but will rather discuss them from a broader perspective, whereby it is obvious that the relevant issues would need to be carefully analyzed under the relevant governing law (particularly the lex arbitri) in the light of the applicable rules and regulations (such as the arbitration rules which would be applicable in a given dispute).


12. The New York Convention generally refers to whether the subject matter is “capable of settlement by arbitration” (art II(1) and V(2)(a)), whereby this standard is held as not “entirely clear” (Gary B. Born, International Commercial Arbitration, Vol. I (Wolters Kluwer, 2009) p 773).

13. This is particularly the case under the liberal Swiss arbitration regime which is regulated in Chapter XII of the Swiss Act on Private International Law of December 18, 1987 (art 177 para 1).
See s 11 para 1 of the Singapore International Arbitration Act (Cap 143A) pursuant to which “[a]ny dispute which the parties have agreed to submit to arbitration under an arbitration agreement may be determined by arbitration unless it is contrary to public policy to do so” as discussed by Boo (supra note 10).


This issue appears unsettled in Singapore even if the view has been expressed in the recent literature (see Boo and Gupta, supra notes 10 and 11) that intellectual property disputes should be arbitrable on the ground that the non-arbitrability based on public policy should be construed narrowly; the issue of public policy was, however, recently addressed in Singapore under the perspective of bankruptcy and arbitrability in the case decided by the Singapore High Court Petroprod Ltd v Larsen Oil and Gas Pte Ltd, [2010] SGHC 186, on 30 June 2010; for a discussion, see Nakul Dewan, Bankruptcy and Arbitrability: Public Interest Considerations Must Be Weighed, available at: http://siac.org.sg/index.php?option=com_content&view=article&id=311:bankruptcy-a-arbitrability-public-interest-considerations-must-be-weighed&catid=56:articles&Itemid=171.

For an in-depth discussion and rejection of the public policy arguments allegedly justifying the non-arbitrability of intellectual property disputes, see Cook, Garcia (supra note 3) p 62 seq.


Cook, Garcia (supra note 3) p 76; see also, from a Singaporean perspective, Boo (supra note 10).

Paul Stants, Magda Stans v Dean Witter Reynolds, Inc., 993 F.2d 830 (11th Cir. 1991).

See, by way of example, Simula Inc. v Aurolis Inc. (175 F3d 716, 9th Cir. 1999).

Art 5 para 1 lit. C of the New York Convention.

P. Friedland, Arbitration Clauses for International Contracts, (New York, 2008) p 47: “An arbitration clause that provides ambiguously for arbitration of a set of disputes that is less than the universe of disputes arising out of or in connection with the contract is an invitation to litigation about the scope of the arbitrators’ jurisdiction”.

See for instance, the interpretation of the scope of the relevant arbitration clause which was made in Rhône-Poulenc Spécialités Chimiques v Sem Corporation, 769 F2d 1569 (Fed. Cir. 1985); see also Federal-Mogul Corp. and Felt Products MFG. Co. v Ebrickinger AG, Civ. No. 01-5797 (HAA), Nov. 1, 2004 (Dist. New Jersey).


This approach is also adopted with respect to choice of Court agreements, see art 2:301 para 1 of the CLIP Principles (supra note 1): “If the parties have agreed that a court or the courts of a State are to have jurisdiction to settle any disputes which have arisen or which may arise in connection with a particular legal relationship, that court or those courts shall have jurisdiction to decide on all contractual and non-contractual obligations and all other claims arising from that legal relationship unless the parties express an intent to restrict the court’s jurisdiction” (Emphasis added).


See the WIPO standard arbitration clause (http://www.wipo.int/amc/en/mediation/contract-clauses/clauses.html#4): “Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. [...]” (Emphasis added).

The application of mandatory rules being reserved; for a discussion, see Cook, Garcia (supra note 3), p 89 seq.


For a detailed discussion, see Cook, Garcia (supra note 3), p 91 seq; see also Lutzker (supra note 20), at 235-236, suggesting that “a mechanism should be established for resolution of these potentially dispositive threshold issues at an early stage of the proceeding”.

See art 50 of the Law of the People’s Republic of China on the Application of Law for Foreign-related Civil Relations (the Application Law), adopted by the Standing Committee of the National People’s Congress on 28 October 2010 which has come into effect on April 1, 2011 (available at: http://asapdp.files.wordpress.com/2010/11/law-of-the-application-of-law-for-foreign-of-china-2010.pdf) which provides that “[t]he laws at the locality where protection is claimed shall apply to the liabilities for breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules”. As stated supra note 7).

See eg, the caseload of the WIPO Arbitration and Mediation Center: http://www.wipo.int/amc/en/center/caseload.html.

See as a most recent illustration, the case In re: Qimonda AG, Case No. 09-14766-SSM, United States Bankruptcy Court, E.D. of Virginia (October 28, 2011), in which the administrator of a German bankrupt company offered to the licensees of such company to renegotiate the license agreements potentially by recourse to arbitration under the WIPO rules (the decision reports indeed that he “has filed pleadings committing to re-licensing Qimonda’s patent portfolio at a reasonable and non-discriminatory (“RAND”) royalty to be determined if possible though good faith negotiations, otherwise through arbitration under the auspices of the World Intellectual Property Organization”).

See the example of France (supra note 7) as well as the recent launch of an intellectual property arbitration program by the Philippine Intellectual Property Office (“IPOPHL”) and the Philippine Dispute Resolution Center, Inc. (“PDRCT”) (http://www.pdrci.org/ipo-launches-ip-arbitration-with-pdrci/).

See Boo (supra note 10) enumerating recent international intellectual property cases handled by the Singapore International Arbitration Center (SIAC); as confirmed by the recent opening of an office of the WIPO Arbitration and Mediation Center at Maxwell Chambers, see Gupta (supra note 11).

See for instance, the interpretation of the scope of the relevant arbitration clause which was made in Rhône-Poulenc Spécialités Chimiques v Sem Corporation, 769 F2d 1569 (Fed. Cir. 1985); see also Federal-Mogul Corp. and Felt Products MFG. Co. v Ebrickinger AG, Civ. No. 01-5797 (HAA), Nov. 1, 2004 (Dist. New Jersey).

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