Analysis&Perspective

ARBITRATIONS

Arbitration is not a panacea, but it is a tool that can be used advantageously in appropriate cases to resolve intellectual property disputes quickly, efficiently, and economically.

The Suitability of Arbitration for Intellectual Property Disputes

BY KEVIN R. CASEY

The Vanishing Trial Project commissioned by the American Bar Association Section of Litigation recently reported that 98.2 percent of federal civil cases fail to reach trial and that, despite an increase in civil filings, the actual number of civil trials has declined. The numbers are opposite for arbitration: total arbitration filings reported by the American Arbitration Association more than doubled between 1996 and 2002. Arbitration has been a federally sanctioned and encouraged method of dispute resolution since at least 1925, when Congress passed the Federal Arbitration Act, now codified as Title 9 of the U. S. Code. As an option to litigation, arbitration has grown into one of the most accepted and widely applied forms of alternate dispute resolution. Disputes over intellectual property rights give rise to special considerations for those parties contemplating arbitration.

A. Getting Started

As for many other substantive legal areas, an arbitration agreement involving IP rights typically initiates the arbitration proceeding. Arbitration agreements fall broadly into two categories: pre-dispute agreements, generally incorporated into contracts concerning commercial transactions in the hope and expectation that disputes will not arise; and agreements to arbitrate a concrete dispute that has already arisen. Consent is the touchstone of arbitration and, once the dispute has arisen, often one party or the other will perceive a benefit to remaining within the traditional legal system and will withhold its consent.

Thus, most arbitrations are triggered by pre-dispute agreements to arbitrate.

In the area of IP disputes, infringement claims usually arise between parties who are strangers, contractually speaking, to one another. Although it is certainly true that a former franchisee may be sued for trademark infringement once the franchise is revoked, or that a licensee under a patent may sue a licensor seeking to invalidate the patent that is the subject of the license, such cases are more the exception than the rule. More often, competitors sue one another for infringement without the existence of pre-dispute contractual arbitration agreements. In addition, many businesses overwhelmingly favor arbitration for disputes involving relatively small stakes, but few prefer arbitration when the risks exceed the six or seven figures common in IP disputes. Perhaps for these reasons, it may be the case that, in the area of IP disputes, arbitration is less prevalent than in other areas of commercial law.

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Still, the possibility of arbitrating a patent, trademark, copyright, or trade secret dispute exists. These particular areas of the law raise unique concerns, both procedural and substantive. Such concerns begin with drafting an arbitration clause as part of an agreement involving IP or perhaps a separate agreement to arbitrate an IP dispute. They continue with questions about whether an agreement to arbitrate will be upheld—especially in the international arena—and, if upheld, whether the result of the proceeding—especially a decision invalidating a patent, trademark, or copyright—will be confirmed and can be enforced.

Much has been written addressing these and other concerns raised by the general topic of arbitration in the IP area. This article focuses more narrowly on the suitability of arbitration for resolving IP disputes.

B. General Characteristics of IP Disputes

IP disputes often involve complicated points of technology, in fields such as biotechnology, computer software, and electronics, as well as specialized principles of law (e.g., the claim of a patent is invalid if the subject matter recited in that claim would have been obvious to a person of ordinary skill in the art at the time of the invention). In litigation, the trial attorney must effectively communicate these complexities to the judge and perhaps the jury—people who typically lack a background in either technology or IP law. Regardless of your opinion about whether such a deficiency might impact the ability of the judge or jury to get the verdict ''right,'' all must agree that considerable time, effort, and money must be spent to litigate the IP dispute toward an unpredictable outcome. Both the winner and the loser risk negative publicity and the unwanted disclosure of proprietary data. The litigation decision reached is binding, however, and provides precedent for future actions.

Arbitration can provide a useful way to resolve IP disputes without resort to a costly and time-consuming public battle. Arbitration is private and consensual and can preserve continuing relationships. The parties have the power to control the arbitration process, including

the degree of expertise of the individual or panel rendering the decision. Arbitration does not provide legal precedent, however, and does not create an enforceable public norm.

Therefore, the question often arises: Is my IP dispute amenable to arbitration? The answer, of course, ''depends.'' It depends on a number of factors, some of which favor a ''yes'' answer and some the opposite, as outlined below.

C. Characteristics of IP Disputes That Render Arbitration Suitable

IP disputes frequently have several characteristics that render them suitable for arbitration. Specifically, arbitration is a likely alternative to traditional litigation when the dispute has one or more of the following characteristics:

1. ***Costly, time-consuming, and disruptive discovery is anticipated.*** Perhaps the most important distinction between arbitration and litigation lies in discovery. In a court case, discovery is the norm and often takes on an expensive and time-consuming life of its own. In arbitration, as a general rule, discovery is much more limited. This limitation is consistent with the policy underpinnings of arbitration: speed, efficiency, and reduced expense. In fact, one of the touted advantages of arbitration is the avoidance of the substantial burdens of discovery under the Federal Rules of Civil Procedure. The degree of formality and the nature and extent of discovery in arbitration can vary with the relationships involved, the nature of the dispute, and the choice of governing rules. The established rules of arbitration differ in their treatment of discovery.

2. ***Complex technical issues make resolution by a judge or jury difficult and unpredictable.*** A main advantage of arbitration is that it allows the parties to submit their dispute for resolution by an individual or panel trained in the relevant technology, IP law, or both. This characteristic is important when the linchpin of the dispute is factual in nature or at least does not include unsettled issues of law. It is especially important when neither party has a clearly superior position and the projected legal costs are substantial.

3. ***Highly confidential proprietary data are involved.*** In IP disputes, especially patent and trade secret cases, one or both parties may have confidential information that they are reluctant to disclose to the other through extensive discovery or to the public in a court proceeding.

4. ***The parties are comparable.*** The strategic advantage of using the leverage of expensive litigation is minimized when the parties are approximately the same size and have comparable but not dominant market shares of the disputed technology. It helps if each party has a reputation as a tough competitor, but honest and fair. Better still if the parties have reasonably stable businesses. It is also helpful if each of the parties has a fairly aggressive IP policy while at the same time each is vulnerable to the IP rights of others.

5. ***There is a continuing business relationship between the parties.*** Prolonged litigation strains, often to breaking, on-going business relations. A specific example of when the desirability of preserving a business relationship might trigger arbitration exists when the parties compete in the government arena on a continuing basis. In this arena, the litigation and the subject matter tend to be especially complex, both legally and technically, and 28 U.S.C. § 1498 (the statute under which liability of the U.S. government for patent infringement must be adjudicated) precludes injunctive relief.

6. ***Settlement remains a possibility.*** Often settlement is impeded by a single important issue, e.g., claim construction in the patent field, first use dates for trademarks, the fair use defense for copyrights, the legal status of information as a trade secret. If negotiation of a license or other business arrangement is possible, the parties might submit the single issue to arbitration or the entire case to non-binding arbitration. The arbitration result can then facilitate settlement. Such a procedure is especially helpful when a reasonable royalty on a product will not grossly affect the balance sheet of either party.

D. Characteristics of IP Disputes That Render Arbitration Unsuitable

Unfortunately, IP disputes tend to have several characteristics that may render them unsuitable for arbitration. Specifically, arbitration is likely NOT a viable alternative to traditional litigation when the dispute has one or more of the following characteristics:

1. ***One of the parties wants to send a message.*** Only litigation creates precedential value. Therefore, when a party seeks to establish a precedent, such as that an IP right is not invalid, arbitration may not be the appropriate dispute resolution tool. Similarly, a party may want to convey a message that deters others by engaging in all-out litigation. For example, the vigorous defense of proprietary data may reduce the risk of further trade secret misappropriation.

2. ***A party needs (or wants) liberal discovery.*** Consider the owner of IP rights who suspects infringement or misappropriation but cannot yet prove wrongdoing, or its extent, without the benefit of extensive discovery. Consider, too, the party who seeks the tactical advantage of swamping a smaller adversary in the liberal discovery often characteristic of litigation.

3. ***A party adopts an uncompromising position.*** Sometimes, especially in IP cases, a matter of major importance to a party is involved which prompts the party to ensure that no stone is left unturned in defending its position. Other times, a party is very emotional and seeks nothing less than driving a competitor out of business. Still other times, the parties cannot agree that injunctive relief is improper.

4. ***A party embraces the risks inherent in litigation.*** The dispute may involve an individual patent owner who wants to take his or her chances with a jury. The individual or undersized IP owner may perceive a tactical advantage in litigation in a favorable venue against a large and perhaps unpopular corporate entity. Similarly, if one or both parties habitually bet on long shots they may favor litigation over arbitration.

5. ***The parties have not already been involved in IP litigation.*** Until and unless a party has actually experienced the shortcomings of IP litigation, the desire to

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avoid litigation and adopt an ADR procedure such as arbitration may not be strong.

E. The Potential Advantages of Arbitration Over Litigation in IP Disputes

For those IP disputes that are suitable for arbitration, the parties hope to achieve one or more of the potential benefits.

1. ***Quality.*** The attributes most parties seek in a decisionmaker are fairness, experience, and expertise in the subject matter of the dispute. The parties can pick an arbitrator experienced in IP matters, saving a great deal of time and energy otherwise spent teaching a judge the law and the judge or jury the technology involved. The parties also can pick an arbitrator who is fair and experienced. Of course, there is no uniformity in the quality of arbitrators so care in selection is required to achieve this potential benefit.

2. ***Time.*** An arbitration decision can often be rendered faster than litigation. Speed is especially important when there is a continuing business relationship between the parties and both sides would like the dispute resolved so that they can get on to the important business of making money rather than spending it on litigation. There is no guarantee of a quicker resolution, however, especially with several federal district courts having adopted procedures to force cases to trial within six to nine months after the complaint is filed.

3. ***Confidentiality.*** An unequivocal advantage of arbitration is that the proceeding is private. Many IP cases involve proprietary information. Although litigation may require disclosure of such information or at best invocation of cumbersome and often ineffective protective orders, arbitrations are closed to the public. A related benefit is that the ultimate award may be confidential: there is less opportunity for publication of an adverse result.

4. ***Cost.*** If approached properly, arbitrations can result in IP disputes being decided at an order of magnitude less than the cost of traditional litigation. Some cost savings may be inherent in an arbitration; for example, a corporation may handle an arbitration in house or through a single firm because it will not need local counsel in a foreign district. It is important, however, that the parties and the arbitrator(s) have some guidelines, under which to conduct the arbitration, to achieve significant cost savings. A recommended approach is to adopt an agency's rules with such modifications as desired and as recited in the agreement to arbitrate. Among the many agencies offering rules to decide IP disputes via arbitration are the AAA, the CPR International Institute for Conflict Prevention and Resolution, the National Arbitration Forum, and the International Chamber of Commerce.

5. ***Efficiency.*** Arbitrations can be more efficient for lawyers and the parties because the times and locations for the arbitration hearing usually can be chosen for their convenience. For example, no one has to monitor a large criminal docket every morning to determine when trial might begin, as has been known to occur in a district court.

F. Conclusion

Arbitration is not a panacea for resolution of IP disputes, and is not intended to replace the adversarial judicial system. It is a tool that can be used advantageously, however, if the parties genuinely desire to have an expert decisionmaker resolve a dispute relatively quickly, efficiently, within a budget, and with minimum business disruption. Therefore, in suitable cases, arbitration is an effective tool for resolving IP disputes in an ever more competitive business environment.