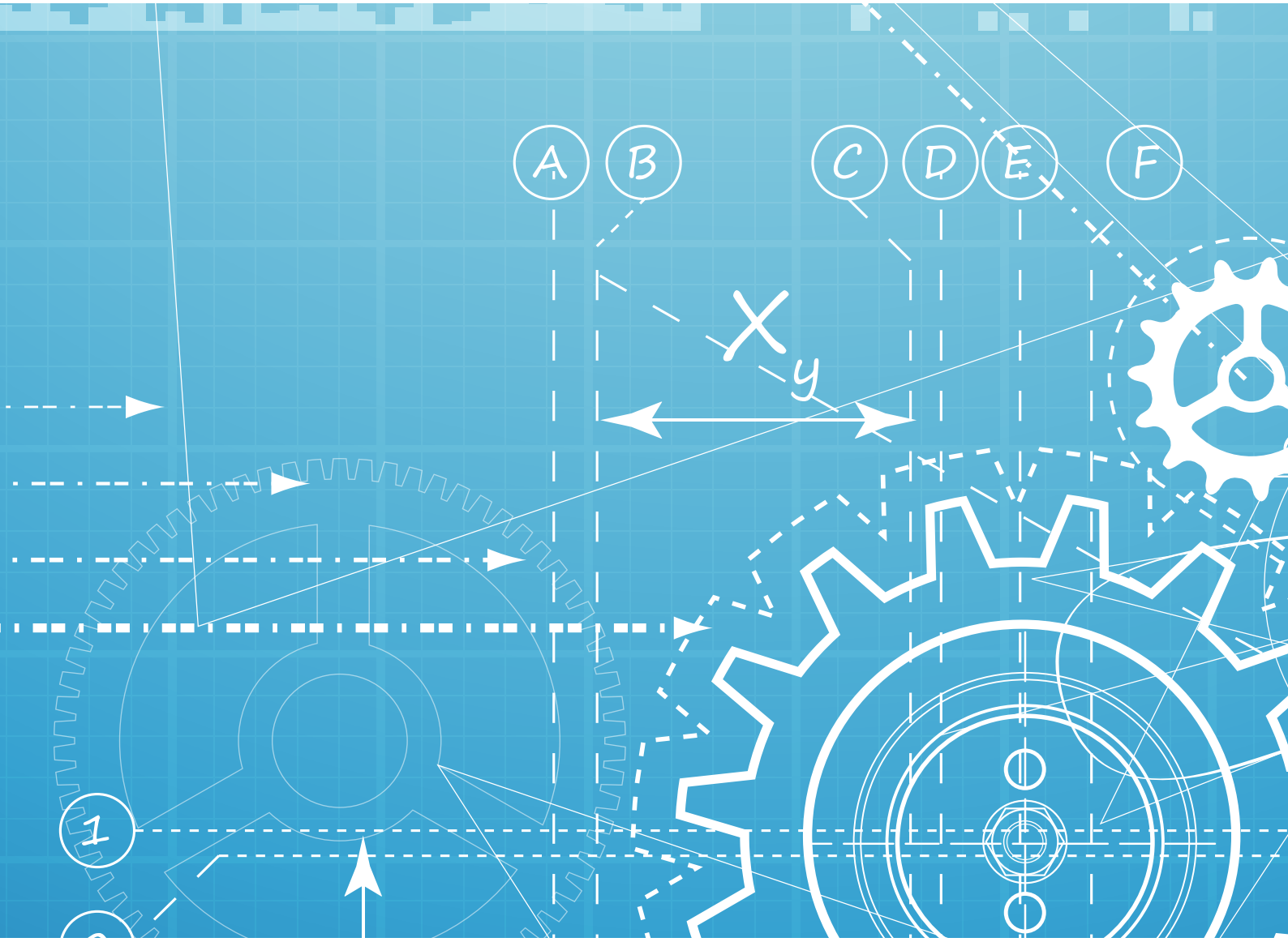
PATENT ARBITRATION:

THE ROLE OF



WilmerHale's **Rachael Kent** and **Siddharth Velamoor** explore the mechanisms that allow for the participation of third parties when arbitrating patent disputes

There are several significant advantages to arbitrating, rather than litigating a dispute relating to patent rights. Arbitration is uniquely equipped to address litigants' need to maintain the confidentiality of sensitive technology and business information, the need for decision-makers with expertise in the subject matter of the dispute, and the potential need to decide claims involving patents issued by multiple jurisdictions in a single proceeding.

Unsurprisingly, the World Intellectual Property Organization (WIPO) recently reported a trend towards private dispute resolution on the basis of a survey in which 30% of technology-related agreements, including patent license agreements, contained

THIRD PARTIES

clauses providing for dispute resolution through private arbitration.

While arbitrating patent disputes has several important advantages over national court litigation, it has also been perceived as having several important limitations. One of the most significant limitations is arbitration's very nature as a consensual dispute resolution process. Arbitration requires that each party has agreed to arbitrate, usually by including an arbitration clause in a broader contract (such as a patent licence agreement). Because only the parties to the arbitration agreement can typically be compelled – or permitted – to arbitrate disputes arising out of their contract, arbitration is generally not available where resolution of the dispute requires the participation of third parties.

This limitation can preclude not only the arbitration of many patent infringement claims (where there may be no contract of any kind between the patent holder and the alleged infringer), but also the arbitration of patent disputes arising under a licence agreement or other contract – if the resolution of the dispute requires the participation of third parties.

In recent years, multi-party contracts have become increasingly common, and multi-party arbitrations have likewise become common in a broad range of commercial disputes. International arbitral institutions have developed a variety of mechanisms for the participation of third parties in arbitration proceedings, by providing for joinder of additional parties and consolidation of related arbitrations. Moreover, some national laws permit arbitrators or national courts to compel third parties to give evidence in aid of a pending arbitration.

These procedural mechanisms have particular relevance in the context of patent arbitrations, where third parties are sometimes critical to the resolution of the parties' dispute.

Joinder of third parties

In light of the divisibility of patent rights and the segmented nature of many product-supply chains, a patent dispute can implicate the interests of numerous third parties. These third parties may ▶

include patent co-owners who may share a relationship with an alleged infringer or have an interest in a patent's construction or validity. They may also include commercial parties in contractual privity with an alleged infringer, such as suppliers, component manufacturers and distributors. National courts have permitted the joinder or intervention of such third parties in order to protect their interests and/or the interests of original parties to the litigation.

Many international arbitral institutions have amended their rules in recent years to add or expand provisions allowing the joinder of third parties in ongoing proceedings, provided that the tribunal has jurisdiction over the party to be joined. Some rules, such as the **London Court of International Arbitration** (LCIA) Rules (Article 22.1), the **United Nations Commission on International Trade Law** (UNCITRAL) Arbitration Rules (Article 17(5)), and the **Swiss Chambers' Arbitration Institution** (SCA) Rules (Article 4(2)), authorise an arbitral tribunal to join third parties upon the application of one or more parties, including the party to be joined:

LCIA Rules (2014), Article 22.1	"Unless the parties at any time agree otherwise in writing, the Arbitral Tribunal shall have the power, on the application of any party or of its own motion … to allow one or more third persons to be joined in the arbitration as a party provided any such third person and the applicant party have consented to such joinder in writing, and thereafter to make a single final award, or separate awards, in respect of all parties so implicated in the arbitration."
UNCITRAL Rules (2010), Article 17(5)	"The arbitral tribunal may, at the request of any party, allow one or more third persons to be joined in the arbitration as a party provided such person is a party to the arbitration agreement."
SCA Rules (2012), Article 4(2)	"Where one or more third persons request to participate in arbitral proceedings already pending under these Rules or where a party to pending arbitral proceedings under these Rules requests that one or more third persons participate in the arbitration, the arbitral tribunal shall decide on such request, after consulting with all of the third parties, including the person or persons to be joined, taking into account all relevant circumstances."

Other institutional rules, including, but not limited to, the newly amended rules of WIPO (Article 46), which are designed for the administration of arbitrations relating to patents and other intellectual property rights, and the rules of arbitration of the **International Chamber of Commerce** (ICC) (Article 7(1)) allow joinder only if all of the parties to the existing arbitration and the party to be joined consent to joinder:

WIPO Arbitration Rules (2014), Article 46	"At the request of a party, the Tribunal may order the joinder of an additional party to the arbitration provided all parties, including the additional party, agree."
ICC Arbitration Rules (2012), Article 7(1)	"No additional party may be joined after the confirmation or appointment of any arbitrator, unless all parties, including the additional party, otherwise agree."

The different joinder requirements under the arbitration rules of different institutions can have important implications for the outcome of a patent dispute.

For instance, the co-owner of a US patent may benefit from institutional rules that permit joinder of the other co-owner(s) upon the application of only one of the parties to the arbitration. This is due to the requirement under US patent law that every co-owner of a US patent must join a claim for patent infringement in order for that claim to be cognizable.

Conversely, a potential respondent to a claim for patent infringement may benefit from institutional rules that require the consent of all parties prior to the joinder of third parties – so as to prevent the claimant from joining third parties that allegedly infringe the patent or belong to the same supply chain as the respondent.

Consolidation of related arbitrations

Because the rights of exclusion granted to patent holders are enforceable against the general public, and not just parties who share a contractual relationship with the patent holder, a single patent can frequently give rise to multiple separate patent lawsuits. To conserve resources and avoid conflicting determinations of fact and law, court rules often provide for consolidating parallel patent claims into a single proceeding.

Consolidation of patent cases in national courts can be limited to certain phases of the proceeding, or can be broader, resulting in all claims and defences being resolved in a single trial.

At the same time, leading international arbitration institutions have expanded their rules on joinder, they have adopted or expanded rules allowing for the consolidation of multiple related arbitrations into a single proceeding before a single arbitral tribunal.

Many institutional rules, including the newly amended WIPO Rules (Article 47), the LCIA Rules (Article 10), and the ICC Rules (Article 10) allow for the consolidation of multiple arbitrations into a single proceeding. The requirements for consolidation vary by institution, with some institutions requiring the consent of all of the arbitrating parties and others permitting consolidation even absent the consent of one or more parties.

WIPO Arbitration Rules (2014), Article 47	"Where an arbitration is commenced that concerns a subject matter substantially related to that in dispute in other arbitral proceedings pending under these Rules or involving the same parties, the Centre may order, after consulting with all concerned parties and any Tribunal appointed in the pending proceedings, to consolidate the new arbitration with the pending proceedings, provided all parties and any appointed Tribunal agree."
LCIA Rules (2014), Article 22(ix)-(x)	Permitting consolidation where (1) "all the parties to the arbitrations to be consolidated so agree in writing" or (2) the arbitrations to be consolidated are "commenced under the same arbitration agreement or any compatible arbitration agreement(s) between the same disputing parties, provided that no arbitral tribunal has yet been formed by the LCIA court for such other arbitration(s) or, if already formed, that such tribunal(s) is (are) composed of the same arbitrators".
ICC Rules (2012), Article 10	Permitting consolidation where "a) the parties have agreed to consolidate in writing; or b) all of the claims in the arbitrations are made under the same arbitration agreement; or c) where the claims in the arbitrations are made under more than one arbitration agreement, the arbitrations are between the same parties, the disputes in the arbitration arise in connection with the same legal relationship, and the court finds the arbitration agreements to be compatible".

The ability to consolidate multiple claims relating to a patent into a single arbitration can promote efficiency and reduce the risk of inconsistent determinations regarding a patent's construction, validity and infringement.

As with rules regarding joinder, however, differences between the arbitration rules of different institutions regarding consolidation can have important effects on the outcome of a patent dispute. Parties that agree to arbitrate patent disputes should carefully evaluate the strategic implications of consolidation, taking into account the substantive laws that govern their contracts (and underlying patents).

Third-party evidence

Third parties frequently possess evidence that can be of substantial relevance to patent disputes. For example, the inventor named in the patent is routinely called to testify before national courts about the patent's meaning and novelty. Other evidence provided by third parties, including custodians of prior art relating to the claims in the patent and parties who may be liable for direct infringement where the respondent is alleged to have engaged in indirect infringement, also may be relevant to whether the patent is valid and has been infringed.

Parties to patent arbitrations can use a variety of mechanisms to try to compel the production of evidence by third parties. Some national laws provide arbitrators with the direct authority to compel the disclosure of evidence by third parties located in the jurisdiction in which the arbitration is seated. For example, section 7 of the US Federal Arbitration Act provides that arbitrators in US-seated arbitrations may "summon in writing any person to attend before them … and … to bring … any book, record, document or paper … deemed material as evidence".

Other national laws authorise national court judges to assist arbitrators in procuring evidence from third parties. For example, US courts have ordered third parties to produce evidence for use in foreign-seated arbitrations pursuant to US procedural rules (section 1782 of title 28 of the United States Code). Similarly, the UK's Arbitration Act 1996 authorises UK courts to order third parties to disclose evidence for use in arbitral proceedings seated in the UK.

Parties to arbitration agreements should consider whether to choose, as a seat of arbitration, a jurisdiction in which the arbitrators have the direct authority to compel disclosure of evidence by third parties and in which the third parties who possess the most relevant evidence are located. In the alternative, parties to an arbitration agreement may consider the strategic implications of designating a seat of arbitration in which the relevant national law provides for judicial assistance in the taking of third-party evidence by an international tribunal.

Conclusion

As institutions and arbitrators gain experience in the field of patent disputes, arbitration will provide an increasingly reliable forum for the resolution of patent claims – while also providing arbitrating parties with substantial procedural advantages over national court litigation. Recent efforts to address the important role of third parties in commercial arbitrations have made it easier to arbitrate patent disputes.

In negotiating the terms of their agreements to arbitrate, parties should be aware of these developments. They should consider carefully how differences between international arbitration rules and national laws can have important consequences for the conduct of their future disputes. ■

About the authors

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