The World of Intellectual Property and the Decision to Arbitrate

David D. Caron
Arbitration International

The World of Intellectual Property and the Decision to Arbitrate

David D. Caron
The World of Intellectual Property and the Decision to Arbitrate

by DAVID D. CARON

AT LEAST a decade ago, a discussion began in earnest about international arbitration of intellectual property (‘IP’) disputes. Certainly, this discussion was ongoing before then, but the topic took on added significance as the number of transactions involving IP increased dramatically. IP represented a big sector of industry, and arbitration institutions and specialists were asking how arbitration might become part of this growing sector as it had become a part of other sectors.

At that time, there were at least two perceptions about the IP sector and the arbitration of IP disputes. First, the IP sector preferred litigation to arbitration of its disputes. Secondly, the concerns of the IP sector turned on the assertion that IP disputes were fundamentally different from other disputes and that such differences were not particularly well served by the institutions of arbitration. What has followed, is a decade-long effort by the arbitration community to address the special nature of IP disputes. Despite that decade of effort, it appears the IP world remains hesitant to choose arbitration. This article attempts to explain why this is the case.

I. THE DECADE OF EFFORTS TO MAKE ARBITRATION BETTER SUITED TO IP DISPUTES

The substantive efforts to increase the appeal of arbitration for IP over this past decade has been threefold. First, given that a major advantage of arbitration is party control, it was thought that the special nature and needs of IP disputes might be addressed

* C. William Marx, Distinguished Professor of Law, School of Law, University of California at Berkeley. An earlier version of this article was delivered at the plenary address at the 2002 Annual Workshop of the Institute for Transnational Arbitration Workshop, Technology Transfer Disputes and the Role of Technology in Arbitration’ in Dallas on 10 June 2002. I wish to particularly thank Abe Abanina, Frederick Akins, Cele Abraham, Bernard Audit, Steven Budy, Joo Dalhaus, Suri Danbury, Dana Handley, Mark Lemyre, Robert Merges, Robert O'Brien, William Park, Charles Raiser, Douglas Reeser, Pamela Sarnawet, Silt Smith, Jr., and other referees for their comments. All errors and specious arguments are, of course, mine.

ARBITRATION INTERNATIONAL, Vol. 19, No. 4
© LEGA, 2003

441
by special arbitration rules, and, indeed, the World Intellectual Property Organization (WIPO) proceeded to prepare precisely just such a set of rules. In October 1994, at the ICC, AAA, and ICSID Joint Colloquium on International Commercial Arbitration held that year, a part of the programme, in the form of a panel comprised of Paul Friedland, Jan Paulsson, and myself, was devoted to discussing international arbitration and intellectual property, and the WIPO Rules in particular. The WIPO Rules were brand new at the time and represented the major institutional response to the special needs of the IP sector that was thought to have in arbitration. Both Paul Friedland and I discussed the possible special needs of IP arbitration and the adequacy of the WIPO Rules. Both of us independently concluded that such disputes do not possess particularly special characteristics, and that the WIPO rules helped address the concerns that exist. The WIPO Rules drafting exercise essentially demonstrated that there are three areas of procedure of particular concern to IP: interim measures, confidentiality, and the presence of sufficient expertise in, and to, the panel. The latter work of WIPO with its Expeditious, and the recent work of the UNCITRAL Working Group on Arbitration on the topic of interim measures, can be seen as continuing that same agenda. My conclusions then and today were fourfold: (1) the special characteristics of IP disputes mentioned above are not unique to IP disputes although they are perhaps greater for some IP disputes than most other types of disputes; (2) several sets of rules, including the WIPO Rules, have been designed in total or in part with these special needs in mind; (3) the parties have a great deal of control over the rules in any event; and (4) the possibility of pursuing interim measures before courts or the arbitral panel is preserved in virtually all arbitral rules, the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) and national statutes (including the UNCITRAL Model Law). The second substantive effort over this past decade has been to consider and promote the arbitrability of IP disputes. This is a substantial topic deserving of its own presentation. The scenario for the mock arbitration at the 2002 ITA Workshop, 1

---

1 The notes are available at http://www.wipo.int/arthiary/arthistory/rules/comple.html.


3 Jan Paulsson had been very involved in the drafting of these WIPO Rules. His comments in 1994 pointed partly to the lack of the rules, but those in regards to particular assistance dispute WIPO Center would give in terms of (DES) for less arbitrations for the ITR, and great case mgmt. and res.

The World of Intellectual Property and the Decision to Arbitrate

for example, raised an issue of patent validity and the public policy issues present. The key concept here is that the ability of a party to use the coercive power of public courts to deny the other party all dispute resolution options but arbitration, or to use public courts to enforce an arbitral award, is fundamentally limited by public policy. Public policy is thus the device by which states can specify that certain types of disputes are not appropriate for arbitration. Although proponents of arbitration can rightly point to the wide-ranging ratification of the New York Convention to support the global reach of the international arbitration system, it is important to recognize that this same system acknowledges the public policy limit, the content of which is specified by each nation.

The inclusion of "public policy" in this scheme where the content of that policy is decided by each nation injects uncertainty at the margins in the reach and security of the international arbitration system. Generally, this factor is not a significant problem because nations construe public policy narrowly. However, national attitudes vary as to the arbitrability of, for example, patent rights. In theory, an arbitral award does not decide the validity of a patent beyond the rights between the two parties to the arbitration. In this sense, it is argued that arbitration seemingly cannot interfere with the national system's view of the validity of the patent and, there is not a public policy issue present unless the structure of a particular industry makes the resolution of the issues between the particular parties in fact highly significant for the general public.

Should the IP world seek the arbitrability of IP disputes? Indeed, some IP practitioners commented to me that the IP world should desire it because reference to arbitration — unlike litigation where the company may not only lose the particular case but the patent generally — reduces the potential implications of an adverse decision to the particular claimant. Some of these practitioners pointed out that IP patent validity litigation is often settled precisely to avoid an adverse decision of general consequence.

The third aspect of this substantive effort over the last decade has been education, an effort with which the ITA has been deeply involved, devoting its 1996 Workshop, for example, to "The Arbitration of High Technology Disputes." The message of this educational effort has been clear: IP disputes do have some particular concerns, but they are at most of degree, not of kind.

Yet, at the end of this decade, there remains a perceived hesitancy in the IP world to choose arbitration. Given this decade of effort the question presented is whether this hesitancy has roots, a motivating force, other than the concerns of public policy, interim measures, confidentiality and expertise just mentioned.

1 It would be incorrect to assume that all nations have a negative attitude to the question; Switzerland, for example, is quite open to the arbitration of patent rights.
II. EXPLAINING THE HESITANCY

In asking this, let me start by noting the substantial empirical, if not epistemological, questions present. I have been careful thus far to stress that there is a perception that the IP world eschews arbitration. Whether it is an accurate statement, or to what degree it is accurate, is very difficult to state with confidence. It does appear to have some validity for Silicon Valley IP companies, but is it true for European, Latin American and Asian companies and counsel also? Some anecdotal evidence I have seen suggests it is more of an American phenomenon. After probing, it also appears that the IP reluctance is really about certain core IP disputes (such as patent rights) rather than distributor agreements (although a company's attitude about arbitration may not be sufficiently discriminating to allow arbitration for some contracts and not others). One discriminating IP corporate counsel commented, for example, that in addition to distributor agreements, arbitration may be particularly suited for violations of a standard business software agreement or of an employment contract which places confidentiality requirements on employees. He also thought that arbitration may be valuable for trade mark or copyright infringement matters where the company may want quickly and conclusively to resolve their respective rights so that marketing, branding and sales strategies can be pursued with certainty. Such discrimination in practice between the virtues of arbitrating or litigating makes one wonder whether our perceptions of the unique needs of the IP area simply are accentuated by academic writings not sufficiently informed by realities, or by arbitral institutions writing new rules in response to needs they perceive, or they are told exist.

But even if some IP counsel are open to arbitration in some circumstances, I have participated, as have others, in numerous discussions that either implicitly or explicitly evidence a more general hesitancy. Discussions organized by Dana Haviland and Scott Donaher to address the engagement of the IP world with international arbitration raised more fundamental questions for me about the legal culture in the IP industry. I have followed up on these conversations. The result is the following on why the IP world may be, as stated, averse to international commercial arbitration of IP disputes. The ideas are speculative and perhaps particularly represent views of persons in the Silicon Valley area. They are based on conversations with numerous arbitrators, lawyers and business people in the field, but they should not be regarded as the result of a comprehensive, or even statistically significant, survey. Rather, these comments seek to place a framework on the types of comments being made and, in doing so, to clarify what questions...
the arbitration community needs to pursue if it is to appropriately promote arbitration for the IP community.

Assuming there is some accuracy to the statement that IP companies are averse to arbitration, I have distilled four explanations from speaking with attorneys and corporate counsel in the field. These four explanations were sent to a further extended circle of practitioners in the IP and the arbitration worlds. Their responses are woven into the following explanations.

III. THE FAMILY JEWELS' VIEW

The first, and predominant, explanation is the 'family jewels' view — IP rights are the asset of the company. There is not only no room for the possible compromises of arbitration, there must be the possibility of appeal of error. Because the dispute involves the 'family jewels', such disputes are often analogized to, and phrased in the language of, 'all out war', 'no prisoners', etc. One IP practitioner who deals with a member of right to publicity enforcement actions each year wrote:

'A loss in an infringement action not only means a loss of the damages in that case but could have the effect of encouraging other infringers to take a risk and use the image without paying a license fee. If a certain forum [a court] have been very protective of rights of publicity (or insert other right - trademarks, domain names, patents, etc.), then why should a client take a risk on another forum? Moreover, in many of the key right of publicity cases, the trial court has been wrong and the celebrity's rights have only been vindicated after an appeal.'

On the basis of similar reasons, some IP litigators are said to view arbitration as not sufficiently aggressive. One IP corporate counsel reviewer of this explanation thought it might be more accurate to say that arbitration is not as ‘flexible’ as courts in terms of the defensive strategies a lawyer may deploy. He writes:

'I think the more precise concern with arbitration is flexibility. In a court proceeding there is perceived to be more flexibility to generate delay, impose costs, bring arguably unrelated counterclaims, remove to a different forum and (of course) have recourse to various levels of appeal. In a dispute over the Family Jewels, I think counsel are disinclined to give up the strategic flexibility afforded by court proceedings.'

Professor William Park commenting on the presentation of this article found it ironic that ‘flexibility’, a quality that arbitration specialists associate with arbitration, should be instead cited as the advantage of litigation. Yes, it is also consistent with the 'family jewels' view. Flexibility in arbitration is during the design phase or later, if the parties are in agreement on changes. But assuming 'all out war', the tactical

---

7 Letter from Glen Smith, Esq. to author dated 13 June 2002.
devices to wage such war appear greater in litigation than arbitration, and litigation therefore allows greater 'flexibility' in design of one's strategy.4

Considering the plausibility of the 'family jewels' explanation, several considerations pointing in different directions come to mind. The fact that other sectors have high stakes disputes that go to arbitration leads one to wonder why IP is different in this regard. Moreover, given the fact that arbitration only has effect between the parties, aren't the 'family jewels' somewhat less at risk at least in terms of general effect, rather than in terms of error? Finally, although some types of IP contracts are unlikely to involve the 'family jewels', the uncertainty at the point of contracting as to whether the family jewels will be at risk at a later stage may lead to a default preference for litigation.

IV. THE VENTURE CAPITALISTS-STOCK MARKET EXPLANATION

The second explanation is the 'venture capitalists–stock market' view. The IP world is (or was?) highly dependent not on immediate earnings, but on the perception of greater and greater earnings. In this sense, the attack on the 'family jewels', may not only take the jewels, but, in addition, the perception that the jewels could be taken may cause a loss of investor confidence. This effect can be quite personal in that, for example, the general counsel's continuation in his or her position may depend on reversing perceptions of weakness. Considering how an IP general counsel reacts to international arbitration of an important dispute, Thomas Kliggaard, himself formerly such a corporate officer, wrote:

The first response is to take a deep breath. If the technology is only important, the general counsel can expect that senior management will want to know what else the company can win.5

All of this comes back to an apparent belief that press releases about a new motion for protective measures in the local courts can have more effect on investor perception than can yet another general statement about an ongoing arbitration in Geneva.

---

4 As mentioned. We cannot overstate in this explanation was emphasized in comments by Cecil Abraham. He pointed out how the explanation turns on a comparative evaluation of litigation and arbitration, but that the company's stakeholders, whether in terms of integrity or greed, are much more likely to focus on the range of legal systems out that in many countries arbitration would be a clearly superior choice to litigation in local courts.

V. THE ZEITGEIST OF THE HIGH TECHNOLOGY WORLD AS EXPLANATION

A third explanation emphasizes how the culture of the high technology world influenced the approach of the IP entrepreneurs, particularly the early ones, to dispute resolution. For example, one IP specialist commenting on this article wrote that the IP hesitancy may not only be a consequence of the financing structure of the IP world, but also be a projection of the zeitgeist of the IP people themselves. In this reviewer's view, the IP founders looked to an open anarchic Internet that would disperse information in new ways. They were part of a historically new innovation that possibly transcended national regulation. This reviewer's experience was that in this world-view, the lawyer was not someone with whom one sought to build dispute resolution structures: law and arbitration involved too much institutionalisation for a group which believed that vitality depended on a good measure of anarchy. In this view, the IP world by disposition was reluctant to recognise its dependence on the social arrangements of law. As a consequence, the flexibility afforded by litigation to, for example, raise new claims, rather than the early commitment to a set process embodied in an agreement to arbitrate, is more in keeping with a world view that thrives on adaptation and innovation.

VI. THE LEGAL CULTURE VIEW

A fourth explanation emphasizes not the business culture, but rather the legal culture. It is a story in part about viewing lawyers as representatives of their expertise. In the stories I have heard, the account is particularly focused on the history, people and context of Silicon Valley.

As to the first aspect, that of the lawyer as extension of his expertise, a lawyer and firm in theory should be seeking the best forum for their client. It is clear that some IP disputes would be better addressed by arbitration. But the reality is that individual lawyers, as opposed to the firm as a collegial collective, serve the client and individual lawyers tend to have experience with a particular forum. They not only seek naturally to preserve the importance of the forum with which they are familiar, but they also, by virtue of the conferences they attend and the individuals they speak with, can become blinded to the relative strengths of other fora and the weaknesses of their own. Thus a lawyer can become a social extension of a forum or means of dispute resolution.

That image meshes somewhat with the particular story told about Silicon Valley. That story asserts that the transformation of Silicon Valley virtually overnight from a sleepy agricultural portion of the San Francisco Bay Area into a dynamic cutting-edge global IP marketplace meant that businesses and their law firms grew up together, and that many of the lawyers and firms of this region quite simply were
not a part of the international arbitration world, but instead primarily comfortable with State and federal courts in California. This story speaks of the differences within firms between those who counsel litigation and those who speak to the need to consider arbitration.10

The tendency to keep disputes before familiar local courts can be reinforced by general perceptions, whether such perceptions are accurate or not, of foreigners and intellectual organisations having less competence or different preferences for intellectual property. Perceptions such as these were voiced by one notable American reviewer, who thought that given the differences in national approaches that most Americans wouldn’t want their disputes settled by those with European perspectives. The reviewer also believed that WIPO had very little technical expertise and had shown little insight about new technologies. It was quite clear that this reviewer would not trust WIPO with an important case. I found the strength with which these views were held to be surprising.

First, putting aside the questionable assertion about the technical expertise possessed by WIPO, that organisation in arbitration proceedings under its Rules acts only as an administering institution. Secondly, the technical expertise question goes to the qualifications of the arbitrators, and those individuals, unlike judges within a court system, are chosen in large measure by the parties. Yet, this view, as I indicate, was voiced by someone quite notable in this industrial sector.

The quick response of the arbitration community to views such as these has been to organise symposia and the like to educate the IP Bar. I wish to stress that any true educational effort is a two-way street and the arbitration community must also listen closely to what the IP community believes. For example, although I do not see the relevance of the above statements about WIPO and technical expertise, I can see how an IP counsel could be concerned that the foreign legal tradition of an arbiter might colour the application of even American intellectual property law by an arbitral tribunal.

VII. CONCLUSION

Arbitration is suited, can be tailored, and in many cases has been tailored to IP disputes. It is always the case that litigation may be better for certain high stake disputes where litigation may be insisted upon in one’s contract, but a discerning approach to arbitration in the IP world would lead to many of its disputes being

10 This last explanation also ties into the economics of law firms and the statement, held by many, but not certainly so by all, only when I spoke, that patent litigation, as opposed to arbitration, generates more revenue to the outside law firms. In part, this is a corollary of the ‘family jewels’ point, that is, an all out war in the last 10 of times for those who fight wars.
submitted to arbitration with all the benefits normally argued to exist with that choice.

In this sense, the story of the IP world and its hesitancy regarding international arbitration cannot and should not be explained in terms of rational actors examining the needs of their clients. It may be, as one senior arbitrator reviewing this article commented: "The IP sector may be like the oil industry and banking, both had a natural aversion to the idea of international arbitration but have come to accept it". However it is the case that the IP world, like the oil industry and banking, has had the leverage in contract negotiations simply to insist on a choice of forum clause choosing local courts. We should not forget that the major advantage of arbitration is that it resolves the costly question of which court system will have primacy. Finally, the explanations offered today are perhaps passing. To the extent that the hesitancy is a story of the legal culture of Silicon Valley, then that culture has changed significantly over the past decade as the global law firms of the world have opened offices there. To the extent that the hesitancy is a story of the culture of the industry, then the dramatically reduced expectations about the growth of the IP sector may change the influence of venture capital and may lead to greater parity in contractual negotiation about forum selection clauses. It may be that the hesitancy regarding the choice to arbitrate will evolve into a more discriminating evaluation of the best forum as part and parcel of the general maturing of this still new industrial sector.

Finally, let me emphasize that although I have at times pointed to the combative business culture of the IP sector, it should be also recalled that the IP world of Silicon Valley and elsewhere has also been described as a culture that has thrived on cooperation, and a sharing of innovation as manifest in the great movement of personnel between companies. Perhaps this challenging view of the nature of competition — one that combines the dynamic sharing of ideas and expertise with the business challenge of bringing the "next new thing" to the market — is the truly unique aspect of the IP world. If it is, then the IP world is likely to find that it is arbitration that is well suited to its needs.

11 Letter from Jan Dymowski to the author dated 14 June 2002.