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ARBITRABILITY OF INTELLECTUAL PROPERTY DISPUTES - RECENT DEVELOPMENTS

International arbitration provides, in theory, an attractive alternative to litigation for resolving cross-border intellectual property ("IP") disputes. Yet IP arbitration has not gained as much traction in practice as one might expect. One of the main obstacles to the ubiquity of IP arbitration is subject-matter non-arbitrability, and the traditional view that IP disputes, particularly disputes relating to the validity of registered IP rights, are not capable of settlement by arbitration. There are, however, trends indicating a progressive retreat from this position. This article discusses these trends, including certain recent developments in Hong Kong and their implications.

IP DISPUTES

IP refers to a broad range of property rights that enable the protection, sharing and transfer of intangible but valuable objects, including creative expressions, industrial inventions, and commercial names.[1] Depending on the nature of the IP and the applicable national law, IP rights may require registration and may subsist only for a fixed duration. Well-known examples of IP rights are copyrights, patents and trademarks.

IP rights generally have a limited territorial scope of application. The laws that enable the protection of IP rights do not apply extraterritorially. This is especially the case for IP rights that require registration, such as patents: patent infringement under the United States Patent Act is not possible outside of the United States. IP rights that do not require registration, such as copyright, are also territorial in scope, although some of them are subject to international protection under international treaties and conventions. In the case of copyright, for example, the Berne Convention for the Protection of Literary and Artistic Works (the "Berne Convention") allows authors from member States to protect their IP rights in foreign jurisdictions that are also member States, based on the law of the foreign jurisdiction.

IP disputes can take many forms. They may include: disputes arising out of breaches of a licensing agreement, disputes regarding the scope of an IP license, royalty payment disputes, IP infringement disputes, and disputes regarding the validity of the IP rights. These disputes can become subject to arbitration where they arise out of or in connection with an agreement which also contains an arbitration clause submitting such disputes to arbitration.

ARBITRATION AND IP DISPUTES

Arbitration is a private and often confidential adjudicative process that involves the final resolution of a dispute by a neutral arbitrator or arbitrators appointed by the parties. Arbitrators can be chosen for their expertise in a particular subject matter or area of law. The parties and arbitrators have much more flexibility, as compared to court litigation, to fashion an appropriate procedure for the case. The process results in an arbitral award, which is enforceable in more than 150 jurisdictions under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). Arbitration therefore offers certain advantages that litigation does not, including confidentiality, flexibility, expertise, and global enforceability.

1 *See e.g.* T. Cook and A. Garcia, *International Intellectual Property Arbitration*, 2010, at p. 5.

These features make arbitration particularly suitable for the settlement of certain types of IP disputes, particularly multi-jurisdictional IP disputes. In a litigation context, courts may be reluctant to assume jurisdiction over foreign IP disputes, and therefore separate litigation proceedings in multiple jurisdictions may be involved, even for disputes arising out of a single agreement or transaction. The international enforcement of court judgments is also subject to multiple uncertainties. In contrast, disputes subject to an arbitration agreement, even if they involve parties and activities across multiple jurisdictions, can be resolved in a single arbitration proceeding if the parties so contract. The arbitral award is then more easily enforceable in over 150 jurisdictions by virtue of the New York Convention.

Arbitration can also be suitable for the resolution of confidential IP disputes involving sensitive and confidential information, such as trade secrets or confidential industry know-how. Arbitration is often, although not necessarily, confidential; whether or not an arbitration is confidential depends upon parties' agreement and the applicable law, and many national laws and arbitration rules provide for implied or presumptive confidentiality of the arbitral proceedings and the arbitral award.[2] It is also possible to expressly provide for confidentiality of arbitral proceedings in IP contracts, and such an express confidentiality provision is likely to be upheld and enforceable in many jurisdictions.

HISTORICAL NON-ARBITRABILITY OF IP DISPUTES

Case law and legislation in many jurisdictions provide that certain categories of disputes are not "arbitrable," i.e. they are not capable of settlement by arbitration, usually for reasons of public policy. Non-arbitrability is a ground for non-enforcement of arbitral awards under the New York Convention and a basis for setting aside an award under many national laws. However, there is no uniform approach to arbitrability. Each jurisdiction judges for itself what categories of dispute are not arbitrable.[3] Typical examples of non-arbitrable disputes include criminal law disputes or family law disputes.

2 *See e.g.* Australia International Arbitration Act, Section 23C; *Emmott v Michael Wilson & Partners Ltd* [2008] EWCA Civ 184; LCIA Rules, Article 30; SIAC Rules, Rule 39.

3 G. Born, *International Commercial Arbitration*, p. 973.

The arbitrability of IP disputes is a still-developing area of the law. Historically, IP disputes were regarded as non-arbitrable,[4] and therefore agreements to arbitrate IP disputes were not enforceable and IP arbitral awards faced significant enforcement risks. This was based on the theory that IP rights are exclusive property rights granted by sovereign governments and reflect the balancing of particular public policy interests, and that they therefore could not be altered or adjudicated upon in private by the agreement of private parties.[5] On the other hand, commentators took the view that there is no reason in principle why IP disputes, including issues of validity that involve property rights granted by sovereign governments and related public policy issues, could not be resolved by arbitration – so long as the decision of the arbitral tribunal is limited to the parties to the arbitration.

RECENT DEVELOPMENTS IN ARBITRABILITY OF IP DISPUTES

The historical position on the non-arbitrability of IP disputes has been in progressive retreat. There is now an emerging consensus that IP disputes are arbitrable. As an indication of this consensus, the World Intellectual Property Organization ("WIPO"), a United Nations Specialized Agency focused on the protection of IP rights globally, has established an Arbitration and Mediation Center for the private settlement of IP disputes.

An increasing number of jurisdictions now provide for IP disputes to be generally arbitrable, although differences still remain as to the arbitrability of IP validity issues. For example, European Union law provides that IP disputes and IP claims are generally arbitrable, save that disputes directly concerning the validity or existence of IP rights are not arbitrable and must be decided upon exclusively by specified national courts.[6]

Under Chinese law, matters concerning the validity of patents and trademarks must be handled exclusively by administrative state organs and courts, and therefore commentators take the view that Chinese courts are unlikely to regard IP validity issues as arbitrable.[7]

On the other end of the spectrum, some jurisdictions, including Switzerland and the United States, go further and have legislation or definitive rulings that that make clear that all IP disputes, virtually without limitation and including issues of validity, are arbitrable as between parties to the arbitration agreement.[8] Many other jurisdictions, including prominent seats of arbitration such as Singapore and Stockholm, have not expressly addressed the arbitrability of IP disputes.

THE HONG KONG AMENDMENTS

Most recently, on 14 June 2017, Hong Kong enacted amendments to its Arbitration Ordinance that clarified the arbitrability of IP disputes in Hong Kong. The amendments expressly provided that all disputes over the enforceability, infringement, subsistence, validity, ownership, scope, duration or any other aspect of an IP right would be arbitrable as between the parties to the IP dispute. Hong Kong thus joins jurisdictions such as Switzerland and the United States in expressly permitting issues relating to the validity of IP rights to be arbitrable.

It remains to be seen whether Hong Kong's amendments will mark the start of a trend in encouraging IP arbitrations, and if so, what form that trend will take. One of the differences between Hong Kong's and the United States' model of IP arbitration is that the United States provides that the United States Patent and Trademark Office must be given notice of an arbitral award in relation to a patent dispute before such award can be enforced, and that such awards would be recorded on the relevant register.[9]

4 *See* G. Born, *International Commercial Arbitration*, 2014, at p. 992. *See also Lear, Inc. v. Adkins*, 395 U.S. 653, 677 (U.S. S.Ct. 1969).

5 *See* L. Boo, "Arbitrability of Intellectual Property Disputes", at p. 1, available at https://www.aippi.org/download/reports/forum/forum07/12/ForumSession12_Presentation_Lawrence_Boo.pdf.

6 See EC Regulation 44/2001, Art. 22(4); EC Regulation 1215/2012, Art. 24(4). See also T. Cook and A. Garcia, *International Intellectual Property Arbitration*, 2010, at p. 65.

7 Art. 45 of the People's Republic of China Patent Act and Arts 41 and 42 of the People's Republic of China Trade Mark Act; M. Smith et al, "Arbitration of Patent Infringement and Validity Issues Worldwide," 19 Harv. J. Law. Tech. 299, 2006, at p. 346.

8 *See* Blessing, "Arbitrability of Intellectual Property Disputes," 1996, 12 Arb. Int'l 191; United States Code, Title 35: Patents, Section 294: Voluntary Arbitration (35 U.S.C. § 294).

9 *See* 35 U.S. Code § 294; 37 CFR 1.335.

Hong Kong declined to follow this and require the recording of IP or patent arbitral awards, on the basis that confidentiality is an important feature of Hong Kong's arbitration regime, that valid safeguards already exist for third parties to protect their interests, and that no competition law issues arise.[10]

Different jurisdictions looking to introduce IP arbitration reform may take a different stance from both the Hong Kong and the United States. Awards that deal with the validity of IP rights, even if they only have inter partes effect, may give rise to competition law concerns as third parties are placed at a competitive disadvantage vis-à-vis the parties to the arbitration, even though the underlying IP right that justifies that disadvantage may be subject to some defect. Such concerns may justify making an arbitral finding on the validity of IP rights (but not arbitral awards more generally) publicly available, particularly those IP rights that are recorded on a register. This is ultimately a policy question for each jurisdiction on how the balance between competition law concerns and the confidentiality of arbitration should be struck.

10 Supplemental Paper on the Government's Response to the Issues Raised by the Bills Committee at the Meeting of 5 January 2017 - Views of the Competition Commission, LC Paper No. CB(4)579/16-17(01).