Protecting IP: Arbitration v Litigation

By Yoanna Schuch

In today's global economy, intellectual property has become one of the most valuable assets, and its effective protection and use is of growing importance to successful businesses, WilmerHale's Yoanna Schuch explores the growing use of arbitration in IP disputes.

Intellectual property (IP) results in a broad range of legal rights that enable owners to share, transfer and commercialise intangibles, such as ideas, inventions, or names. Well-known examples of IP rights are patents, trademarks, copyrights and trade secrets.

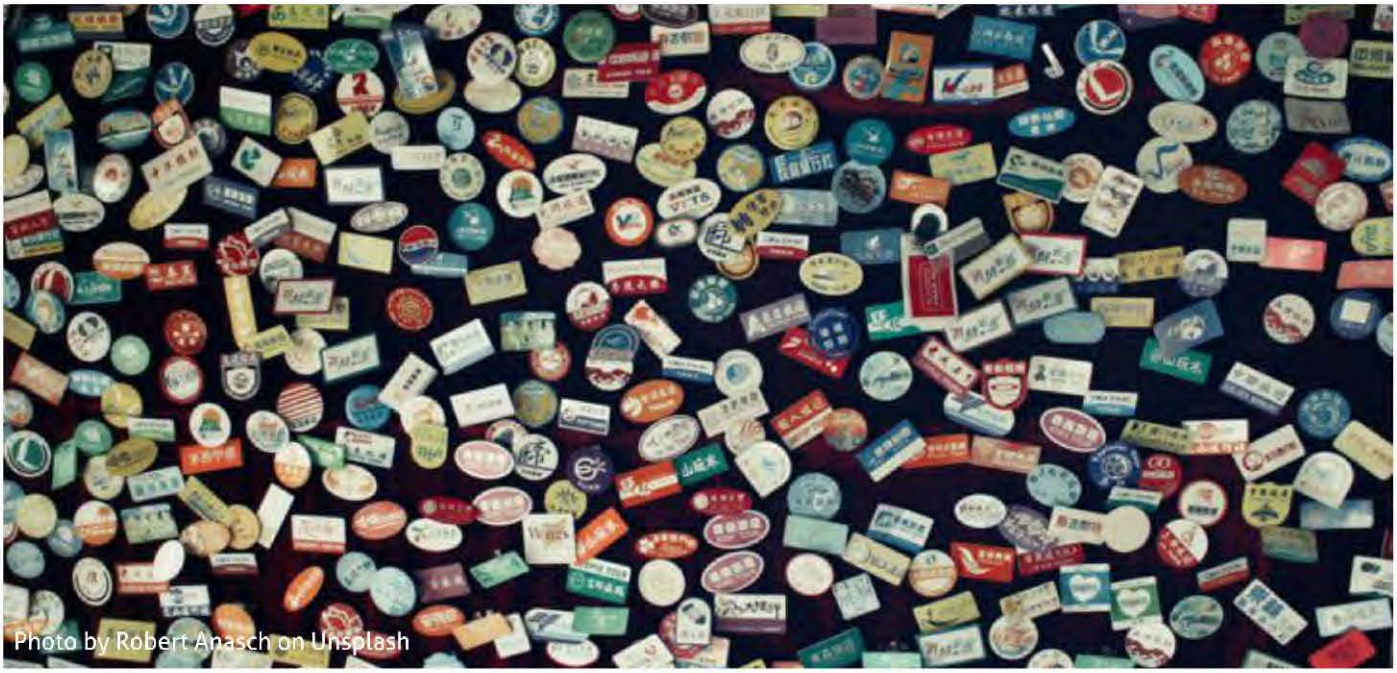
Although IP disputes can be resolved through court litigation, parties are, with increasing frequency, submitting disputes to arbitration. This article addresses the benefits of taking IP disputes to arbitration instead of litigation and sets out a few key points that counsel and parties should consider when choosing between IP arbitration and IP litigation.

WHY ARBITRATE?

IP rights have a limited territorial scope of application and can exist in parallel in different jurisdictions. IP rights that do not require registration, such as copyrights, may automatically subsist in all member states of the World Trade Organization (WTO), whereas IP rights that require registration, such as patents, can only come into existence in those jurisdictions where their registration is sought. For example, if a patent holder would like to protect his or her invention in five different countries, he or she would have to apply for a patent in each of these countries.

The territorial nature of IP has important consequences for the resolution of IP disputes which, in practice, often concern parallel IP rights subsisting in multiple jurisdictions. National court systems are incapable of resolving IP disputes on an international basis and therefore redressing infringements of IP rights in various countries entails litigation in multiple foreign courts.

In other words, if a patent is infringed in five different countries, the patent holder would have to initiate five different court proceedings in five different jurisdictions to fully protect its IP. The uncertainties inherent in parallel litigation are self-evident: different legal systems involve differing



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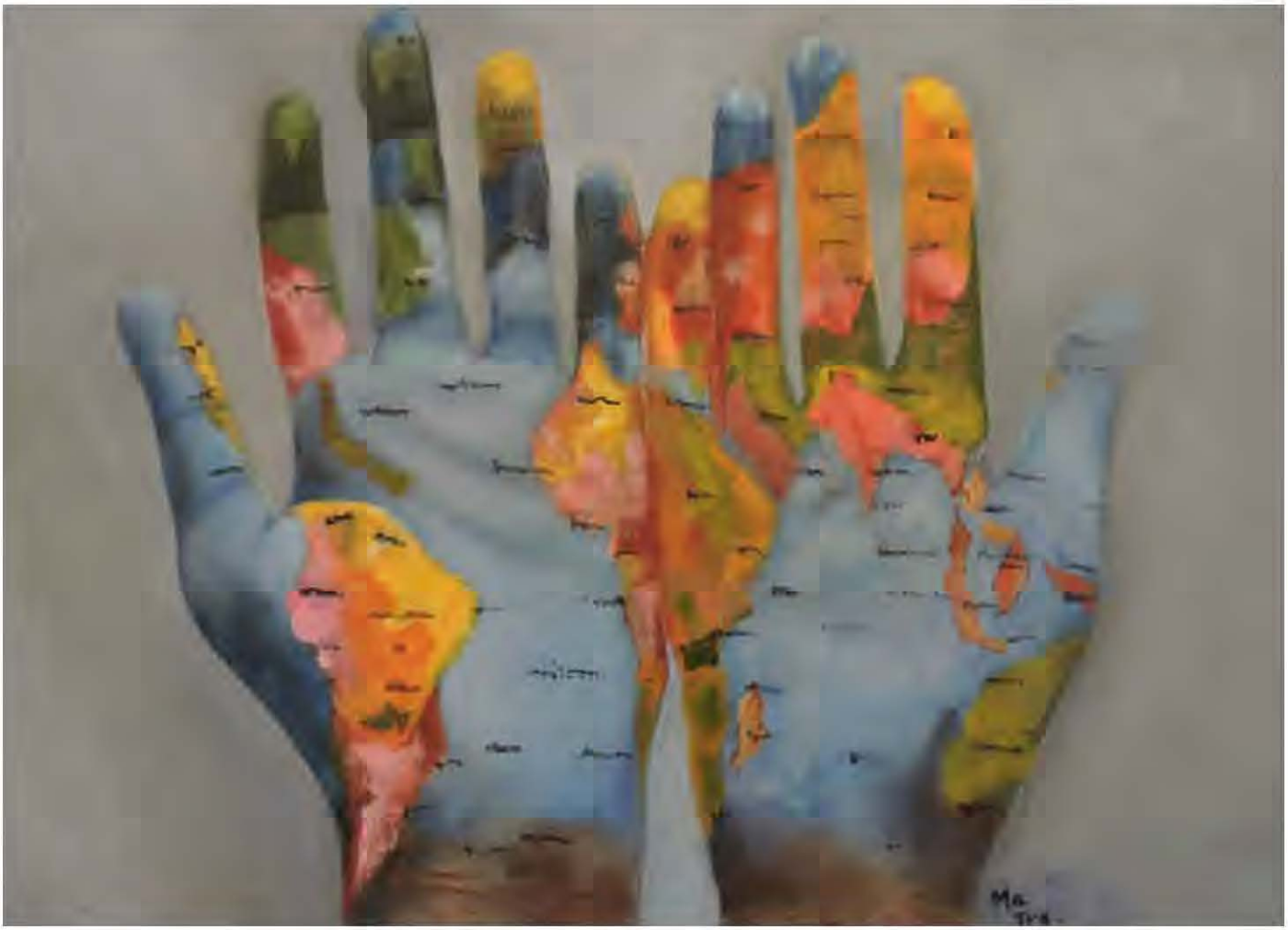

and substantive treatment of similar issues, in different time frames and by decision-makers with varying degrees of experience or relevant technical expertise.

Arbitration provides an attractive alternative which allows the parties to resolve multi-jurisdictional disputes involving the same IP right in a single neutral forum. There are obvious time and cost benefits to this: fewer counsel are involved, disclosure exercises are not repeated, and witnesses have to attend only one hearing to give their evidence. Importantly, there is no risk of conflicting decisions concerning identical parties and essentially identical facts.

Another advantage that speaks for arbitration is party autonomy. The parties can agree on procedural matters to accommodate their needs in ways that may not be permitted under domestic civil procedure rules. For example, the parties can choose the applicable law, the language of the arbitration, the seat of the arbitration, and they can also choose between institutional and ad hoc arbitration. Even while the arbitration is ongoing, there is scope for the parties to shape the proceedings with the oversight of the tribunal, including, for example, by bifurcating the case or adopting an expedited procedure.

Moreover, arbitration is often better suited to obtain finality in the dispute given that awards are only subject to very limited review by domestic courts. There is no worldwide treaty dealing with the enforcement of foreign judgments whereas arbitral awards are enforceable in more than 150 jurisdictions under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). The New York Convention provides only seven limited grounds for refusing to enforce an award, none of which entail errors of law or fact by the arbitrators relating to the merits.

What is more, arbitral tribunals are also often better suited to awarding appropriate remedies in IP disputes, if compared to state court judges. In arbitrations, the parties are free to select arbitrators with the necessary expertise in the relevant areas of technology or law which enables them to ensure certain quality control (for example, if appropriate, by selecting technical experts as co-arbitrators

rather than a having a tribunal that consists only of lawyers).

Finally, arbitration has the key advantage of being an inherently private process. The parties to an arbitration can ensure that the proceedings, and the information made available within these proceedings, remain confidential.

This is particularly important in IP disputes where trade secrets or other commercially sensitive information is involved that would lose all its value should it be disclosed to the public. However, parties should be mindful of the different approaches to confidentiality taken in various jurisdictions when selecting the seat of the arbitration; there may be gaps in or exceptions to protection that require the agreement of specific rules to fully ensure the confidentiality of the arbitration.

In light of the foregoing advantages, there seems to be a growing trend in the use of arbitration to resolve IP disputes. For example, the **Arbitration Center of the World Intellectual Property Organization** (WIPO) has administered over 580 arbitration and mediation cases in the period 2009-2017, 250 of which were filed in 2016 and 2017 alone.

POINTS TO CONSIDER WHEN OPTING FOR ARBITRATION

Although arbitration can offer several benefits for the resolution of IP disputes, as outlined above, there are certain points that the parties and their legal counsel should be aware of when opting for arbitration instead of litigation.

First, IP disputes can only become subject to arbitration when the parties have concluded an arbitration agreement, which will most likely be part of the parties' contractual framework.

In many cases, however, IP disputes do not arise from a pre-existing contractual relationship between the IP right owner and the infringer. The absence of a contract also implies the lack of an agreement to arbitrate. For example, a trademark holder will usually not have a contract with the party infringing his or her trademark.

Most likely, the trademark holder might not even have been aware of the infringing party's existence. Although it is possible for parties without a pre-existing contractual relationship to agree to submit an IP infringement dispute to arbitration, such submission agreements are rather exceptional. Therefore, arbitration in IP disputes is generally limited to disputes arising out of licensing contracts, research and development agreements, and post-merger and acquisition disputes.

Second, although arbitral tribunals can be very efficient when making decisions, they are often not able to issue interim measures as quickly as state courts judges, at least before the tribunal is constituted.

This is an important consideration because, in many cases, IP owners require urgent interim protection of their IP. However, many – if not most – arbitration laws allow for parallel jurisdiction of state courts and arbitral tribunals when it comes to the issuance of interim measures. It is therefore advisable to take the national arbitration law on interim measures into account when choosing the seat of an IP arbitration.

Third, the arbitrability of IP disputes is not universally recognised. This is perhaps the greatest limitation on the more frequent use of arbitration to resolve international IP disputes. While contractual and commercial IP disputes are generally arbitrable in most countries, disputes relating to the validity and ownership of registered IP rights may be considered non-arbitrable because they require the involvement and control of the relevant state. When considering arbitration of IP disputes, it is therefore crucial to consider the arbitrability of IP disputes both under the laws at the seat of the arbitration and under the laws of those jurisdictions where enforcement would likely be sought.

Finally, it is also important to be aware of the limited binding effect of arbitral awards when confronted with a dispute on the validity of IP rights. IP rights take absolute effect against the world (erga omnes), whereas an arbitral award has only effect between the parties (inter partes). In some cases, a decision on the validity of an IP right may require erga omnes effect in order to adequately serve the interest of the winning party and to ensure legal certainty.

CONCLUSION

The benefits of using arbitration to resolve IP disputes are demonstrated by its rising use in recent years. Arbitration offers an attractive solution to IP owners who wish to resolve their disputes in a fast and flexible way, especially when parties from different jurisdictions are involved.

If well-managed, arbitration can save significant time and cost. In addition, its consensual nature often results in a less adversarial process, allowing the parties to begin, continue or enhance profitable business relationships with each other. However, the parties and their legal counsel must be aware of the peculiarities that arbitration entails, in particular, the issue of arbitrability, both when selecting the seat of the arbitration and when considering the likely place of enforcement.

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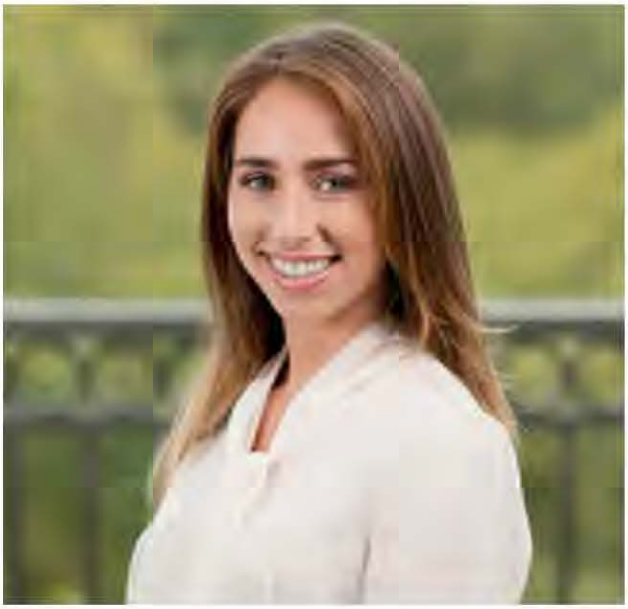
About the Author



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