

**ARBITRATION OF PATENT INFRINGEMENT AND VALIDITY  
ISSUES WORLDWIDE**

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## I. INTRODUCTION

Despite optimism regarding its potential for the resolution of patent issues,<sup>1</sup> binding arbitration has not been successful in significantly decreasing the patent caseload of the public courts.<sup>2</sup> Although interest in patent arbitration can be seen in some countries,<sup>3</sup> significant practical and legal obstacles to the use of arbitration, particularly at the international level, still confront parties interested in this method of dispute resolution.

The first part of this Article explores these obstacles as they exist internationally in order to assist counsel, scholars, and legislators in dealing with complex and interrelated issues involving arbitration and patent law. The second part of the Article surveys the current legal

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1. See, e.g., Karl B. Kilb, Note, *Arbitration of Patent Disputes: An Important Option in the Age of Information Technology*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 599, 625 (1993); Julia A. Martin, Note, *Arbitrating in the Alps Rather Than Litigating in Los Angeles: The Advantages of International Intellectual Property-Specific Alternative Dispute Resolution*, 49 STAN. L. REV. 917, 921-37 (1997); Gregg A. Paradise, Note, *Arbitration of Patent Infringement Disputes: Encouraging the Use of Arbitration Through Evidence Rules Reform*, 64 FORDHAM L. REV. 247, 247-48; Nancy N. Yeend & Cathy E. Rincon, *ADR and Intellectual Property: A Prudent Option*, 36 IDEA 601, 602 (1996).

2. See, e.g., Marion M. Lim, Note, *ADR of Patent Disputes: A Customized Prescription, Not an Over-The-Counter Remedy*, 6 CARDOZO J. CONFLICT RESOL. 155, 167-68 nn.77-78 (2004).

3. See, e.g., AM. ARB. ASS'N, PUBLIC SERVICE AT THE AMERICAN ARBITRATION ASSOCIATION 150 (2004), available at <http://www.adr.org/si.asp?id=1544>.

situation with regard to patent arbitration in the United States, Canada, France, Germany, the Netherlands, India, the People's Republic of China, Australia, and Japan.

## II. DEFINITION AND STATUS OF PATENT ARBITRATION

Commercial arbitration is a nongovernmental, consent-based dispute resolution process. After hearing evidence presented by the parties in a quasi-adversarial proceeding, one or more arbitrators render a binding decision concerning some commercial matter. The winning party may take this decision before a court for execution.<sup>4</sup>

Commercial arbitration has been a tempting alternative to litigation for some time, especially where parties from different countries are involved in a commercial contract. Arbitration has several potential advantages over litigation in this context. When referring to the advantages of arbitration, however, there is a great need to avoid what one commentator aptly called the “cliché-ridden assessments of how the system is actually working.”<sup>5</sup>

One real advantage of arbitration is its predictability, as it generally avoids the possibility that a court will have to apply foreign law or that an international jurisdictional dispute will take place.<sup>6</sup> Arbitration also allows the parties to select a neutral forum. It is possible to choose the locus of arbitration (and thus the applicable procedural law)<sup>7</sup> as well as arbitrators who are not nationals of the contracting parties' home states,<sup>8</sup> whereas this would be difficult in a court proceeding. The contractual nature of arbitration allows parties to have a greater role in the procedural law that governs the resolution of their dispute — for example, in the selection or exclusion of appropriate remedies.<sup>9</sup> International enforcement of arbitral awards also tends to be easier than the enforcement of court judgments, due to the widespread adoption of the Convention on the Recognition and Enforce-

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4. See, e.g., U.N. Comm'n on Int'l Trade Law [UNCITRAL], *Report of the United Nations Commission on International Trade Law on the Work of Its Eighteenth Session*, Annex I, U.N. Doc. A/40/17 (June 21, 1985) [hereinafter UNCITRAL MODEL LAW], available at <http://www.uncitral.org/pdf/english/texts/arbitration/ml-arb/ml-arb-e.pdf>. The UNCITRAL Model Law has served as the basis for approximately fifty national arbitration laws. See U.N. Comm'n on Int'l Trade Laws, *Status of Conventions and Model Laws*, ¶ 6, U.N. Doc. A/CN.9/583 (May 9, 2005) [hereinafter *UNCITRAL Status*], available at <http://daccessdds.un.org/doc/UNDOC/GEN/V05/842/19/PDF/V0584219.pdf>.

5. Paul M. Janicke, “*Maybe We Shouldn't Arbitrate*”: *Some Aspects of the Risk/Benefit Calculus of Agreeing to Binding Arbitration of Patent Disputes*, 39 Hous. L. Rev. 693, 726 (2002).

6. See, e.g., *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 515–17 (1974).

7. See *id.* at 519 (“An agreement to arbitrate before a specified tribunal is, in effect, a specialized kind of forum-selection clause that posits not only the situs of suit but also the procedure to be used in resolving the dispute.”).

8. See, e.g., UNCITRAL MODEL LAW, *supra* note 4, art. 11(5).

9. See *infra* Part VI.

ment of Foreign Arbitral Awards (“New York Convention”).<sup>10</sup> Arbitration is widely viewed as being less traumatic and less damaging to an ongoing and otherwise successful business relationship.<sup>11</sup> The ability to keep certain aspects of the arbitration confidential can also be an advantage.<sup>12</sup>

A multinational statutory regime has arisen to support arbitration in an international commercial context.<sup>13</sup> Most industrialized states have statutes requiring that arbitral awards based on proceedings that meet minimal standards of fairness be enforced, and that lawsuits brought concerning issues subject to a valid agreement to arbitrate be referred to arbitration.<sup>14</sup> An arbitration agreement usually must be in writing and signed by both of the parties in order to be valid.<sup>15</sup> That is, arbitration is based on the consent of the parties.<sup>16</sup>

The international enforcement of arbitral awards is facilitated by the New York Convention,<sup>17</sup> which at least 135 nations have adopted.<sup>18</sup> The New York Convention requires courts to enforce arbitral awards rendered under the laws of a foreign country, provided *inter alia* that the award was within the arbitrators’ jurisdiction as specified in the arbitration agreement,<sup>19</sup> the proceeding met minimal standards of fairness (such as fair notice of the proceedings),<sup>20</sup> the award concerns a subject amenable to arbitration,<sup>21</sup> and the award does not violate principles of public policy in the state in which enforcement is sought.<sup>22</sup> Awards violating public policy might include, for example, an award that is contrary to the remedial purposes of a statute<sup>23</sup> or an award concerning the validity of a patent.<sup>24</sup> However,

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10. 330 U.N.T.S. 3 [hereinafter New York Convention], available at [http://www.uncitral.org/pdf/english/texts/arbitration/NY-conv/XXII\\_1\\_e.pdf](http://www.uncitral.org/pdf/english/texts/arbitration/NY-conv/XXII_1_e.pdf). The New York Convention states that each party to the convention agrees to enforce arbitral awards pursuant to the convention. *Id.* art. II(1).

11. See MICHAEL BÜHLER ET AL., PRACTITIONER’S HANDBOOK ON INTERNATIONAL ARBITRATION 9 (Frank-Bernd Weigand ed., 2002).

12. See *infra* Part V.

13. See generally BÜHLER ET AL., *supra* note 11, at 539–1152 (surveying national arbitration laws in industrialized states).

14. See, e.g., Pieter Sanders, *Unity and Adoption of the Model Law*, 11 ARB. INT’L 1 (1995); BÜHLER ET AL., *supra* note 11, at 400–01.

15. See, e.g., UNCITRAL MODEL LAW, *supra* note 4, art. 7(2); New York Convention, *supra* note 10, arts. II(1)–(2).

16. See ALAN REDFERN & MARTIN HUNTER, LAW AND PRACTICE OF INTERNATIONAL COMMERCIAL ARBITRATION 1–9 (3d ed. 1999).

17. See BÜHLER ET AL., *supra* note 11, at 400–01.

18. See UNCITRAL Status, *supra* note 4, ¶ 5 at 12–16.

19. See New York Convention, *supra* note 10, art. V(1)(c).

20. See *id.* art. V(1)(b).

21. See *id.* art. V(2)(a).

22. See *id.* art. V(2)(b).

23. Cf. *Paladino v. Avnet Computer Technologies, Inc.*, 134 F.3d 1054, 1062 (11th Cir. 1998) (“When an arbitration clause has provisions that defeat the remedial purpose of [a] statute . . . the arbitration clause is not enforceable.”) (citing *Cole v. Burns Int’l Sec. Servs.*, 105 F.3d 1465, 1468 (D.C. Cir.1997)).

the public policy exception is generally interpreted narrowly.<sup>25</sup> Moreover, where international parties are involved, arbitration agreements may be enforced “even assuming that a contrary result would be forthcoming in a domestic context.”<sup>26</sup>

A patent arbitration is a commercial arbitration that deals with some issue of substantive patent law. Patent arbitration can include disputes focusing solely on personal property issues involving the patent, such as assignment or licensing. These issues are, however, well-established subjects of arbitration and we will not focus on them. Instead, we concentrate on arbitration proceedings that involve the infringement or validity of one or more patents. The word “validity” here will be used to include a number of different legal terms used in various countries, such as “revocation” and “enforceability,” all of which describe the continuing existence or enforceability of the patent monopoly.

International support for the arbitration of patent validity and infringement varies greatly. The United States is the only surveyed country that includes explicit statutory support for patent arbitration.<sup>27</sup> Several other countries have laws and legal traditions that are flexible enough to allow the enforcement of arbitral awards involving patent validity issues, at least inter partes, although the practice is often too infrequent to make certain predictions.<sup>28</sup> In other countries, the question of patent validity is not arbitrable, even between the parties.<sup>29</sup>

The World Intellectual Property Organization (“WIPO”) has an Arbitration and Mediation Center that handles patent arbitration cases. It is sometimes seen as a neutral institution in transatlantic cases.<sup>30</sup> The Center has administered a handful of cases involving patent infringement and validity, particularly with respect to U.S. and European patents.<sup>31</sup> The Center has also collected anecdotal evidence indicating a rise in the number of license agreements including WIPO

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24. See, e.g., *infra* Part XII.A (discussing the public policy concerns related to enforcing arbitral awards concerning patent validity in India).

25. See *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614 (1985); Llewellyn J. Gibbons, *Creating a Market for Justice: A Market Incentive Solution to Regulating The Playing Field: Judicial Deference, Judicial Review, Due Process, and Fair Play in Online Consumer Arbitration*, 23 NW. J. INT’L L. & BUS. 1, 60–62.

26. *Mitsubishi Motors*, 473 U.S. at 629.

27. See 35 U.S.C. §§ 135(d), 294 (2000).

28. See, e.g., *infra* Part XIV (Austl.). In some countries, there is an explicit distinction between patent invalidity raised as a defense to an infringement claim and an attempt to revoke the entire patent, in which case only the former may be arbitrable. See *infra* note 283 and accompanying text (discussing the Indian concepts of “invalidity” and “revocation”).

29. See, e.g., *infra* Parts IX (Fr.), XIII (P.R.C.).

30. Telephone Interview with Ignacio de Castro, Head of the Info. & External Relations Section of the Arbitration & Mediation Ctr., WIPO, in Geneva, Switz. (May 4, 2005).

31. *Id.* To date, all of these cases have involved an arbitration agreement that predated any alleged infringement. *Id.*

arbitration clauses, and expects the caseload to increase as disputes arise out of these licenses.<sup>32</sup>

The broader use of arbitration as a means for resolving disputes of substantive patent law has been hampered by legal obstacles and areas of uncertainty. We address several of these in turn.

### III. AVAILABILITY OF PATENT ARBITRATION

In some countries it is not possible to arbitrate claims of validity or infringement. By “not possible” we do not mean that it is not possible for the parties to find an arbitral tribunal that would render an award. We mean, rather, that any such award would not be enforceable against the losing party. Further, if the subject matter of a dispute is not arbitrable, courts may refuse to refer parties to arbitration even if an arbitration agreement exists.<sup>33</sup>

The major patent-producing states can be placed in two groups based on the arbitrability of patent validity. The first and smaller group gives deference to the contractual freedom of the parties and allows all patent issues including validity to be arbitrated. The effect of the award, however, generally remains *inter partes*. Thus, an arbitral tribunal award finding a patent invalid generally will not preclude the enforcement of that patent against nonparties to the arbitration.

The second and larger group of states does not allow the arbitration of claims involving the validity of a patent. Arbitral awards that purport to pass judgment on the validity of the patent will have no effect, and arbitration agreements under which patent validity is to be adjudicated will not be enforced. These states do, however, enforce agreements and awards regarding property-related patent issues, such as issues related to ownership and licensing. Issues relating to infringement may also be arbitrable, although in some cases they are restricted.

The question of whether a particular *subject matter* is arbitrable is often referred to as a question of “objective arbitrability.”<sup>34</sup> Various reasons have been put forward to justify or explain objective arbitrability restrictions as they exist today. Using the terminology popular in the United States, we divide these into two categories: legal arguments and policy arguments. To define these concepts briefly, the

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32. *Id.*

33. See UNCITRAL MODEL LAW, *supra* note 4, art. 8(1); New York Convention, *supra* note 10, art. II(3).

34. See, e.g., Stefan M. Kröll, *Recognition and Enforcement of Foreign Arbitral Awards in Germany*, 5 INT'L ARB. L. REV. 160, 172 (2002). In contrast, “subjective arbitrability” refers to whether the parties to a particular matter are qualified to arbitrate. See, e.g., Robert Briner, *The Arbitrability of Intellectual Property Disputes with Particular Emphasis on the Situation in Switzerland*, WORLDWIDE FORUM ON ARB. INTELL. PROP. DISPUTES, <http://arbiter.wipo.int/events/conferences/1994/briner.html>.

legal arguments present some obstacle to the objective arbitrability of patent disputes without attempting to decide whether the presence of the obstacle is desirable. The policy arguments attack the advisability of the arbitration of patent disputes and call for the creation or maintenance of a legal obstacle to it.

*A. Legal Arguments for Restrictions on the Objective Arbitrability of Patent Disputes*

One legal argument against the objective arbitrability of patent disputes is that the laws of a state entrust a specific court or administrative agency with exclusive jurisdiction over certain types of patent disputes.<sup>35</sup> Thus, if an arbitral award is given the effect of a court (or administrative) judgment, arbitration of infringement or validity issues derogates the exclusive jurisdiction of the state body entrusted with these issues. This argument may even restrict questions of patent *infringement* from the purview of arbitration.<sup>36</sup> If only patent validity is nonarbitrable, it may be possible to arbitrate questions of infringement while validity is litigated before a court or agency.

A second and more abstract legal argument against the objective arbitrability of patent validity concerns the sovereign nature of the patent grant: if a sovereign grants a right, only the same sovereign can extinguish that right.<sup>37</sup> This argument loses traction fairly quickly, however, since most patent systems grant the patentee the right to voluntarily surrender, broadly license, or at least refrain from enforcing the patent.<sup>38</sup> The capacity to voluntarily relinquish rights is little different from the capacity to voluntarily allow an arbitrator to decide whether rights should be relinquished.

Even aside from the patentee's ability to render its own patent rights useless, the "sovereign grant" argument is little more than smoke and mirrors. It is admittedly true that only the sovereign inherently has the power to extinguish rights that have been created through its authority. Thus, to permit the arbitration of patent disputes, the state must be willing to cede a certain part of its decision-making

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35. See, e.g., 28 U.S.C. § 1338 (2000) (giving exclusive jurisdiction over suits concerning patent laws to the federal courts); The Patents Act, 1970, No. 39, Acts of Parliament, 1970, § 104 (India) (giving the High Court exclusive jurisdiction over suits involving a counterclaim for patent revocation); Patentgesetz [PatG] [Patent Law], Dec. 16, 1980, BGBl. 1981 I at 1, § 65 (F.R.G.) (providing the Federal Patent Court with exclusive jurisdiction over questions of patent validity); Rijksoctrooiwet 1995 [Patent Act 1995], art. 80, Stb. 1995, 51 (Neth.) (providing the Court of the First Instance in The Hague with exclusive jurisdiction over patent infringement and validity suits).

36. See, e.g., Rijksoctrooiwet 1995, arts. 80(2)(a)–(b) (Neth.).

37. See, e.g., BTDrucks 13/5274 35 (F.R.G.); NELSON HOLZNER, DIE OBJEKTIVE SCHIEDSFÄHIGKEIT VON IMMATERIALGÜTERRECHTSSTREITIGKEITEN [THE OBJECTIVE ARBITRABILITY OF INTELLECTUAL PROPERTY DISPUTES] 101 (2001); REDFERN & HUNTER, *supra* note 16, at 3–23.

38. See, e.g., 35 U.S.C. § 41(b) (2000); PatG §§ 58, 64 (F.R.G.).



power to arbitral tribunals and to cooperate with tribunals to enforce the result. This is a prerequisite for all commercial arbitration, however, since even strictly private rights are essentially grants from the state, and thus awards concerning these rights are relatively worthless without the state's willingness to enforce them.

To challenge the objective arbitrability of patent disputes with the sovereign grant argument thus either impugns all of commercial arbitration, regardless of subject matter, or forces the proponent of the argument to provide some policy reason to distinguish patent arbitration from other types of commercial arbitration. The sovereign grant argument is, in that sense, a legal argument only on its surface. When this surface is penetrated, the proponent must rely on an unstated policy argument. We discuss some of the possibilities below.

A third legal argument concerns the inherently limited power of the arbitrator. Since arbitration is a consensual process, the jurisdictional competence of the arbitrator is limited to those people who have consented to it.<sup>39</sup> It would be impossible, according to this line of thinking, for an arbitrator to render an award that invalidates a patent and thus has a "public" effect.<sup>40</sup>

There are several possible responses to arguments based on the limited power of the arbitrator. First, the effect of an invalidity award may be expressly defined as *inter partes*, as has been done in the United States.<sup>41</sup> Alternately, an award of patent invalidity may be given broader effect, either through preclusive effects in later proceedings<sup>42</sup> or through third party enforcement of the award itself. Such an award would eliminate an obstacle to competition and thus confer a benefit on the broader public, creating a basis for preclusive effects or third party enforcement of the award on principles of implied consent.

### *B. Policy Arguments for Restrictions on the Objective Arbitrability of Patent Disputes*

In some political systems, restrictions on the objective arbitrability of patent disputes are based on a desire to separate public law from

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39. See William Grantham, Comment, *The Arbitrability of International Intellectual Property Disputes*, 1996 BERKELEY J. INT'L L. 173, 187 (1996) (proposing the limited power of the arbitrator as a justification for a complete limitation to objective arbitrability, but rejecting it in the final analysis).

40. An analogy may also be drawn to case law worldwide concerning the effect of an arbitral award on non-consenting parties. See, e.g., *Nath v. Nath*, 1928 A.L.R. 15 (Cal.) 275, 276 (India) (if an arbitral award "purport[s] to interfere with the rights of strangers . . . the strangers will not in any event be affected by it; but as between the parties to the award its provisions must be held to be operative if there are no other questions about its validity.").

41. See 35 U.S.C.A. § 294(c) (2002).

42. See *infra* Part IV.

the inherently private mechanism of arbitration.<sup>43</sup> This is essentially a policy choice but one that may be made with little motivation other than longstanding legal tradition. Countries making such a choice usually enforce arbitral awards concerned with the patent as property — patent licensing or patent infringement — but will not enforce awards related to the validity of a patent.<sup>44</sup>

Clearly articulated justifications of such choices from a policy standpoint have, unfortunately, been lacking. Debate is often limited to vague references to the public nature of the patent grant without clearly defining what these public qualities might be or why their presence should require restrictions on objective arbitrability.<sup>45</sup> As pointed out by Grantham in one of the first works on the objective arbitrability of intellectual property at an international level:

[T]here is a theory that intellectual property disputes — or aspects of them — are inarbitrable per se. This theory is premised on the idea that even though the state usually remains in the background in other types of private disputes, whether similar — in the case of contract actions — or analogous — as with real property arbitration — intellectual property has certain intrinsic features that [compel] the state into the foreground, and thereby, [invoke] the *ordre public*. But, commentators are uncertain as to what [these] intrinsic feature[s] might be and why there is a public policy bar to certain types of intellectual property arbitration.

This is in contrast to antitrust cases, where . . . the antitrust debate at least has the virtue of having been grounded in a serious discussion of the respective roles of the state and of private parties in such disputes. In the case of intellectual property, one cannot point to a body of similar caselaw or literature to support the premise that certain classes of dispute inherently invoke the state interest in such a way that they should automatically be excluded from arbitration.<sup>46</sup>

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43. See Grantham, *supra* note 39, at 183.

44. See, e.g., *infra* Part XV.A (discussing public policy arguments about the arbitrability of patent validity in Japan).

45. See, e.g., *Beckman Instruments, Inc. v. Technical Dev. Corp.*, 433 F.2d 55, 63 (7th Cir. 1970).

46. See Grantham, *supra* note 39, at 183 (citations omitted).

In our view, the confusion in the underlying policy question regarding the objective arbitrability of patent validity results from the attempt to answer three related questions at once. First, what are the relevant interests of the public<sup>47</sup> in the question of patent validity? Second, are such interests adequately represented by the parties to an arbitration? Third, assuming the public interests are not adequately represented, is a restriction on the objective arbitrability of patent validity the best means of protecting that interest?

Although the first question relates to the public interest in the continuing validity of issued patents, and not the public interests behind the patent system itself, it is perhaps appropriate to begin with the latter interests. The much-discussed public policies underpinning patent systems are the incentives to invent, invest, and disclose.<sup>48</sup> The incentives to invent and invest assume that a patent system is required to allow inventors and investors a return that reflects the value to society of innovation.<sup>49</sup> The last incentive suggests that the patent system encourages innovators to make innovations public that would otherwise be held secret.<sup>50</sup>

Significant discussion has taken place in legal and economic literature as to what the “correct” motivation for a patent system might be.<sup>51</sup> We do not take a position on this discussion, except to adopt the assumption inherent in all patent law that some motivation relating to an incentive to invent, invest, or disclose exists sufficient to justify that law. Regardless of whether the motivation rests on an incentive to invent, invest, or disclose, the patent monopoly is viewed as an undesirable but necessary incentive required to promote overriding state objectives.<sup>52</sup>

The question of the validity of an *existing* patent is thus the question of whether or not a particular monopoly, granted as an incentive,

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47. Here we mean both state interests and the private interests of a sufficiently large number of nonparties to the dispute that the interests can collectively be called public.

48. See, e.g., Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1017–19 (1989). But see STAFF OF SUBCOMM. ON PATENTS, TRADEMARKS & COPYRIGHTS OF S. COMM. ON THE JUDICIARY, 85TH CONG., AN ECONOMIC REVIEW OF THE PATENT SYSTEM 32 (Comm. Print 1958) [hereinafter MACHLUP] (prepared by Fritz Machlup) (noting that economists dispute the “incentive to disclose” justification for the patent system).

49. See, e.g., Eisenberg, *supra* note 48, at 1017. “Innovation” here means invention plus actual industrial application.

50. *Pennock v. Dialogue*, 27 U.S. 1, 19–20 (1829) (“The U.S. patent system is structured in order to encourage innovators to make innovations public rather than keep them secret.”).

51. See generally MACHLUP, *supra* note 48.

52. See *id.* at 55.

Existing patents, on the other hand, restrict the use of inventions already known, and thus they reduce temporarily the full contribution these inventions could make to national output. These restrictions are neither “odious” nor unlawful, nor contrary to public policy; they are “necessary” if any profit is to be derived from the patents.

*Id.*

justifiably exists. The fact that the patent has already been issued means that its incentive function has already been fulfilled<sup>53</sup> and the maintenance of the monopoly is related to the expected reward to the patentee. The lack of a strong correlation between the written law and the actual upholding or invalidation of patents in courts could upset a (presumably) carefully struck balance between the costs of monopolies and the social benefits of invention spurred by patent rights.<sup>54</sup>

The question then becomes whether an arbitration of validity issues is sufficient to maintain this balance. In this context, the technical competence of the arbitral tribunal has been called into question. Arbitrators may simply not be prepared to handle the complexity of extremely technical areas of law such as patent validity.<sup>55</sup> Consistently incorrect decisions by arbitrators on validity could upset the balance between the harms of monopoly power and the incentives to invent and disclose. The courts, however, have rejected the argument that arbitrators are inherently less capable of resolving technical issues.<sup>56</sup> In fact, the ability to select arbitrators knowledgeable in the subject matter of the dispute may render arbitration a better forum for the decision of highly technical matters.<sup>57</sup>

Another argument for restricting the objective arbitrability of patent disputes has to do with the ability of the parties to shape the arbitration procedure to fit their needs. This potential advantage of arbitration becomes a concern when one party is able to exert considerably more influence on the process than the other, especially when the weaker party consistently represents the public interest.<sup>58</sup> This is especially relevant where statutory claims intended to redress societal evils created by power imbalances, such as claims involving racial discrimination, are in dispute. In these cases there is a tension between the desire to allow the parties and the arbitrators to decide which sub-

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53. *See id.*

If one accepts the theory that patent protection has the social function of serving as an incentive for inventive activity, one accepts, by implication, that the beneficial effects of this incentive system must flow, not from existing patents, but from the hope for future profits from future patents . . . .

*Id.*

54. *See, e.g.,* *Lear, Inc. v. Adkins*, 395 U.S. 653, 677 (1969) (Black, J., concurring).

55. *See Hanes Corp. v. Millard*, 531 F.2d 585, 593 (D.C. Cir. 1976) (“[T]he expertise of arbitrators has always lain in resolving, perhaps by way of compromise, contractual disputes rather than in interpreting the import of complicated federal legislation.”).

56. *See, e.g.,* *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1198 (7th Cir. 1987) (“[T]here is no reason to think that arbitrators are more likely to err in copyright cases than state or federal judges are . . .”).

57. *See, e.g.,* Robert H. Smit, *General Commentary on the WIPO Arbitration Rules, Recommended Clauses, General Provisions and the WIPO Expedited Arbitration Rules: Articles 1 to 5; Articles 39 and 40*, 9 AM. REV. INT’L ARB. 3, 5 (1998).

58. This might occur, for example, where a powerful merchant drafted the arbitration clause in a contract of adhesion.

stantive law to apply and the desire to see the policies of the legislature carried out.<sup>59</sup>

It is not at all clear that the parties' ability to customize the arbitration forum would be problematic where patent issues are concerned. We are aware of no evidence to support the proposition that the patent laws were created to address a societal evil created through a power imbalance.<sup>60</sup> Furthermore, in our experience, the majority of patent disputes are merchant to merchant, and it is difficult to predict whether the patentee or the alleged infringer will be the party with the most resources. Suits pitting powerful patentees against consumers are rare.<sup>61</sup> To the extent that such suits exist, they often cannot be subjected to valid arbitration agreements because of the legal limitations on consumer arbitration clauses.<sup>62</sup>

Although it appears that neither side in a patent dispute is (on average) likely to be significantly weaker than the other, we are still left with the question of whether either party is prepared to represent the public interest. In this sense, it must be observed that *any* private right arises from a form of public interest. For example, the state has an interest in the proper enforcement of private sales contracts to enable business planning according to certain and known legal principles, or in the proper maintenance of private property interests in real estate.<sup>63</sup> In these cases, the public interests are so aligned with the parties' own interests that they cannot be said to be unrepresented in a dispute.

Yet the public interest in the question of the validity of a patent appears in this sense distinguishable from the public interest in areas of purely private law. A dispute regarding the validity of the patent, unlike a contract dispute, has the potential to affect the freedom of action of numerous third parties. While the accused infringer is certainly adequately motivated to defend *itself* with a claim of invalidity,

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59. Such tensions can be seen in a variety of U.S. cases dealing with statutory rights. Compare *Rodriguez de Quijas v. Shearson/Am. Express, Inc.*, 490 U.S. 477, 484 (1989) (holding the arbitration clause in an investment contract enforceable), and *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 631–37 (1985) (holding provisions of the Sherman Antitrust Act arbitrable), with *EEOC v. Waffle House*, 534 U.S. 279, 295 n.10 (2002) (noting that an arbitration agreement does not prevent the EEOC from enforcing provisions under the ADA that protect employees).

60. See e.g., Eisenberg, *supra* note 50 (describing the various rationales for a patent system); see also F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 697 (2001) (“The foundation for the American patent system is purely economic.”).

61. This might reflect a desire to spend enforcement resources at the distribution point, or an aversion among patent holders to the generation of negative publicity among the buying public.

62. See *Chūsai Hō* [Arbitration Law], Law No. 138 of 2003 (Japan), Supplemental Provisions, art. 3, no. 2 [hereinafter Japanese Arbitration Law], translated at <http://www.jcaa.or.jp/e/arbitration-e/kisoku-e/kaiketsu-e/civil.html> (allowing consumers to cancel an arbitration agreement); *Zivilprozeßordnung [ZPO]* [Civil Procedure Statute] July 27, 2001, Bundesgesetzblatt, Teil I [BGBl. I] 1887, § 1030 (F.R.G.).

63. See Grantham, *supra* note 39, at 182–83.

it may not be adequately motivated to defend all third parties. This might present a problem where the accused infringer has procedural alternatives that would allow it, contrary to the public interest, to limit the scope of a finding of invalidity.

In fact, it is difficult to see why an accused infringer would have the complete invalidation of the patent as one of its litigation objectives.<sup>64</sup> A judgment of invalidity stands to benefit potential competitors to the alleged infringer, as well as the infringer itself, by making the patented invention available to all potential infringers. The alleged infringer is likely to prefer a broad and irrevocable patent license, leaving the monopoly intact for non-party competitors, and leaving the enforcement costs with the patentee.<sup>65</sup> Thus, a potential infringer is unlikely to share a potential public interest in invalidating a patent.

The public interest in patent validity proceedings may also conflict with the potentially confidential nature of arbitration. It is possible under most arbitration statutes<sup>66</sup> for the parties to keep the proceedings private and confidential.<sup>67</sup> This, in turn, raises the possibility of collusion, since if neither of the parties were interested in fully probing the question of validity, they would be able to conceal even strong evidence of invalidity from the broader public.

Moreover, since it is difficult and expensive to prove invalidity,<sup>68</sup> the public interest might be best served if any evidence of invalidity were made available to the general public. This may not occur in arbitration, where the parties have little incentive to divulge evidence of invalidity to the outside world, and indeed possible incentives to suppress this evidence. In a court dispute regarding patent validity, however, the proceedings are made public. Furthermore, the parties have no choice in the legal consequences that flow from the judicial determination of a particular set of facts. If the accused infringer pleads the invalidity of the patent, the court may invalidate it. If the accused infringer does not wish to invalidate the patent, he must withhold his invalidity claim and face the possibility of being found in violation of the patentee's rights without an adequate defense.

We must note, however, that we are aware of no state that has explicitly identified these policy concerns as a reason for restricting objective arbitrability of patent validity. In fact, some states have at least

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64. An exception might occur where personal or professional animosity plays a strong role.

65. United States patent law enables this outcome by specifying that a patent arbitral award has no effect on non-parties to the arbitration. See 35 U.S.C.A. § 294(c) (2002).

66. See Alexis C. Brown, *Presumption Meets Reality: An Exploration of the Confidentiality Obligation in International Commercial Arbitration*, 16 AM. U. INT'L L. REV. 969, 990-99 (2001).

67. "Private" means that third parties are excluded from the arbitration hearings, whereas "confidential" means that the results of the arbitration are not disclosed to third parties. See Michael Collins, *Privacy and Confidentiality in Arbitration*, 30 TEX. INT'L L.J. 121 (1995).

68. Cf. 35 U.S.C.A. § 282 (2002) ("A patent shall be presumed valid.")

tacitly rejected these concerns. In India,<sup>69</sup> for example, it is possible for a court decision on patent validity to be applied only *inter partes*. Thus, parties in some countries can decide to litigate patent claims in a way that will preserve the patent monopoly even if the court finds that patent invalid.<sup>70</sup>

Moreover, even if arbitration of patent validity is restricted, parties can always resolve disputes through private settlements. Such settlements, in turn, carry the risk that public interests will not be adequately represented. In some countries the limits of objective arbitrability are also the limits of settlement, and thus a settlement may be prohibited from acknowledging patent validity or invalidity.<sup>71</sup> We consider pre-litigation settlement agreements that acknowledge patent invalidity to be exceedingly rare. More often the potential infringer presents or hints at its evidence of invalidity during negotiations, without the parties ever “deciding” on the merits whether the patent is sustainable or not. The question of invalidity then hangs over the patentee like the Sword of Damocles, affecting the terms of an agreement that purports to resolve infringement issues alone.

In any case, the public policy concerns expressed above may be alleviated by placing certain conditions on the private arbitration of validity disputes, similar to those found in a court. For example, registration at the patent office of an award involving a finding of patent validity or invalidity could be required in order to alert third parties to the proceedings. The form of the award could be tied to the pleadings in such a way as to force a brief explanation of the issues decided. The accused infringer then would be faced with a choice: it could either arbitrate its invalidity claims with the knowledge that they would become public and may even have preclusive effect, or withhold its invalidity claims and rely on other arguments. This is the same choice an accused infringer would face in litigation, and the outcome should be similar. Under these conditions, the arbitration of patent validity would appear to satisfy the public policy concerns expressed above.

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69. See *infra* note 285 and accompanying text.

70. This may not represent a complete rejection of the state’s interest in the outcome of a validity dispute. The proceedings are still public, and the parties still have an incentive to pursue the revocation of the patent if only to force the patentee into a less favorable settlement posture.

71. See, e.g., Zivilprozeßordnung [ZPO] [Civil Procedure Statute] July 27, 2001, Bundesgesetzblatt, Teil I [BGBl. I] 1887, § 1030(1) (F.R.G.) (stating that any claim involving commercial or property matters can be the object of an arbitration agreement, and that arbitration agreements concerning non-commercial or non-property matters are valid to the extent that the parties are free to reach a settlement over the matter); Japanese Arbitration Law, *supra* note 62, art. 13(1).

### C. Avoiding Enforcement Problems

Despite the existence of potential enforcement problems, patent arbitrations do take place where objective arbitrability is restricted. This may be for a variety of reasons, the simplest being that the parties trust one another or believe the risk of non-compliance with an arbitral award to be small. In other situations, the parties may view some particular advantage of the arbitral forum, for example the exclusion of certain remedies or the possibility of confidentiality, to be worth the risk of non-enforcement.

If both parties are committed to arbitration despite the risk that the winning party might not be able to enforce the judgment, several possible approaches may make the results of the arbitration concerning patent validity issues more secure. The safest course is generally to agree to arbitrate the arbitrable issues, and to litigate or prosecute the non-arbitrable issues in the appropriate forum.<sup>72</sup> Separate actions may be brought before an arbitral tribunal and a forum with jurisdiction over patent validity.<sup>73</sup> Alternately, if allowed under local law, the arbitral tribunal may request a ruling on validity from the appropriate forum as part of the arbitration proceedings.<sup>74</sup> Such a ruling, however, may sacrifice the advantages (in particular confidentiality) that caused the parties to resort to arbitration in the first place.

## IV. EFFECT OF THE ARBITRATION

Arbitral awards may have an effect on later proceedings, whether those proceedings are inter partes or involve third parties.

Between the parties to an arbitration, an arbitral award may have preclusive effects<sup>75</sup> for issues of infringement and validity. Most of

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72. Cf. *Matthew* 22:21 (“Render therefore unto Caesar the things which are Caesar’s; and unto God the things that are God’s.”).

73. The arbitration agreement in this case should contain a provision allowing arbitrators to modify their awards in the event the patent in question is found invalid after the award is issued.

74. Provisions in the local arbitration law or the rules agreed to by the parties may give the arbitral tribunal such powers. See, e.g., *Zivilprozeßordnung* [ZPO] [Civil Procedure Statute] July 27, 2001, *Bundesgesetzblatt*, Teil I [BGBI. I] 1887, § 1050 (F.R.G.) (permitting the arbitral tribunal or a party with the consent of the arbitral tribunal to seek the support of a court where the tribunal has no jurisdiction).

75. The exact effect and nomenclature associated with preclusion varies across legal systems. What common law legal systems call *res judicata* is, for example, roughly analogous to the German doctrine of *Rechtskraft*, although the effects of the latter are considerably more limited. See Markus S. Seitenberg, *The Legal Effects of In-Personam Judgments Under The German Code of Civil Procedure and the American Doctrines of Res Judicata and Collateral Estoppel. A Brief Comparison*, 2005 *ZEITSCHRIFT DES DEUTSCHEN-AMERIKANISCHEN-JURISTEN-VEREINS* 19, 19–20, available at [http://www.winheller.com/dateien/pdf/DAJV%20Newsletter%201\\_2005.pdf](http://www.winheller.com/dateien/pdf/DAJV%20Newsletter%201_2005.pdf).



the jurisdictions that allow arbitration of infringement or validity give the award this type of effect.<sup>76</sup>

The effect of the award on third parties, or on later disputes between one of the parties to the arbitration and non-parties, remains the subject of much uncertainty but little debate.<sup>77</sup> These effects are closely related to the subject of objective arbitrability discussed in the previous section.

Even if the award has limited legal effect, the *proceedings* of the arbitration may be of interest elsewhere. Questions remain as to what extent legal and factual positions taken by a party in arbitration, or evidence presented to the tribunal, can be used to prevent the taking of contradictory positions in a later proceeding.

There is also the possibility that the arbitration proceedings, even if not directly usable to prevent a retrial of any particular issue, could be used against one of the parties in an indirect manner. For example, prior arbitration proceedings could be used to expose testimony contradictory to a party's position in a later proceeding. In particular, this may hinder parties that might otherwise argue that a patent is invalid in arbitration and then argue the contrary in a later proceeding.

The answers to these questions are not established, or even the subject of debate, in any of the jurisdictions surveyed. As mentioned above, the authors see no pressing reason to limit the effect of an award to the parties and, by extension, no reason to limit the effect of the proceedings of the award.

## V. CONFIDENTIALITY

Both the objective arbitrability of patent validity or infringement and the effects of such arbitration are tied to issues of confidentiality. It is possible in many statutory regimes and common under many sets of arbitration rules to preserve the confidentiality of the proceedings.<sup>78</sup> If the proceedings are confidential, it may be difficult for the parties to use the award or any other part of the arbitration in later proceedings, and third parties and patent offices may not be aware that an arbitration took place.

The degree of confidentiality in arbitration varies greatly.<sup>79</sup> In general, parties are free to include confidentiality requirements di-

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76. See, e.g., *infra* Part VII.C (U.S.).

77. It should be noted, however, that the International Law Association's Committee on International Commercial Arbitration is actively considering the application of *res judicata* in international arbitration. See INT'L COM. ARB. COMM., INT'L LAW ASS'N, INTERIM REPORT: "RES JUDICATA" AND ARBITRATION (2004).

78. See Brown, *supra* note 66, at 988.

79. See generally L.Y. Fortier, *The Occasionally Unwarranted Assumption of Confidentiality*, 15 ARB. INT'L 131 (1999).

rectly in their arbitration agreements.<sup>80</sup> If the arbitration agreement is silent on the issue of confidentiality, but the arbitration rules designated by the parties contain a confidentiality provision, then that provision applies.<sup>81</sup> If both the arbitration agreement and the designated rules are silent as to confidentiality, the law of the arbitration forum will decide what is confidential and what is not.

The confidentiality provisions contained in the arbitration rules and in the law of arbitration forums vary greatly.<sup>82</sup> For example, under English law, there is an implied agreement of confidentiality, applicable even when the parties do not specify confidentiality in their agreements.<sup>83</sup> In Australia and the United States, there is usually no duty of confidentiality implied at law, although parties are free to contract to such.<sup>84</sup> Under the rules of the London Court of International Arbitration and the Singapore International Arbitration Centre, parties are prohibited from revealing any aspect of the arbitration, including its existence.<sup>85</sup> Exceptions are allowed in certain circumstances, such as a binding legal requirement to reveal information from the arbitration, or a court action seeking enforcement of the award.<sup>86</sup> Under International Chamber of Commerce rules, in contrast, generally only information subject to trade secret protection is treated confidentially.<sup>87</sup> Under the Commercial Arbitration Rules of the American Arbitration Association, there is no requirement of confidentiality.<sup>88</sup>

Confidentiality may well be a reason to choose arbitration, since it is easier in arbitration to keep sensitive internal documents from the prying eyes of the press and competitors.<sup>89</sup> Arbitration is, however, no guarantee of secrecy, since awards may have to be enforced later in court.<sup>90</sup> Confidentiality is sometimes even a disadvantage in disguise, as companies subject to certain reporting requirements might find

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80. See Brown, *supra* note 68, at 988.

81. See UNCITRAL MODEL LAW, *supra* note 4, art. 2(e).

82. See Fortier, *supra* note 79.

83. See, e.g., Oxford Shipping Co. v. Nippon Yusen Kaisha, [1984] 3 All E.R. 835, 836–37, 842 (Q.B.); Dolling-Baker v. Merrett, [1990] 1 W.L.R. 1205, 1213–14 (Eng.); Hassneh Ins. Co. of Isr. v. Mew, [1993] 2 Lloyd's Rep. 243, 246 (Q.B.).

84. See Esso Austl. Res. Ltd. v. Plowman (1995) 183 C.L.R. 10, 10 (Austl.).

85. See ARBITRATION RULES arts. 19.4, 30 (London Court of Int'l Arbitration 1998) [hereinafter LCIA RULES], available at [http://www.lcia.org/ARB\\_folder/ARB\\_DOWNLOADS/ENGLISH/rules.pdf](http://www.lcia.org/ARB_folder/ARB_DOWNLOADS/ENGLISH/rules.pdf); INTERNATIONAL RULES R. 34.6 (Sing. Int'l Arbitration Ctr. 1997) [hereinafter SIAC RULES], available at <http://www.siac.org.sg/Pdf/SIAC-intnlrules.pdf>.

86. See LCIA RULES, *supra* note 85, art. 30; SIAC RULES, *supra* note 85, R. 34.6(a)–(e).

87. See RULES OF ARBITRATION R. 20(7) (Int'l Chamber of Commerce 1998).

88. See COMMERCIAL ARBITRATION RULES AND MEDIATION PROCEDURES R. 42(b) (Am. Arbitration Ass'n 2005) [hereinafter AAA RULES].

89. See, e.g., Union Oil Co. of Cal. v. Leavell, 220 F.3d 562, 568 (7th Cir. 2000) (“People who want secrecy should opt for arbitration. When they call on the courts, they must accept the openness that goes with subsidized dispute resolution by public (and publicly accountable) officials.”).

90. See REDFERN & HUNTER, *supra* note 16, at 1–16.

themselves trapped later by a strong confidentiality agreement.<sup>91</sup> In the patent context, this can arise especially where the parties are required to report the outcome of the arbitration to the patent office<sup>92</sup> or licensees, or where the outcome of the patent arbitration could be considered an event significantly affecting the finances of a publicly traded company.<sup>93</sup>

Even if a strict confidentiality requirement is in place, the parties will usually be allowed to enforce the award against one another in open court.<sup>94</sup> However, a confidentiality agreement generally may not be breached in order to use an arbitral award, or information presented during arbitration, in a separate proceeding. For example, if an accused infringer is relieved of liability through a finding of invalidity in arbitration, he may be prevented from using this finding against the patentee in a later proceeding involving a separate allegation of infringement. The same applies to the use of legal or factual positions taken in an arbitration that contradict the positions of a party in a separate, later proceeding. There appears to be no implied exception to strict confidentiality to prove any form of estoppel in a separate proceeding.

Even if strict confidentiality is not required, the recordkeeping of the tribunal may make it difficult to use the award or information presented at the arbitration for other purposes. If no transcript or other record is kept of the proceedings, it may be difficult to prove to what extent positions were taken or issues fully and fairly arbitrated. Furthermore, especially in the United States, the written award itself may contain no mention of the issues considered in reaching the award.<sup>95</sup>

These issues can present a problem for parties seeking permanent resolution of their dispute, and should be considered at the drafting stage of the arbitration agreement. Confidentiality and recordkeeping can also be problematic for states that wish to subject the potential public policy issues of patent arbitration to more scrutiny. In such cases, simple statutory remedies are possible, such as the requirement

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91. See generally Valéry Denoix de Saint Marc, *Confidentiality of Arbitration and the Obligation to Disclose Information on Listed Companies or During Due Diligence Investigations*, 20 J. INT'L. ARB. 211 (2003).

92. E.g., 37 C.F.R. §§ 1.335(a)–(b) (2005).

93. See, e.g., Denoix de Saint Marc, *supra* note 91, at 214–15.

94. See Thomas E. Carbonneau, *The Ballad of Transborder Arbitration*, 56 U. MIAMI L. REV. 773, 819 (2002); LCIA RULES, *supra* note 85, art. 30.1.

95. See, e.g., AAA RULES, *supra* note 88, R. 42(b) (“[T]he arbitrator need not render a reasoned award unless the parties request such an award in writing prior to appointment of the arbitrator or unless the arbitrator determines that a reasoned award is appropriate.”); Andrew T. Guzman, *Arbitrator Liability: Reconciling Arbitration and Mandatory Rules*, 49 DUKE L.J. 1279, 1313 (“Indeed, in the United States, the practice of issuing an award without a reasoned opinion is often adopted specifically to avoid giving the loser any grounds upon which to challenge the award.”). Outside of the United States the practice tends toward providing awards supported by reasoned opinions. See UNCITRAL MODEL LAW, *supra* note 4, art. 31(2).

that any award be registered at the national patent or intellectual property office.<sup>96</sup>

## VI. REMEDIES

The remedies available to the parties in a patent arbitration are of vital importance to the success of the arbitration for the patentee and to the perceived risk of the arbitration for the accused infringer. There is little dispute anywhere in the world about an arbitral tribunal's ability to award economic damages to the aggrieved party. The availability of additional remedies, however, depends on several factors. These factors include: the agreement of the parties; the rules designated in the arbitration agreement, if any; the law of the arbitration forum; and the law of the state responsible for the patent grant.<sup>97</sup>

In general, parties may agree to restrict the remedies available to the arbitrators.<sup>98</sup> For example, the parties may declare in the arbitration agreement that the tribunal shall have no power to issue an injunction or other equitable remedy.<sup>99</sup> Such a restriction on remedies may indeed be a reason to prefer arbitration to court action in the first place.

The power of the arbitrator to issue permanent injunctions, an oft-requested form of relief in patent infringement cases, may be subject to several conditions. Even if the parties have agreed to give the arbitrator this power, it may be restricted by the law of the arbitration forum. If the power to issue injunctions is beyond the scope of the arbitral tribunal, an award including a permanent injunction may be unenforceable.

The power of an arbitral tribunal to issue permanent injunctions can also be limited by the law of the state that issued the patent. In some states, injunctive power may be restricted in scope or limited to the courts. If the arbitration forum is different than the state issuing the patent, the enforcement of the injunction could be denied on the basis of public policy under the New York Convention.<sup>100</sup>

An arbitrator's power to issue preliminary injunctions may also be limited.<sup>101</sup> Many arbitration statutes either allow the tribunal to

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96. See, e.g., 37 C.F.R. §§ 1.335(a)–(b) (2005).

97. Because a patent's effect is limited to the territory of the sovereign that granted it, any arbitral award will ultimately only be enforced within that territory. If the award was not granted under that sovereign's laws, it might have difficulty passing the "public policy" hurdle of article V(2)(b) of the New York Convention, *supra* note 10.

98. See, e.g., *In re Farkar Co.*, 583 F.2d 68, 71 (2d Cir. 1978).

99. See, e.g., New York Convention, *supra* note 10, art. V(1)(c); UNCITRAL MODEL LAW, *supra* note 4, art. 34(2)(iii).

100. New York Convention, *supra* note 10, art. V(2)(b).

101. See U.N. Comm'n on Int'l Trade Law [UNCITRAL], *Report of the Working Group on Arbitration on the Work of its Thirty-Second Session*, ¶¶ 60–69, U.N. Doc. A/CN.9/468 (Apr. 10, 2000).

take interim measures or allow the parties to apply to a court for the institution of interim measures.<sup>102</sup> If the law of the arbitration forum requires court intervention for an interim measure, and the arbitration forum is not the state that issued the patent, the parties will need to apply for interim measures in the patent-issuing state. This will require some legal device allowing courts to intervene to assist a foreign arbitration with an interim measure.<sup>103</sup>

The power of the arbitral tribunal to order punitive damages is disputed even if the parties contract to give the tribunal this power.<sup>104</sup> “Punitive damages” can be understood to include any damages beyond those needed to recompense the aggrieved party for his injury, and would include, for example, statutory damages going beyond the amount of lost profits due to infringement.

An award of costs, including attorney’s fees, to the winning party in an arbitration is common but not uniform. If the arbitration agreement includes a clear provision concerning an award of costs, that provision will generally be followed.<sup>105</sup> In the absence of such a provision, arbitral tribunals may award costs based on the law of the arbitration forum, the arbitral rules governing the dispute, or principles of fairness and reasonableness.<sup>106</sup> The variety of approaches available to an arbitral tribunal can result in unpredictable and sometimes inconsistent awards of costs.<sup>107</sup>

The arbitral tribunal may have more flexibility to craft remedies than the courts of the country where the tribunal is located.<sup>108</sup> The tribunal may issue an award with a remedy that is not available to the courts under the applicable substantive law, or even an award that is beyond the inherent power of the courts of the state to enforce. If the tribunal imposes a remedy that is not available to the courts, enforcement of the award could be refused as contrary to public policy.<sup>109</sup> An award that exceeds the power of the court to enforce may be rejected

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102. See UNCITRAL MODEL LAW, *supra* note 4, arts. 9, 17.

103. See New York Convention, *supra* note 10, art. II(3); John A. Fraser, III, *Congress Should Address the Issue of Provisional Remedies for Intellectual Property Disputes Which Are Subject to Arbitration*, 13 OHIO ST. J. ON DISP. RESOL. 505, 534 (1998) (citing Scherk Enterprises Aktiengesellschaft v. Societe des Grandes Marques, Cass., 1977, 1979 Y.B. Com. Arb., 286 (Italy)).

104. See M. Scott Donahey, *Punitive Damages in International Commercial Arbitration*, 10 J. INT’L ARB. 67, 71 (1993); Kenneth R. Davis, *A Proposed Framework for Reviewing Punitive Damages Awards of Commercial Arbitrators*, 58 ALB. L. REV. 55, 55 (1994).

105. See John Yukio Gotanda, *Awarding Costs and Attorneys’ Fees in International Commercial Arbitrations*, 21 MICH. J. INT’L L. 1, 14–15 (1999).

106. See *id.* at 14.

107. See *id.* at 13.

108. Thomas E. Carbonneau, *United States*, in PRACTITIONER’S HANDBOOK ON INTERNATIONAL ARBITRATION, 1087, 1120 (Frank-Bernd Weigand ed., 2002) (“[S]ome courts have recognized that arbitrators can order remedies that are not available through the judicial process.”).

109. See New York Convention, *supra* note 10, art. V(2)(b).

entirely; furthermore, any such award can only be enforced to the extent of the enforcing court's powers. If the court does not have injunctive powers, for example, an arbitral award of an injunction might only be enforceable in an action for damages. Nonetheless, parties may elect to allow an arbitral tribunal to award remedies that are not enforceable in court if they believe that the other party to the arbitration will honor the award.

## VII. PATENT ARBITRATION IN THE UNITED STATES

### A. Arbitrability

The United States Patent Act allows the arbitration of patent infringement,<sup>110</sup> validity,<sup>111</sup> and interference claims.<sup>112</sup> These provisions have been interpreted broadly to include other issues that might not fall within infringement, validity, and interference, such as the question of inventorship.<sup>113</sup> An arbitration conducted under these provisions results in an award effective between the parties.<sup>114</sup> There are no statutory requirements as to the form of the award.<sup>115</sup>

Notice of an award concerning a patent must be submitted to the United States Patent and Trademark Office.<sup>116</sup> Until this submission takes place, the award is unenforceable.<sup>117</sup> After submission, notice of the award is included in the patent file and available to the public.<sup>118</sup>

Administrative proceedings concerning a patent may not be barred by the presence of pending arbitration. Until 1994, investigations initiated by the United States International Trade Commission ("ITC") into violations of intellectual property rights by the importation of foreign goods could not be stayed pending arbitration. In *Farrel Corp. v. International Trade Commission*, the Court of Appeals for the Federal Circuit held that an agreement to arbitrate results in the waiver of a right to judicial forum but not the waiver of a right to an administrative forum such as the ITC.<sup>119</sup> This holding was based on U.S. Supreme Court precedent which allowed administrative agencies

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110. 35 U.S.C. § 294(a) (2000).

111. *Id.*

112. *Id.* § 135(d).

113. *See Miner Enters., Inc. v. Adidas AG*, No. 95 C 1872, 1995 WL 708570, at \*3 (N.D. Ill. Nov. 30, 1995).

114. 35 U.S.C.A. § 294(c) (2002).

115. *Id.* § 294.

116. 37 C.F.R. §§ 1.335(a)–(b) (2005).

117. 35 U.S.C. § 294(e) (2000).

118. *See id.* § 294(d).

119. 949 F.2d 1147, 1148 (Fed. Cir. 1991), *superseded by statute*, 19 U.S.C. § 1337(3)(c) (2000). Such investigations can result in import exclusion orders on goods or the impoundment of goods already within the United States by the U.S. Customs Service. *See, e.g.*, 19 U.S.C. §§ 1337(d), 1337(f) (2000).

to investigate and prosecute civil statutory claims even in the face of a valid arbitration agreement covering the private law claims between the parties.<sup>120</sup> Although the specific holding in *Farrel Corp.* was overturned by statute in 1994,<sup>121</sup> the precedent on which it was based is still valid.<sup>122</sup> This reasoning could apply to other administrative proceedings before the patent office such as an inter partes reexamination proceeding.<sup>123</sup>

The legislative overruling of *Farrel Corp.* might, however, lead courts and the Patent and Trademark Office to defer to arbitration agreements that are broad enough to include issues of validity.<sup>124</sup> This potential departure from U.S. Supreme Court precedent could further be justified by the specific statutory reference to the arbitrability of interference issues,<sup>125</sup> which in the absence of arbitration are also subject to an administrative process.<sup>126</sup> These issues have not yet been the subject of judicial decision.

### B. Law of Arbitration

Patent arbitrations conducted in the United States are subject to the Federal Arbitration Act (“FAA”).<sup>127</sup> Most U.S. states have their own arbitration laws, which govern proceedings only where substantive patent law issues are not implicated and the arbitration agreement does not affect interstate commerce.<sup>128</sup> Unlike arbitration law in many other countries, the FAA was not influenced by the United Nations Commission on International Trade Law (“UNCITRAL”) Model Law on International Commercial Arbitration (“UNCITRAL Model Law”), which it predates by some sixty years.<sup>129</sup> The U.S. Supreme Court has repeatedly affirmed the existence of a strong federal policy favoring arbitration.<sup>130</sup> Under the FAA, a U.S. court confronted with an agreement to arbitrate must refer the parties to arbitration, unless one of the

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120. See *Farrel Corp.*, 949 F.2d at 1156 (citing *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20 (1991)); see *EEOC v. Waffle House*, 534 U.S. 279, 295–96 n.10 (2002).

121. See 19 U.S.C. § 1337(c) (2000); *San Huan New Materials High Tech, Inc. v. Int’l Trade Comm’n*, 161 F.3d 1347, 1357 (Fed. Cir. 1998).

122. See *Waffle House*, 534 U.S. at 295–96 n.10 (2002) (citing *Gilmer*, 500 U.S. at 26).

123. The inquiry here might relate to whether the inter partes reexamination is seen as an alternative to civil litigation or as an administrative means to redress a public wrong.

124. 35 U.S.C.A. § 294 (2002).

125. 35 U.S.C. § 135(d) (2000).

126. See *id.* § 135(a).

127. 9 U.S.C. §§ 1–14 (2000).

128. Cf. 35 U.S.C. § 294(b) (2002); 9 U.S.C. §§ 1–2.

129. Cf. U.N. Comm’n on Int’l Trade Law [UNCITRAL], *Report of the United Nations Commission on International Trade Law on the Work of Its Eighteenth Session*, ¶ 332, U.N. Doc. A/40/17 (June 21, 1985) (stating that the UNCITRAL Model Law was adopted on the same date); United States Arbitration Act, ch. 213, 43 Stat. 883 (1925) (codified as amended at 9 U.S.C. § 1–14 (2000)).

130. See, e.g., *Moses H. Cone Mem’l Hosp. v. Mercury Constr. Co.*, 460 U.S. 1, 24–25 (1983).

parties raises a substantial challenge to the arbitration agreement itself.<sup>131</sup> In the absence of such a challenge, a court has no discretion, and must order arbitration.

The FAA specifically allows arbitrators to issue subpoenas for testimony and physical evidence, and allows courts to enforce these subpoenas through normal contempt powers.<sup>132</sup> Although the FAA does not address the issue of interim measures, most courts have been willing to enforce such measures ordered by arbitral tribunals, provided the measure is within the scope of the arbitration agreement.<sup>133</sup>

Court review of arbitral awards is quite limited.<sup>134</sup> A federal court may set aside an award only if it was procured by fraud,<sup>135</sup> if there was evident partiality on the part of the tribunal,<sup>136</sup> if the arbitrators were guilty of misconduct in refusing to allow a party to present its case,<sup>137</sup> if the arbitrators exceeded their powers,<sup>138</sup> if the arbitrators failed to render a final, definite or complete award,<sup>139</sup> or if the award is rendered in “manifest disregard of the law.”<sup>140</sup>

An international award may only be set aside under the terms of the New York Convention.<sup>141</sup> It is well established that the public policy exception to enforcement in the New York Convention is to be construed narrowly.<sup>142</sup> For example, matters relating to antitrust law that might normally be non-arbitrable as against public policy between U.S. nationals become arbitrable when an international party is involved.<sup>143</sup>

131. 9 U.S.C. §§ 3–4 (2000); *see* *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395, 403–04 (1967).

132. 9 U.S.C. § 7 (2000).

133. *See, e.g.*, *Island Creek Coal Sales Co. v. City of Gainesville, Fla.*, 729 F.2d 1046, 1049 (6th Cir. 1984); *Sperry Int’l Trade, Inc. v. Israel*, 689 F.2d 301, 306 (2d Cir. 1982); Carbonneau, *supra* note 110, at 1120.

134. *See* *First Options of Chi., Inc. v. Kaplan*, 514 U.S. 938, 943 (1995) (“[T]he court should give considerable leeway to the arbitrator, setting aside his or her decision only in certain narrow circumstances.”).

135. 9 U.S.C. § 10(a)(1) (2000).

136. *Id.* § 10(a)(2).

137. *Id.* § 10(a)(3).

138. *Id.* § 10(a)(4).

139. *Id.* *But cf.* *Publicis Commc’n v. True N. Commc’ns, Ltd.*, 206 F.3d 725, 728–30 (7th Cir. 2000) (holding that courts may recognize an arbitral order even if not specifically designated as an “award”).

140. *Wilko v. Swan*, 346 U.S. 427 (1953), *overruled on other grounds by* *Rodriguez de Quijas v. Shearson/Am. Express, Inc.*, 490 U.S. 477, 484 (1989); *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1365 (Fed. Cir. 2001).

141. *See* 9 U.S.C. §§ 201, 207 (2000).

142. *See* *Fotochrome, Inc. v. Copal Co., Ltd.*, 517 F.2d 512, 516 (2d Cir. 1975); Suzanne Y. Kao, Note, *Industrial Risk Insurers v. M.A.N. Gutehoffnungshutte GmbH: International Arbitration and Its Enforcement Under the New York Convention*, 24 N.C. J. INT’L L. & COM. REG. 727, 760–61 & nn.265–67 & 272–73 (1999).

143. *See* *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 631–32 (1985); *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 516–17 (1974).



The United States has a separate court of appeals for patent matters, the Court of Appeals for the Federal Circuit (“CAFC”).<sup>144</sup> Appeals from orders involving patent arbitrations are generally not taken to the CAFC unless they depend on questions of patent law.<sup>145</sup> Where a case presents questions of both patent and non-patent law, the CAFC has jurisdiction over the appeal, but applies the law of the original jurisdiction to non-patent legal issues.<sup>146</sup> Since a legal dispute over the applicability of a patent arbitration agreement does not directly involve patent law, appeals to the CAFC of patent arbitration disputes are rare.

### C. Effect of Award in Later Proceedings

In general, an arbitral award in the U.S. has the same effect as a court judgment for purposes of res judicata for those issues that were part of a valid arbitration and covered by the award.<sup>147</sup> However, the Patent Act states that “[a patent arbitral award] shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person.”<sup>148</sup> This appears to prevent the use of collateral estoppel based on patent arbitral awards, since collateral estoppel is generally the only “force or effect” that a judgment in a patent case has upon third parties.<sup>149</sup> However, at least one commentator has argued that the “optional” use of patent invalidity through collateral estoppel based on patent arbitration proceedings should still be allowed.<sup>150</sup>

It must be noted that U.S. statutory law limits only the effect of an *award* on third parties.<sup>151</sup> This would seem to prevent a third party from using collateral estoppel against the parties in separate proceedings, since that doctrine requires a final litigation of a matter.<sup>152</sup> Other elements of the proceeding, however, may have effects outside of the arbitration. In particular, evidence presented in an arbitration may be used again in later proceedings, and positions taken may have the effect of judicial estoppel in another forum. The doctrine of judicial

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144. See 28 U.S.C. § 295(a)(1) (2000).

145. See *Ballard Med. Prods. v. Wright*, 823 F.2d 527, 531–32 (1987).

146. See *Flex-Foot, Inc. v. CRP, Inc.*, 238 F.3d 1362, 1365 (Fed. Cir. 2001).

147. See *Am. Renaissance Lines, Inc. v. Saxis S.S. Co.*, 502 F.2d 674, 678 (2d Cir. 1974).

148. 35 U.S.C.A. § 294(c) (2002). A district court’s judgment has, of course, all of the normal preclusive effects of any other court judgment. By far the most widely implicated of these is the inability to enforce a patent once it has been held invalid.

149. See *3Com Corp. v. Willemijn Houdstermaatschappij*, No. C-94-20391-WAIBV, 1994 WL 619283, at \*1 (N.D. Cal. Oct. 31, 1994).

150. See David W. Plant, *Arbitration of Patent Cases*, 233 PII/PAT 137, 187 (1986). It is not clear, however, what the effect of 35 U.S.C. § 294(c) would be in that case.

151. 35 U.S.C.A. § 294(c) (2002).

152. See *United States v. Int’l Bldg. Co.*, 345 U.S. 502, 505–06 (1953).

estoppel prevents parties who have obtained relief based on a particular position on a legal or factual issue from contradicting that position in a later proceeding.<sup>153</sup> At least one district court has held that positions leading to or taken in an arbitration can be the subject of a judicial estoppel.<sup>154</sup>

The positions taken and evidence presented in arbitration can also affect the ongoing prosecution of related patent applications. This is of particular concern in the United States, where patent applicants are required to disclose all known matters material to patentability.<sup>155</sup> Failure to do so may result in a rejection by the Patent and Trademark Office or a finding of invalidity by a court.<sup>156</sup> According to the CAFC, the mere existence of ongoing litigation involving the defenses of invalidity or unenforceability is material to patentability.<sup>157</sup> We do not believe that the term “litigation,” in this context, would be limited in a way that would exclude arbitration.

Among the parties to the arbitration and their privies,<sup>158</sup> the award has its full res judicata effect.<sup>159</sup> According to that doctrine, issues that were litigated and claims that could have been litigated may not be re-litigated in a later suit.<sup>160</sup> Thus, a product found infringing in an arbitration cannot be manufactured again by the infringer without a license. A finding of invalidity, on the other hand, amounts to a permanent license of the patent for the accused infringer: the arbitration is binding under the doctrine of res judicata with respect to the accused infringer, and the patent may still be enforced against non-parties.<sup>161</sup>

It remains unclear to what extent an arbitral award or the associated proceedings may be used by non-parties as evidence of the patentee’s knowledge that the patent is invalid. Such evidence could be useful, for example, under a defense of unclean hands,<sup>162</sup> for a claim for attorney’s fees,<sup>163</sup> or in a *Walker Process* antitrust counterclaim.<sup>164</sup>

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153. See *United States v. Newell*, 239 F.3d 917, 921 (7th Cir. 2001).

154. See *Cardiac Pacemakers, Inc. v. St. Jude Med., Inc.*, 149 F. Supp. 2d 610, 613 (S.D. Ind. 2001) (citing *Newell*, 239 F.3d at 921).

155. See 37 C.F.R. § 1.56 (2005).

156. See *id.*

157. See *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 43 U.S.P.Q.2d 1666, 1670 (Fed. Cir. 1997) (“Where the patent for which reissue is being sought is, or has been, involved in litigation which raised a question material to patentability of the reissue application . . . the existence of such litigation must be brought to the attention of the Office by the applicant.”).

158. See *Cardiac Pacemakers*, 149 F. Supp. 2d at 613.

159. See *Winn v. Ballet Makers, Inc.*, No. 87 CIV. 7286, 1995 WL 611335, at \*2–3 (S.D.N.Y. Oct. 18, 1995).

160. See *Comm’r v. Sunnen*, 333 U.S. 591, 597 (1948).

161. See 35 U.S.C.A. § 294(c) (2002).

162. See *Aptix Corp. v. Quickturn Design*, 269 F.3d 1369, 1374 (Fed. Cir. 2001).

163. See 35 U.S.C. § 285 (2005).

*D. Confidentiality*

Neither the FAA nor other U.S. statutory law specifically addresses the confidentiality of patent arbitration, except for the statutory requirement that notice of the award be filed at the U.S. Patent and Trademark Office.<sup>165</sup> The American Arbitration Association also does not address confidentiality in either its Commercial or its Patent Arbitration Rules.<sup>166</sup> The ad hoc rules of the International Institute for Conflict Prevention & Resolution, however, contain extensive confidentiality provisions, including the requirement of document destruction no more than 30 days after the award is issued.<sup>167</sup>

In general, courts in the United States have not hesitated to enforce written confidentiality agreements between merchants in arbitration.<sup>168</sup> A court may even seal information from an arbitration when that information is submitted to courts for enforcement.<sup>169</sup> The party requesting the seal must demonstrate a need for confidentiality, such as the existence of a trade secret, that overcomes a presumption that documents submitted to the judicial record are subject to public scrutiny.<sup>170</sup> If the documents are submitted to an appellate court, confidentiality is more difficult to maintain.<sup>171</sup>

In principle, all information from an arbitration is discoverable by third parties in later proceedings,<sup>172</sup> with the exception that information cannot be obtained from the arbitrators themselves or from any organization administering the arbitration.<sup>173</sup> The extent to which a court should take a confidentiality agreement into account when confronted with a discovery request remains an open question.<sup>174</sup>

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164. See *Walker Process Equip., Inc. v. Food Mach.*, 382 U.S. 172, 174 (1965) (holding that the use of a patent procured through fraud to stifle competition can violate the Sherman Act and serve as the basis for a claim of treble damages under the Clayton Act).

165. See 35 U.S.C. § 294(d) (2000); *Brown*, *supra* note 68, at 975–76 (citing *United States v. Panhandle E. Corp.*, 118 F.R.D. 346 (D. Del. 1998)).

166. See generally COMMERCIAL ARBITRATION RULES AND MEDIATION PROCEDURES (INCLUDING PROCEDURES FOR LARGE, COMPLEX COMMERCIAL DISPUTES) (Am. Arbitration Ass'n 2005), <http://www.adr.org/sp.asp?id=22440>; PATENT ARBITRATION RULES (Am. Arbitration Ass'n 2005), <http://www.adr.org/sp.asp?id=22013>.

167. See CPR RULES FOR NON-ADMINISTERED ARBITRATION OF PATENT AND TRADE SECRET DISPUTES, R. 17 (International Institute for Conflict Prevention & Resolution 2005), <http://www.cpradr.org/pdfs/patentrulesmasterchanges05.pdf>.

168. See, e.g., *DiRussa v. Dean Witter Reynolds, Inc.*, 121 F.3d 818, 826–28 (2d Cir. 1977).

169. See *id.*

170. See *Baxter Int'l, Inc. v. Abbott Lab.*, 297 F.3d 544, 545–46 (7th Cir. 2002).

171. See *id.* at 548.

172. See *Carbonneau*, *supra* note 110, at 1118.

173. See, e.g., *Andros Compania Maritima, S.A. v. Marc Rich & Co., A.G.*, 579 F.2d 691, 702 (2d Cir. 1978); *Gramling v. Food Mach. & Chem. Corp.*, 151 F. Supp. 853, 860–61 (W.D.S.C. 1957); see also UNIFORM ARBITRATION ACT §§ 14(d)–(e), 7 U.L.A. pt. 1, at 33 (2005).

174. See *United States v. Panhandle E. Corp.*, 118 F.R.G. 346, 349–51 (D. Del. 1988); *Lawrence E. Jaffe Pension Plan v. Household Int'l, Inc.*, No. 04-N-1228, 2004 U.S. Dist.

The discoverability of arbitration materials means that even a tersely worded award filed with the Patent and Trademark Office can be sufficient to alert third parties to issues in the arbitration. Whether the information obtained is admissible as evidence in a later action depends on the normal rules of evidence and law of privilege. Rule 408 of the Federal Rules of Evidence, which excludes statements made in the course of settlement negotiations from evidence, does not always apply to statements made in arbitration.<sup>175</sup> Materials produced by a lawyer to prepare for arbitration may be subject to the work product exclusion of Rule 26 of the Federal Rules of Civil Procedure.<sup>176</sup> Material prepared in preparation for either arbitration or litigation, however, may not be privileged in a later arbitration.<sup>177</sup>

#### *E. Choice of Law*

The extent to which the parties may choose foreign law to govern arbitrations concerning their U.S. patent disputes is unclear.<sup>178</sup> The CAFC has stated that parties may require arbitrators to apply foreign law to questions involving U.S. patents.<sup>179</sup> Absent a clear intent to apply foreign law, U.S. patent law is presumed.<sup>180</sup> An arbitral tribunal's manifest disregard of the law chosen by the parties provides grounds for refusing to enforce the award.<sup>181</sup>

The Patent Act, however, provides that "[i]n any [patent] arbitration proceeding, the defenses provided for under [U.S. patent law] shall be considered by the arbitrator if raised by any party to the proceeding."<sup>182</sup> Thus, if the parties' arbitration agreement chooses non-

LEXIS 16174 (D. Col. Aug. 13, 2004); *Contship Containerlines, Ltd. v. PPG Indus., Inc.*, No. 00 Civ. 0194, 2003 U.S. Dist. LEXIS 6857, at \*4-7 (S.D.N.Y. Apr. 17, 2003).

175. *See* *HHCA Tex. Health Servs., L.P. v. LHS Holdings, Inc. (In re Home Health Corp. of Am., Inc.)*, 268 B.R. 74, 78 (Bankr. D. Del. 2001).

176. *See* *Hanson v. U. S. Agency for Int'l Dev.*, 372 F.3d 286, 292-93 (4th Cir. 2004).

177. *See* *Indus. Risk Insurers v. M.A.N. Gutehoffnungshütte GmbH*, 141 F.3d 1434, 1445 (11th Cir. 1998); Carbonneau, *supra* note 110, at 1118.

178. This might conceivably happen where the parties choose to arbitrate their disputes concerning a "family" of patents worldwide. The choice of a single patentability standard for every patent might make the arbitration more efficient. However, we are not aware of any such cases to date. More commonly, a multi-arbiter panel with expertise in the laws of several jurisdictions is chosen, or the arbitration panel engages a tribunal expert to explain the laws of the jurisdiction with which the tribunal is not familiar.

179. *Deprenyl Animal Health, Inc., v. The Univ. of Toronto Innovations Found.*, 297 F.3d 1343, 1357-58 (Fed. Cir. 2002); *see also* Carbonneau, *supra* note 108, at 1125 (describing the parties' ability to choose the law applicable to their disputes in a commercial arbitration under U.S. law as "nearly absolute").

180. *See Deprenyl*, 297 F.3d at 1358.

181. *See Wilko v. Swan*, 346 U.S. 427 (1953), *overruled on other grounds by* *Rodriguez de Quijas v. Shearson/Am. Express, Inc.*, 490 U.S. 477, 484 (1989).

182. 35 U.S.C.A. § 294(b) (2002). The defenses referred to are listed in 35 U.S.C. § 282 (2000) and include, among other things, "non-infringement." Non-infringement, however, is only viewed as a defense (a reason to deny liability where the defendant has the burden of pleading and burden of proof) in certain cases, as for example under the reverse doctrine of

U.S. substantive law but the accused infringer pleads defenses under U.S. law concerning the U.S. patent, the arbitral tribunal seems to be required to apply these defenses instead of or in addition to any defenses available under the chosen foreign law.<sup>183</sup>

#### F. Remedies Applicable

Arbitral tribunals operating under the FAA have fairly broad discretion to fashion remedies, so long as these do not appear to contradict the terms of the parties' agreement.<sup>184</sup> These remedies can include injunctive relief<sup>185</sup> and punitive or exemplary damages, if such are contemplated by the arbitration agreement.<sup>186</sup> Where the agreement is silent, it appears that the full range of remedies available to a court for patent infringement would be available to an arbitral tribunal. In the case of a patent infringement award, these remedies include a permanent injunction, reasonable royalties, lost profits, treble damages, costs, and attorneys' fees in "exceptional cases."<sup>187</sup>

United States courts have split on the legality of enforcing provisional remedies granted in international arbitration. Some courts have refused to intercede in international arbitrations, citing a lack of subject matter jurisdiction.<sup>188</sup> Most courts, however, uphold the orders of arbitral tribunals issued prior to a final award.<sup>189</sup>

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equivalents. In most instances it is simply a denial of the facts averred by the patentee, who retains the burden to prove infringement. *See, e.g., Malta v. Schulmerich Carillons, Inc.*, 952 F.2d 1320, 1325 (Fed. Cir. 1991).

183. Arbitrating U.S. defenses instead of defenses under non-US law might result in a violation of the arbitration agreement, unless the effect of 35 U.S.C. § 294(b) is interpreted as providing a mandatory change in the applicable law of the parties' agreement, rather than an expansion of the arbitrator's competence. Arbitrating both U.S. defenses and non-U.S. defenses comports better with the language of § 294(b), but makes less sense from a procedural standpoint. We recommend that arbitrators faced with this unusual dilemma seek the voluntary withdrawal of U.S. defenses from the pleadings of the accused infringer, thus avoiding the requirements of § 294(b).

184. *See, e.g., Executone Info. Sys., Inc. v. Davis*, 26 F.3d 1314, 1325 (5th Cir. 1994) ("[T]he remedy lies beyond the arbitrator's jurisdiction only if 'there is no rational way to explain the remedy handed down by the arbitrator as a logical means of furthering the aims of the contract.'" (quoting *Brotherhood of R.R. Trainmen v. Central of Ga. Ry.*, 415 F.2d 403, 412 (5th Cir.1969)); *Engis Corp. v. Engis Ltd.*, 800 F. Supp. 627, 630 (N.D. Ill. 1992) (upholding the arbitrator's award of a patent license although not expressly authorized by the arbitration agreement).

185. *See, e.g., Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1194 (7th Cir. 1987) (upholding the arbitrators' ability to rule on the validity of copyrights as the basis of a final award including an injunction against further infringement).

186. *See Mastrobuono v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52, 61 (1995) (upholding an arbitration award of punitive damages as within the contemplation of the parties and the substantive law governing the dispute, despite the absence of an express term in the arbitration agreement).

187. *See* 35 U.S.C. §§ 281, 283–85 (2000).

188. *See Fraser, supra* note 103, at 510–11, 534.

189. *See id.* at 534 n.154.

There is also an emerging consensus under U.S. law that an arbitral tribunal can issue awards which would be beyond the power of a court, so long as the exercise of that power rationally furthers the aim of the arbitration agreement.<sup>190</sup> This might include, for example, granting a license to the accused infringer based on a successful showing of patent misuse (where the normal remedy would be temporary unenforceability).<sup>191</sup> Such a remedy is beyond the power of a court not because it lacks the power to order such a remedy in general, but rather because this is not an authorized judicial remedy for patent misuse. Presumably, if the arbitrator's award contained a remedy that exceeded the inherent power of the court, the party attempting to enforce the award would have to settle for damages for "breach of the award" when attempting to enforce the award in court.

## VIII. PATENT ARBITRATION IN CANADA

### A. Arbitrability

Generally speaking, the award of an arbitral tribunal can be enforced in a Canadian court. An arbitral award relating to a patent is binding only between the parties.

The Supreme Court of Canada, in *Desputeaux v. Éditions Chouette (1987) Inc.*, held that parties to an arbitration agreement have virtually unfettered autonomy in identifying the disputes that may be the subject of an arbitration.<sup>192</sup> The arbitrator's mandate includes everything that is closely connected with the arbitration agreement, in addition to what is expressly set out in it.<sup>193</sup> The Court recognized that legislative policy not only accepts arbitration as a form of dispute resolution but also seeks to promote its expansion.<sup>194</sup>

The appeal in *Desputeaux* concerned the arbitrability of a copyright infringement dispute and arose from a decision by the Quebec Court of Appeal.<sup>195</sup> Article 2639 of the Civil Code of Quebec restricts disputes over matters of public order from being submitted to arbitra-

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190. See UNIFORM ARBITRATION ACT § 21, cmt. 3 (2000) (indicating that an arbitrator's power is limited only by equity and justice); *Executone Info. Sys., Inc. v. Davis*, 26 F.3d 1314, 1325 (5th Cir. 1994) (requiring only that there be some rational explanation of the arbitrator's remedy as furthering the aims of the contract); Carbonneau, *supra* note 108, at 1120 ("[S]ome courts have recognized that arbitrators can order remedies that are not available through the judicial process.").

191. *Cf. Advanced Micro Devices v. Intel*, 885 P.2d 994 (Cal. 1994) (upholding an arbitrator's award of a license under state law to a wide range of intellectual property covering a specific product).

192. [2003] 1 S.C.R. 178.

193. *Id.* ¶ 35.

194. *See id.* ¶ 52.

195. *Id.* ¶ 2; *Desputeaux v. Éditions Chouette (1987) Inc.*, [2001] R.J.Q. 945.

tion.<sup>196</sup> The Supreme Court held that the copyright dispute between the two parties was not excluded from arbitration as a question of public order.<sup>197</sup> To preserve decision-making autonomy within the arbitration system, said the Court, it is important for courts to avoid extensive application of the public order concept because “wide reliance on public order in the realm of arbitration would jeopardize that autonomy, contrary to the clear legislative approach and the judicial policy based on it.”<sup>198</sup>

The Federal Court of Canada has exclusive jurisdiction in all cases relating to conflicting applications for any patent, and in all cases of annulment or impeachment where the remedy is to have any registration expunged, varied, or rectified.<sup>199</sup> Additionally, the Federal Court of Canada has concurrent jurisdiction where a remedy respecting any patent is sought under the authority of any act of the Federal Parliament, at law, or in equity.<sup>200</sup> The Federal Court shares this jurisdiction with Canada’s provincial superior courts, which have inherent jurisdiction to make rulings with respect to the validity of patents. Rulings by the provincial courts can be made on issues of infringement and validity. Rulings on validity are binding only on the parties to the litigation, since the provincial courts have only inter partes jurisdiction.<sup>201</sup>

Patent litigation in Canada is relatively uncomplicated and inexpensive compared to many other jurisdictions. The various rules of procedure in Canada employ a streamlined discovery approach, generally allowing only one oral discovery of each party and no expert witness depositions. The rules also promote other reasonably efficient means of pre-trial disclosure, such as the exchange of expert reports in advance of trial. In addition, the construction of a patent does not involve an examination of prosecution file histories.<sup>202</sup>

### *B. Law of Arbitration*

There is no Canadian statute that governs patent arbitration in a manner comparable to § 294 of the U.S. Patent Act.<sup>203</sup> Instead, the procedural law of a patent arbitration is the procedural law of the place of arbitration, as provided in the applicable arbitration statute.

Canadian arbitration law is fairly uniform and allows the parties a good deal of flexibility. Between 1986 and 1988, arbitration legisla-

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196. Civil Code of Quebec, S.Q., ch. 64 § 2639 (1991).

197. *Desputeaux*, [2003] 1 S.C.R. 178, ¶ 56.

198. *Id.* ¶ 52; *see id.* ¶¶ 66–67.

199. Federal Courts Act, R.S.C., ch. F 7, § 20(1) (1985).

200. *Id.* § 20(2).

201. *See id.* § 20(1)(b).

202. *See Free World Trust v. Electro Santé Inc.*, [2000] 2 S.C.R. 1024, 1061.

203. 35 U.S.C. § 294 (2000).

tion based on the UNCITRAL Model Law was enacted by each Canadian province and territory, and by the federal government.<sup>204</sup> Parties to arbitration proceedings in Canada regarding a Canadian patent may rely on provisions of the applicable arbitration statute alone, may adopt any arbitral institution's rules, may adopt procedural rules of the Federal Court or one of the provincial courts, or may create their own procedural rules.<sup>205</sup>

### C. Effect of Award in Later Proceedings

An arbitral award relating to the validity of the patent is in personam and thus acts inter partes. Only the Federal Court of Canada has the ability to make in rem rulings that affect the registration of the patent and the rights of third parties.<sup>206</sup> A prior award including a finding of invalidity may be used to prevent the patentee from denying invalidity if the ordinary requirements of res judicata or issue estoppel have been met.<sup>207</sup>

Among the parties to the arbitration, the award of an arbitral tribunal can be enforced through the provincial superior courts of Canada, which can issue injunctions and enforce them by holding any infringers in contempt of court. The penalties for contempt of court include fines, costs, and imprisonment.

The grounds for refusing recognition or enforcement of arbitral awards set out in articles 35 and 36 of the UNCITRAL Model Law are repeated verbatim in the federal Commercial Arbitration Act.<sup>208</sup> Ontario's International Commercial Arbitration Act enacts the UNCITRAL Model Law in that province (with limited changes).<sup>209</sup> The enforcement sections of the UNCITRAL Model Law contain the same enforcement provisions as those set out in article V of the New York Convention. They define and limit the grounds on which the recognition and enforcement of international arbitral awards can be refused. Recognition or enforcement may be refused only in limited circumstances: (i) a party was under some incapacity; (ii) the arbitration agreement was invalid under the proper law; (iii) there were pro-

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204. See, e.g., Commercial Arbitration Act, R.S.C., ch. 17 (2d Supp. 1985) (federal arbitration statute); International Commercial Arbitration Act, R.S.O., ch. 19 (1990) (provincial arbitration statute for Ontario).

205. See UNCITRAL MODEL LAW, *supra* note 4, art. 19(1). We are not aware of any special arbitration rules for patent infringement or validity disputes that are regularly used in Canada.

206. R.S.C., ch. F 7, § 20(1)(b).

207. See *Danyluk v. Ainsworth Technologies Inc.*, [2001] 2 S.C.R. 460, ¶ 25 (indicating that the preconditions to issue estoppel are: (1) that the same question has been decided in earlier proceedings, (2) that the earlier judicial decision was final, and (3) that both proceedings involve the same parties or their privies).

208. See Commercial Arbitration Act §§ 35–36.

209. See International Commercial Arbitration Act, R.S.O., ch. 19 (1990).



cedural irregularities, such as lack of notice of appointment of arbitrator or of the arbitral proceedings, that prevented a party from presenting its case; (iv) the award deals with a dispute falling outside the jurisdiction of the arbitral tribunal; (v) the composition or procedure of the tribunal was not in accordance with the parties' agreement; (vi) the award is not yet binding, or was set aside or suspended by a court; (vii) the subject matter of the dispute was not capable of settlement by arbitration under the law of the State; or (viii) recognition or enforcement of the arbitral award would be contrary to public policy.<sup>210</sup>

Generally speaking, the positions taken by a party in an arbitration proceeding will not affect any of the party's patent applications pending before the Canadian Patent Office. A third party may challenge a pending Canadian patent application by way of protest. The process, however, is not inter partes and is not affected by ongoing proceedings outside of the patent office. The protester may only file with the commissioner prior art consisting of patents and printed publications relevant to the patentability of any claim in an application for a patent.<sup>211</sup> The protester must explain the pertinence of the prior art, but is otherwise unable to participate in the protest. Thus, a protester may not submit evidence relating to a position taken by a party in an arbitration proceeding, even if that evidence might adversely affect a pending patent application.

#### D. Confidentiality

The general law respecting confidentiality of arbitration remains unsettled in Canada in light of the evolving global jurisprudence on that topic.<sup>212</sup> The parties may agree to confidentiality concerning an arbitral award, the contents of the arbitration proceedings, or even the fact that an arbitration occurred. It should be noted that public companies or parties subject to certain regulatory regimes that require reporting or disclosure may not be in a position to agree to complete confidentiality. If a breach of confidentiality occurs or is threatened, a court may enjoin the offending party, as in the case of any contractual confidentiality obligation. Whether in relation to the arbitration generally or in relation to the confidentiality obligation, court proceedings are not ordinarily confidential. We expect, however, that to the extent possible the court will endeavor to preclude disclosure of commercially sensitive confidential information in the court proceedings.

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210. UNCITRAL MODEL LAW, *supra* note 4, arts. 35–36; New York Convention, *supra* note 10, arts. V(2)(a)–(b).

211. See Patent Act, R.S.C., ch. P 4, § 34.1 (1985).

212. See Liisa P. Kaarid, *Confidentiality in International Commercial Arbitration: The Risk of Private Proceedings Going Public*, 6 CAN. INT'L LAW 75, 88 (2005).

*E. Remedies Available*

After a finding of patent infringement, a court in Canada may impose injunctive relief (interlocutory<sup>213</sup> and permanent injunctions), or order the destruction of infringing products. In addition, the patentee may elect between damages and an accounting of the infringer's profits, subject to the court's discretion. A court may also award exemplary damages, costs, and interest on monetary awards.

Canadian courts use injunctions as a practical means of preventing infringement in their jurisdictions or by persons subject to their jurisdiction. The remedies for breach of both permanent and interlocutory injunctions, including fines, costs, and imprisonment, are obtained by contempt proceedings.

Canadian courts generally recognize and enforce foreign judgments and arbitral awards granting monetary compensation (damages, profits, exemplary damages, costs, and interest). Since permanent and interlocutory injunctions are discretionary equitable remedies, Canadian courts have traditionally been reluctant to simply enforce injunctions issued elsewhere.<sup>214</sup> It remains unsettled whether a Canadian court will recognize and enforce an injunction granted by an arbitral tribunal. The alternative to seeking recognition and enforcement of an injunction granted in a foreign jurisdiction or by an arbitral tribunal is to apply anew for an injunction in the applicable Canadian jurisdiction.

Generally, Canadian courts will consider applications for interim measures of protection in relation to disputes that are subject to arbitration.<sup>215</sup> As noted above, injunctive relief is discretionary. Moreover, interlocutory injunctions in patent matters have been difficult to obtain in Canadian courts.<sup>216</sup> We expect that interlocutory injunctions in aid of patent arbitrations would be equally difficult to obtain.

Whether a Canadian court enforces remedies beyond those it is allowed to grant may depend upon the terms of the parties' arbitration agreement and whether the particular remedy is regarded as inconsistent with Canadian public policy.<sup>217</sup>

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213. For pharmaceutical patents, the equivalent to interlocutory injunctive relief may be obtained pursuant to the Patented Medicines (Notice of Compliance) Regulations. SOR/1993-133, § 7.

214. *See, e.g.*, *Pro Swing Inc. v. ELTA Golf Inc.*, [2004] 71 O.R.3d 566, *leave to appeal allowed*, No. 30529, 2005 CarswellOnt 1013 (Can. Mar. 17, 2005) (declining to enforce a foreign non-monetary judgment).

215. *See* UNCITRAL MODEL LAW, *supra* note 4, art. 9.

216. *See, e.g.*, *Pfizer Ir. Pharm. v. Lilly Icos LLC*, [2004] F.C. 223; *Procter & Gamble Pharm. Can., Inc. v. Novopharm Ltd.* (1996), 68 C.P.R. (3d) 461 (Fed. Ct.); *Samsonite Corp. v. Holiday Luggage Inc.* (1988), 20 C.P.R. (3d) 291 (Fed. Ct.).

217. *See* UNCITRAL MODEL LAW, *supra* note 4, arts. 34(2)(b)(ii), 36(1)(b)(ii).

## IX. PATENT ARBITRATION IN FRANCE

An award issued by an arbitral tribunal in France that includes a decision on the validity of a French patent cannot be enforced in a French court. This rule applies with equal force to actions for criminal infringement. Nothing would impede the arbitration of a civil action for infringement from being enforced in a French court. Nevertheless, such cases have been exceedingly rare, since defendants invariably challenge the validity of the patent.

The exclusion of patent validity issues from arbitration arises from concerns of *ordre public*. In France, the Tribunaux de Grande Instance (courts of first instance) and the associated appellate courts have exclusive jurisdiction over patent disputes.<sup>218</sup> These disputes are arbitrable so long as they do not concern the *ordre public*.<sup>219</sup> Since a patent is a public title granted by an administrative authority, it concerns the *ordre public*, and questions related to its grant or validity cannot be subject to arbitration.<sup>220</sup> Any attempt to enforce a foreign arbitral award concerning patent validity by means of the New York Convention is likely to be rejected based on its non-arbitrability or on public policy grounds.

If, however, an arbitral tribunal issues an award involving a French patent without ruling on issues of infringement or validity, the award can be enforced in a French court. The Paris Court of Appeals, for example, has recently held that the dispute between two private interests concerning the ownership of a patent rather than its validity can be subject to arbitration.<sup>221</sup>

## X. PATENT ARBITRATION IN GERMANY

## A. Arbitrability

Although patent infringement issues are arbitrable in Germany, patent validity issues traditionally have been considered to be outside the scope of arbitration.<sup>222</sup> Recently, however, the arbitrability of pat-

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218. See Code de la Propriété Intellectuelle [Intellectual Property Code], art. L615–17 (Fr.).

219. See C. CIV. arts. 2059–60 (Fr.).

220. *Id.* art. 6.

221. See Cour d'appel [CA] [regional court of appeal] Paris, 1e ch., Oct. 31, 2001, *Propriété industrielle* Nov. 2002, 20, comment. J. Raynard.

222. See, e.g., Gerhard Wagner, *Country Reports: Germany*, in PRACTITIONER'S HANDBOOK ON INTERNATIONAL ARBITRATION 685, 702 (Frank-Bernd Weigand ed., 2002); CHRISTIAN BÖCKER, DAS NEUE RECHT DER OBJEKTIVEN SCHIEDSFÄHIGKEIT 92–93 (1998); JOHANN VON PACHELBEL-GEHAG, DAS REFORMIERTE DEUTSCHE UND SCHWEDISCHE SCHIEDSVERFAHRENSRECHT 43 n.248 (2002).

ent validity claims has sparked serious debate,<sup>223</sup> raising the possibility that such claims indeed may be arbitrable inter partes.

Germany separates infringement, a private law claim, from validity, a public law question. This dichotomy is reflected in the court system's split jurisdiction regarding patent matters. Issues of infringement (and other property law issues) are properly heard before the normal court of first instance for civil actions, albeit before a special chamber.<sup>224</sup> Patent validity, however, is initially determined by the *Bundespatentamt*, or Federal Patent Office; jurisdiction over court cases involving patent validity issues is limited to the *Bundespatentgericht*, or Federal Patent Court.<sup>225</sup> The Federal Patent Court occupies an unusual position in the German court system. Although it reviews public law decisions, including the issuance of patents, it is considered a court of private law<sup>226</sup> because its decisions may be appealed to Germany's highest court for civil matters, the *Bundesgerichtshof*, rather than the highest administrative court, the *Bundesverwaltungsgericht*.<sup>227</sup> This dual character of the Federal Patent Court reflects the simultaneously public and private conception of patent validity in Germany.

Prior to a major reform of arbitration laws in 1998, patent validity disputes were considered non-arbitrable.<sup>228</sup> Indeed, parties were (and are) limited in their ability to settle their disputes freely outside of the court's supervision. A variety of reasons were given for this restriction, including the exclusive jurisdiction of the Federal Patent Court

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223. See Joachim Münch, *ZPO: 10. Kapitel*, in 3 MÜNCHENER KOMMENTAR ZUR ZIVILPROZESSORDNUNG § 1030 n.18, at 1054 (2d ed. 2001); GÖTZ ZERBE, DIE REFORM DES DEUTSCHEN SCHIEDSVERFAHRENSRECHTS 96–100 (1995); PETER SCHLOSSER, DAS RECHT DER INTERNATIONALEN PRIVATEN SCHIEDSGERICHTSBARKEIT ¶ 317 (1989).

224. See Oberlandesgericht Frankfurt [OLG] [Regional Civil Court of Appeals] April 4, 2001, 1 Entscheidungen der Instanzgerichte zum Recht des geistigen Eigentums [InstGE] 167; CHRISTIAN OSTERRIETH, PATENTRECHT 263 (2000); cf. Patentgesetz [PatG] [Patent Law], Dec. 16, 1980, BGBl. 1981 I at 1, § 143(3).

225. PatG § 65. The Federal Patent Court was created in reaction to a Federal Administrative Court (*Bundesverwaltungsgericht*) decision holding that the judicial review of patent validity by the Federal Patent Office (*Bundespatentamt*) was a violation of the separation of powers doctrine of the German Constitution (*Grundgesetz*). In response to this decision, the German Constitution was amended to establish a court that would review all administrative acts of the Federal Patent Office.

226. See ANNE VAN HEES, VERFAHRENSRECHT IN PATENTSACHEN 9 (2d ed. 2002).

227. PatG § 110 (appellate procedure for patent claims); cf. PatG § 100 (procedure for review of complaints regarding the granting of a patent); PatG § 122 (procedure for review of complaints regarding the granting of interim measures in a validity process).

228. See KARL HEINZ SCHWAB & GERHARD WALTER, SCHIEDSGERICHTSBARKEIT 36 n.13 (5th ed. 1995); Jan Albers, *Zehntes Buch: Schiedsrichterliches Verfahren*, in ZIVILPROZESSORDNUNG MIT GESETZVERFAHRENSGESETZ UND ANDEREN NEBENGESETZEN 2228 n.36 (55 ed. 1997); Bürgerliches Gesetzbuch [BGB] [Civil Code] Jan. 1, 1984, Betriebs-Berater [BB] 561.

and the public law nature of the patent monopoly itself.<sup>229</sup> Recently, however, the *Bundesgerichtshof* rejected the exclusive jurisdiction of the Federal Patent Court as a reason for restricting objective arbitrability in patent cases, albeit in matters other than patent validity.<sup>230</sup>

After changes were made to the *Zivilprozessordnung* (“ZPO”), or Code of Civil Procedure, in 1998, commercial and private property matters became arbitrable,<sup>231</sup> although specific restrictions on arbitrability remained in place.<sup>232</sup> These changes affirmed the arbitrability of patent infringement claims, which are matters of private property,<sup>233</sup> but did little to change the status of validity claims.<sup>234</sup>

The arbitrability of validity claims revolves around the wording of section 1030 of the ZPO, which governs “objective arbitrability” in German law: Any private property matter may be the subject of an arbitration agreement. An arbitration agreement regarding matters not concerning private property is valid to the degree to which the parties are entitled to reach a settlement over the issue at dispute.<sup>235</sup>

The arbitrability of patent validity claims thus depends on the ability of a party to reach a settlement on the claim. In purely civil cases, settlements may include the costs of the proceedings, or a commitment to withdraw a count before either the court or the Federal Patent Office.<sup>236</sup> In each of these cases, the result of a settlement agreement directly affects only the parties to the agreement. The parties are forbidden from reaching an agreement upon the *validity* of the patent,<sup>237</sup> because such an agreement would directly affect third par-

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229. See Jochen Pagenberg, *The Arbitrability of Intellectual Property Disputes in Germany*, WORLDWIDE FORUM ON ARB. INTELL. PROP. DISPUTES, <http://arbitrator.wipo.int/events/conferences/1994/pagenberg.html>.

230. See Bundesgerichtshof [BGH] [Federal Court of Justice] Mar. 3, 1996, 1 Entscheidungen des Bundesgerichtshofes in Zivilsachen [BGHZ] 278.

231. Zivilprozessordnung [ZPO] [Civil Procedure Statute] July 27, 2001, Bundesgesetzblatt, Teil I [BGBl. I] 1887, § 1030(1).

232. See *id.* § 1030(2)–(3).

233. See Alfred Keukenschrijver, *Vor § 143*, in PATENTGESETZ 1411, ¶¶ 18–28 at 1415–16 (Rudolf Busse ed., 6th ed. 2003); cf. BGH Mar. 14, 2000, docket number X ZR 115/98, ¶ 17, available at <http://lexetius.com/2000,941>.

234. The German Parliament’s commentary to the new code specifically mentions patent validity as a non-arbitrable issue. See BTDrucks 13/5274.

235. ZPO § 1030(1) (translation of authors).

236. Alfred Keukenschrijver, § 83 (*Widerspruch; mündliche Verhandlung*), in PATENTGESETZ, *supra* note 233, 1106, ¶ 14 at 1107–08; BGH Mar. 24, 1966, 1966 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 523; cf. ZPO § 1030(2).

237. See Keukenschrijver, *supra* note 233, ¶ 21 at 1416.

ties.<sup>238</sup> Simply stated, the parties are allowed to reach a binding agreement only if the effect of the agreement remains *inter partes*.

This restriction should affect the way arbitral tribunals approach patent issues. An arbitral tribunal — limited in its powers to arbitrating issues that may be settled by the parties — may require a party to grant a license, interpret the claims to cover or not cover a product or method, or issue an award requiring a party to rescind its claim to a patent. In this sense, the arbitration of patent validity will only be binding *inter partes* (as would a civil court decision). In many cases, such a result would suffice for the party challenging validity. The tribunal may not, however, declare the patent invalid against all third parties.<sup>239</sup> Should a party desire a declaration of patent invalidity that is binding on all third parties, it has little choice but to allow the validity issue to be decided by the Federal Patent Court.

### B. Law of Arbitration

Arbitration proceedings held in Germany are governed by book ten of the ZPO,<sup>240</sup> which is based on the UNCITRAL Model Law.<sup>241</sup> If the seat of the arbitration is not in Germany, German courts are still allowed to provide assistance to the arbitration by ordering interim measures or undertaking discovery.<sup>242</sup>

German law requires that an arbitral award be written.<sup>243</sup> The reasons for the award must also be given, unless the parties have expressly agreed to the contrary.<sup>244</sup> As previously mentioned, the award is limited to an *inter partes* effect.<sup>245</sup>

### C. Effect of Award in Later Proceedings

An arbitral award issued under German law has the same effect between the parties as a court judgment,<sup>246</sup> subject to certain restrictions. Thus, an arbitral award will have a preclusive effect in a later court proceeding between the parties, provided it is brought to the attention of the court within the statutory time limit.<sup>247</sup> However, the

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238. See Lutz van Raden, *Außergerichtliche Konfliktregelung in gewerblichen Rechtsschutz*, 1998 GRUR 446.

239. See *id.* at 446–47.

240. See SCHWAB & WALTER, *supra* note 228, at 1.

241. See KLAUS LIONNETT, *HANDBUCH DER INTERNATIONALEN UND NATIONALEN SCHIEDSGERICHTSBARKEIT* 96–97 (2d ed. 2001).

242. See *id.* §§ 1032–33, 1050.

243. See *id.* § 1054(2).

244. See *id.*

245. See *id.* § 1055.

246. *Id.* § 1055.

247. See *id.* § 1032; HANS-JOACHIM MUSIELAK, *KOMMENTAR ZUR ZIVILRECHTSPROZESSORDNUNG* 2574–76 (4th ed. 2005).

German form of preclusion, *Rechtskraft*, is substantially different from the Anglo-American doctrine of *res judicata*. The binding power of a decision under *Rechtskraft* is limited to the scope of the claims brought forward in the suit, rather than all claims arising from incident.<sup>248</sup> Furthermore, an award or judgment is binding only as to the conclusion reached in the judgment, and does not reach any other litigated issue.<sup>249</sup> For example, if a decision holds that a party is required to return some good, based on the assumption that the other party is in fact the owner, only the duty to return is binding in a future proceeding. The assumption that one party is the actual owner does not become binding under the doctrine of *Rechtskraft*, and may be challenged in a later proceeding unless established in a separate claim.<sup>250</sup>

Arbitral awards concerning patents do not affect future proceedings involving third parties. In general, arbitral awards have effects only *inter partes*.<sup>251</sup> One exception to this general rule is a declaratory decision that effectively creates law,<sup>252</sup> as might occur if the validity of a patent were arbitrable. Patent validity is not arbitrable, however,<sup>253</sup> and thus does not provide such an exception.

We do not believe that an arbitral award would have any effect on ongoing prosecution before the German Patent Office,<sup>254</sup> unless the award were specifically related to the applications undergoing examination.<sup>255</sup>

The New York Convention governs the recognition of foreign arbitral awards in Germany.<sup>256</sup> A foreign award purporting to decide the validity of a patent might not be enforced in Germany,<sup>257</sup> as a court

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248. Bundesgerichtshof [BGH] [Federal Court of Justice] Sept. 9, 1992, 46 NEUE JURISTISCHE WOCHENSCHRIFT [NJW] 333, 1993; BGH, June 26, 2003, 56 NJW 3058–59, 2003.

249. See Peter Gottwald, § 322, in 1 MÜNCHENER KOMMENTAR ZUR ZIVILPROZESSORDNUNG 2092, 2113 (Gerhard Lücke & Peter Wax eds., 2d ed. 2000).

250. The above discussion only applies to positive conclusions drawn from a judgment. Regarding the binding power of negative conclusions, see *id.* at 2104. But see Hans-Joachim Doderer, *Auswirkungen materieller Rechtskraft auf Einwendungen und Einreden*, 44 NJW 878–79 (1991) (stating that negative conclusions that can be drawn from a decision are binding).

251. See MUSIELAK, *supra* note 247, at 2575.

252. See *id.* at 2576.

253. See *supra* Part X.A.

254. Germany has no doctrine of “inequitable conduct” similar to that found in U.S. practice.

255. This might be the case in an ownership contest, for example.

256. Zivilprozessordnung [ZPO] [Civil Procedure Statute] July 27, 2001, Bundesgesetzblatt, Teil I [BGBl. I] 1887, § 1061.

257. See Richard Oehmann, *Das schiedsrichterliche Verfahren unter Berücksichtigung der gewerblichen Schutzrechte und seine Vor- und Nachteile gegenüber dem staatlichen Gerichtsverfahren*, 1993 GRUR 255, 257.

may refuse to enforce an award if the subject matter of the dispute is not arbitrable under national law.<sup>258</sup>

#### D. Confidentiality

German law does not require parties to maintain confidentiality with regard to arbitral proceedings or awards.<sup>259</sup> Absent a specific agreement of the parties, only the arbitrators themselves are required to maintain the confidentiality of the proceedings.<sup>260</sup> As a result, if the parties desire confidentiality, they should choose institutional rules that specify confidentiality or include a confidentiality clause in the agreement. The rules of the German Institution of Arbitration (Deutsche Institution für Schiedsgerichtsbarkeit, or “DIS”) contain a relatively strict confidentiality clause.<sup>261</sup> This clause requires that the arbitrators, the DIS, the parties, and persons appearing on behalf of the parties maintain confidentiality toward all persons regarding the arbitral proceedings.<sup>262</sup>

Because German civil practice generally eschews the publishing of awards against the will of the parties involved, the enforcement of confidentiality agreements has not been extensively litigated.<sup>263</sup> We see no reason, however, to believe that German courts would not enforce confidentiality agreements. Enforcement of an arbitral award in court breaches confidentiality to the extent that the existence of the arbitration and the contents of the award are revealed.<sup>264</sup>

#### E. Remedies Available

German law prescribes a wide variety of remedies in patent cases. A court may order a preliminary or permanent injunction barring the infringing party from using the invention.<sup>265</sup> Actual damages can be awarded only where the infringer has acted negligently or with a higher level of culpability.<sup>266</sup> In cases where the infringer manifests a

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258. See New York Convention, *supra* note 10, art. V(2)(a).

259. See generally ZPO §§ 1025–66.

260. See HANS-URLICH BÜCHTING & BENNO HEUSSEN, BECK’SCHES RECHTSANWALTS-HANDBUCH 35 (8th ed. 2004); ZPO § 1035.

261. See ARBITRATION RULES § 43 (Deutsche Institution für Schiedsgerichtsbarkeit 1998), available at <http://www.dis-arb.de/scho/schiedsordnung98-e-Euro.html>.

262. See *id.* § 43(1).

263. See Wagner, *supra* note 222, at 804.

264. See LIONNETT, *supra* note 241, at 45.

265. This type of order is known as an *Unterlassungsbefehl* or an *Unterlassungsverfügung*. See Patentgesetz [PatG] [Patent Law], Dec. 16, 1980, BGBl. 1981 I at 1, § 139(1); Jürgen Schneider & Walter Zwipf, *Patentprozeßrecht*, in DER PATENTVERLETZUNGSPROZEB 338–39 (Carl Schramm ed., 4th ed. 1999); OSTERREITH, *supra* note 224, at 242.

266. See Thomas Kühnen, *Patentverletzungsverfahren*, in PATENTGESETZ MIT EUROPÄISHEM PATENTÜBEREINKOMMEN 1381–83; OSTERREITH, *supra* note 224, at 243.



lesser degree of culpability, the court may award a lesser form of damages known as “compensation,” or *Entschädigung*.<sup>267</sup> The court may also order the confiscation or destruction of infringing articles.<sup>268</sup>

In an action for patent infringement, German courts may award various interim remedies. As noted above, courts may grant a provisional injunction against the use of the patented invention. In addition, a court may provide security for potential awards of damages or costs.<sup>269</sup> A court may also order third parties that use the patented item to disclose its source.<sup>270</sup> Furthermore, a court may place conditions on the use of a patent<sup>271</sup> or sequester the patent by directing the patent office to deliver the patent to a trustee.<sup>272</sup>

Arbitral tribunals are generally allowed to award damages or compensation,<sup>273</sup> provided that the subject matter of the dispute is objectively arbitrable. Moreover, a final award may contain a permanent injunction barring use of the invention.<sup>274</sup> German law, following the UNCITRAL Model Law, allows interim measures during an arbitration to be issued either by a court<sup>275</sup> or by the arbitral tribunal itself.<sup>276</sup> Interim measures issued by an arbitral tribunal are generally respected by courts, although courts retain discretion in this area.<sup>277</sup>

## XI. PATENT ARBITRATION IN THE NETHERLANDS

Substantive patent law issues do not appear to be arbitrable in the Netherlands. The provisions of the Patents Act of 1995 give exclusive jurisdiction over a range of patent law issues, including patent validity and infringement, to the Court of First Instance in The Hague.<sup>278</sup> In principle, all subjects that are not within this grant of exclusive jurisdiction, such as contractual disputes in relation to patents, can be arbitrated with the expectation that any award will be enforceable.<sup>279</sup>

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267. See PatG § 139(2); Kühnen, *supra* note 266, at 1413–15.

268. See PatG §§ 140a(1), 142a(1); OSTERREITH, *supra* note 224, at 251–53.

269. The courts have several means at their disposal for ensuring that costs or damages are paid. They may either issue an *Einstweilige Verfügung*, which is similar in nature to an injunction, or proceed with an *Arrest*, which is somewhat comparable to an attachment. See Wagner, *supra* note 222, at 771–73.

270. See PatG § 140b(2); Schneider & Zwipf, *supra* note 265, at 342.

271. See Schneider & Zwipf, *supra* note 265, at 339.

272. See *id.* at 340–41.

273. See LIONNETT, *supra* note 241, at 34–36; Schwab & Walter, *supra* note 228, at 155.

274. See Keukenschrijver, *supra* note 236, ¶¶ 13–14 at 1107–08.

275. See ZPO § 1033. Prior to the 1998 reform of the ZPO, only courts had the power to issue interim measures of protection. See BGH, May 22, 1957, 71 ZEITSCHRIFT FÜR ZIVILPROZEB 427 (436).

276. See Wagner, *supra* note 222, at 770–71.

277. See ZPO § 1041(1).

278. See Rijksoctrooiwet 1995 [Patent Act 1995], arts. 80–81, Stb. 1995, 51.

279. The authors are not aware of any case that has tested the enforceability of an arbitral award in relation to patent law claims in court, nor do we expect such a case in the near future.

However, the broad grant of exclusive jurisdiction appears to limit attempts to arbitrate patent-related issues.

## XII. PATENT ARBITRATION IN INDIA

### A. Arbitrability

The arbitrability of substantive patent law claims in India is not well settled. Section 103 of the Patents Act,<sup>280</sup> which is applicable in cases where the government wishes to use a patented invention, includes a clause that permits the court to refer any issue (including questions of patent validity) to arbitration.<sup>281</sup> Otherwise, both the Patents Act and the Arbitration and Conciliation Act<sup>282</sup> are silent regarding the enforceability of arbitral awards involving findings of patent validity or infringement. Additionally, the authors are not aware of any recorded decisions of Indian courts concerning the objective arbitrability of substantive patent law.

Practitioners are split on the arbitrability of patent law issues in India. One view holds that neither patent infringement issues nor validity issues<sup>283</sup> are arbitrable because courts have exclusive jurisdiction to hear patent cases.<sup>284</sup> Other practitioners argue that while an arbitral award revoking a patent may not be enforceable, courts may be willing to enforce arbitral awards concerning infringement because such awards have only *inter partes* effects.<sup>285</sup> Still others contend that the validity of a patent may be arbitrated, though the effects may be limited to the parties to the arbitration.<sup>286</sup> There is evidence that mat-

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280. No. 39 of 1970; India A.I.R. Manual (5th ed.), v. 36 [hereinafter Indian Patents Act], amended by The Patents (Amendment) Act, 1999, No. 17, C.I.S., 1999; The Patents (Amendment) Act, 2002, No. 38, C.I.S., 2002; The Patents (Amendment) Act, 2005, No. 15. The amended Indian Patents Act is available at <http://indiacode.nic.in/> (last visited Apr. 29).

281. *Id.* § 103(5).

282. 1996, No. 26, C.I.S., 1996 [hereinafter Indian Arbitration Act].

283. Indian law recognizes two different ways that a patent may be found invalid. The more general route, “revocation,” extinguishes the patent monopoly. A finding of “invalidity,” on the other hand, serves only as an *inter partes* defense to patent infringement. The defense of invalidity arises from the fact that, under the Patents Act, every ground on which a patent may be revoked is also available as a defense in a suit for infringement of the patent. See Indian Patents Act, *supra* note 280, § 107; Fabcon Corp. v. Indus. Eng’g Corp., A.I.R. 1987 All. 338.

284. Interview with Ameet Datta, Assoc., Anand & Anand Advocates, in New Delhi, India (June 15, 2005). Infringement proceedings involving a counterclaim for revocation must be heard by the High Court. Indian Patents Act, *supra* note 280, § 104. Infringement disputes without such counterclaims may not be resolved by any court inferior to the district court. *Id.*

285. E-mail from Shammad Basheer, Of Counsel, Anand & Anand Advocates, New Delhi, India (Apr. 2, 2005) (on file with author).

286. Interview with Sundeep Sharma, Advocate, Delhi High Court, New Delhi, India (June 25, 2004) (stating that nothing in the Indian Arbitration Act prevents the enforcement of awards concerning patent validity or infringement).

ters relating to the licensing of a patent are arbitrable,<sup>287</sup> and that the decision of an arbitral tribunal in relation to these matters is enforceable by Indian courts.<sup>288</sup>

The revocation<sup>289</sup> of a patent appears not to be objectively arbitrable because it extinguishes the statutory rights that accompany the issuance of a patent. Case law in analogous areas involving rights conferred by statute indicates that an area of law jurisdictionally entrusted to a particular court, and involving a statutory right, is not a proper subject for arbitration. For example, the Supreme Court of India has held that the power to order a “winding up” (a form of bankruptcy) is entrusted to a specific court and thus not objectively arbitrable.<sup>290</sup> The Calcutta High Court has reached similar conclusions in two cases.<sup>291</sup> The rationale underlying these cases appears to be that (i) winding up is a statutory right and not a contractual right,<sup>292</sup> (ii) there are specific grounds enumerated in the statute on which winding up may be sought,<sup>293</sup> and (iii) the winding up of a company has social implications<sup>294</sup> and affects third parties.<sup>295</sup> This reasoning suggests that private dispute resolution forums, such as party-appointed arbitral tribunals, cannot sit in determination of a statutory right.

The Patents Act confers jurisdiction on the Intellectual Property Appellate Board to revoke patents,<sup>296</sup> and on the High Court to decide infringement suits where the defendant counterclaims for revocation

287. This may not be true of compulsory licenses. The jurisdiction to grant or deny a compulsory license has been expressly conferred on the Controller of Patents. Indian Patents Act, *supra* note 280, § 84(1).

288. *Cf.* Grandlay Elecs. (India) Ltd. v. Batra, A.I.R. 1999 Del. 1, 2 (upholding the findings of an arbitral tribunal as to ownership of a trademark); O.P. MALHOTRA, THE LAW AND PRACTICE OF ARBITRATION AND CONCILIATION: THE ARBITRATION AND CONCILIATION ACT 1996 142 (2002).

289. *See supra* note 283.

290. *See* Haryana Telecom Ltd. v. Sterlite Indus. (India) Ltd., A.I.R. 1999 S.C. 2354, 2355 (“The power to order winding up of a company is contained in the Companies Act and is conferred on the Court. An arbitrator, notwithstanding any agreement between the parties, would have no jurisdiction to order winding up of a company.”); *see also* MALHOTRA, *supra* note 288, at 139–43.

291. *See* Ram Kumar Radheyshyam Kedia v. Subrata Sasmal & Co. (Private) Ltd., (2001) 105 Comp. Cas. 899, 901 (Cal.); S.M. Enters. Private Ltd. v. Sanpaolo Hambro Nicco Fin. Ltd., (1999) 96 Comp. Cas. 691, 693 (Cal.) (observing that “[t]he right to apply for winding up is a creature of statute and not of contract”). The *S.M. Enterprises* Court further held that “the proceeding for winding up of a company comes within the special jurisdiction which has been conferred only on the High Courts”). *Id.* at 698.

292. *S.M. Enterprises*, (1999) 96 Comp. Cas. at 693.

293. *See id.*; *Ram Kumar*, (2001) 105 Comp. Cas. at 904.

294. *See Ram Kumar*, (2001) 105 Comp. Cas. at 903.

295. *Id.* at 902 (“No provisions have been pointed out by which the right to file a winding up petition statutorily conferred can be obliterated by an agreement between the parties.”) (citing *Pure Drinks (New Delhi) Ltd. v. Goetze India Ltd.*, (1994) 80 Comp. Cas. 340 (Snr.)).

296. *See* Indian Patents Act, *supra* note 280, § 116; The Trade Marks Act § 83, 1999, No. 47, C.I.S., 2000.

of the patent.<sup>297</sup> Such statutory jurisdiction supports a limitation on objective arbitrability of patent revocation, as suggested by the winding up cases. However, there is no equivalent grant of exclusive jurisdiction over invalidity, suggesting that a patent infringement case may be arbitrable even if a defense of invalidity is raised.

The distinction between revocation and invalidity resulted from a study concerning the public effect of a judgment of patent invalidity. The Ayyangar Committee, which was directed to suggest revisions to the Patents Act in the 1950s, recognized the possibility that inferior courts might produce conflicting results regarding the validity of a patent.<sup>298</sup> A plaintiff patent owner could conceivably pursue actions for infringement in multiple jurisdictions. Each defendant could then counterclaim that the plaintiff's patent was invalid, creating the possibility of conflicting rulings on the validity of a patent in different jurisdictions.<sup>299</sup> To avoid this problem, the Committee suggested that a district court's finding of invalidity should have only an inter partes effect.<sup>300</sup> The Committee further suggested that suits for revocation take place before the High Court.<sup>301</sup>

Based on the reasoning of the Ayyangar Committee, courts in India are unlikely to enforce an arbitral award revoking an Indian patent,<sup>302</sup> but might enforce an arbitral award containing a finding of infringement or invalidity. In other words, courts in India may be willing to enforce arbitral awards with regard to infringement provided there is no counterclaim for revocation of the patent in dispute.

Nevertheless, arbitral awards relating to infringement or invalidity of a patent could be denied as being against public policy.<sup>303</sup> Should an issue of patent invalidity or infringement sufficiently implicate the public interest, a court may find that its resolution falls outside the competence of a private tribunal. There are no cases directly on point, but other decisions suggest that the courts retain considerable discretion in setting aside an arbitral award as conflicting with public policy.<sup>304</sup>

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297. See Indian Patents Act, *supra* note 280, § 104.

298. See N. RAJAGOPALA AYYANGAR, REPORT ON THE REVISION OF THE PATENTS LAW (1959).

299. See *id.* at 113–14.

300. See *id.* at 114; *cf.* Indian Patents Act, *supra* note 280, § 107; *Fabcon Corp. v. Indus. Eng'g Corp.*, A.I.R. 1987 All. 338 (discussing the difference between a defense of invalidity and a counterclaim for patent revocation).

301. See *id.*

302. *Cf.* *Nath v. Nath*, A.I.R. 1928 Cal. 275, 276 (suggesting that an arbitral award cannot affect third parties).

303. See Indian Arbitration Act, *supra* note 282, § 34(2)(b)(ii).

304. See *Renusagar Power Co. Ltd. v. Gen. Elec. Co.*, A.I.R. 1994 S.C. 860, 888 (1993) (holding that enforcement of a foreign arbitral award would be “contrary to public policy” if enforcement contravenes “(i) the fundamental policy of Indian law, (ii) the interest of India, or (iii) justice or morality”); *Oil & Natural Gas Corp. Ltd. v. SAW Pipes Ltd.*, A.I.R. 2003 S.C. 2629, 2643–44 (noting that “the concept of public policy connotes some matter which

*B. Law of Arbitration*

The Arbitration and Conciliation Act applies to all international and domestic arbitration proceedings in India. The Act was passed primarily to update Indian law to conform to the UNCITRAL Model Law.<sup>305</sup> It consolidates the law relating to domestic arbitration, international commercial arbitration, and enforcement of foreign arbitral awards.<sup>306</sup>

Courts generally do not interfere with the parties' decision to arbitrate,<sup>307</sup> and usually allow applications to refer the issues in a dispute to arbitration.<sup>308</sup> In fact, under the Arbitration and Conciliation Act, the powers of the court to set aside an arbitral award are very limited. The accepted view of courts is that the award of the arbitrator is final and binding regardless of outcome. A court may refuse to enforce an arbitral award only if the arbitral tribunal did not have jurisdiction over the matter<sup>309</sup> or if the decision was not reached in a procedurally fair fashion where both parties had equal opportunity to be heard.<sup>310</sup>

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concerns public good and the public interest" and that "[w]hat is for public good or in public interest . . . has varied from time to time," but noting that an arbitral award "patently in violation of statutory provisions cannot be said to be in public interest").

305. Indian Arbitration Act, *supra* note 282, pmbl.

306. Indian arbitration law differs from the UNCITRAL Model Law in one important respect. The Act applies only if the place of arbitration is in India. *Id.* § 2(2). Under the Model Law, the provisions of articles 8, 9, 35 and 36 apply even if the place of arbitration is not within the territory of the particular state. UNCITRAL MODEL LAW, *supra* note 4, art. 1(2).

307. *See, e.g.,* Prem Laxmi & Co. v. Trafalgar House Construction India Ltd., (1999) 2 Arb. L.R. 103 (Bom.); Telemecanique and Controls (India) Ltd. v. LA Telemecanique Electrique, (2002) 3 Arb. L.R. 189 (Del.) (holding that "dispute[s] arising out of such Agreements which contain an Arbitration Clause would have to be resolved through the process of arbitration and a suit for the said purpose would not be maintainable").

308. *See* Indian Arbitration Act, *supra* note 282, § 8(1) ("A judicial authority before which an action is brought in a matter which is the subject of an arbitration agreement shall, if a party so applies not later than when submitting his first statement on the substance of the dispute, refer the parties to arbitration."); P. Anand Gajapathi Raju v. P.V.G. Raju, (2000) 2 S.C.R. 684.

309. *See* Kapur v. Kapur, (2003) 2 Arb. L.R. 508 (Del.).

[An arbitration tribunal may] rule on its own jurisdiction including ruling on any objection with respect to the existence or validity of the arbitration agreement. The decision of [an] arbitral tribunal on this point as well as a plea that it exceeded the scope of its authority can be assailed by the aggrieved party upon the conclusion of its proceedings.

*Id.* at 510; *see also* Indian Arbitration Act, *supra* note 282, § 16.

310. *See* Union of India v. Rallia Ram, A.I.R. 1963 S.C. 1685, 1691; Rajasthan State Mines & Minerals Ltd. v. Eastern Eng'g Enter., A.I.R. 1999 S.C. 3627, 3641-42; MALHOTRA, *supra* note 288, at 763.

*C. Effect of Award in Later Proceedings*

The arbitral award of a tribunal is final and binding on the parties and their privies.<sup>311</sup> Between the parties to the arbitration agreement, “a valid award is conclusive evidence of the law and facts found by it.”<sup>312</sup> Following the principles of *res judicata*, neither party to an arbitration agreement can relitigate the arbitrated claims in any subsequent proceedings, whether before a court or any other arbitral tribunal.<sup>313</sup> Even claims that were not brought before the arbitral tribunal may be estopped if they were within the scope of the arbitration agreement.<sup>314</sup> Parties to an arbitration are likewise estopped from relitigating the issues that were resolved in the arbitration.<sup>315</sup>

After a recent decision by the Supreme Court of India, however, it appears that nonsignatories to an arbitration agreement are not bound by the findings of the arbitral tribunal.<sup>316</sup> Nevertheless, “[even] though an award would not be *res judicata* in any subsequent claim against a third party, it . . . may be of persuasive significance.”<sup>317</sup>

*D. Confidentiality*

The Arbitration and Conciliation Act requires that arbitration proceedings and awards be kept confidential.<sup>318</sup> However, arbitral awards are not required to be kept confidential if their “disclosure is necessary for the purposes of implementation and enforcement.”<sup>319</sup>

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311. Indian Arbitration Act, *supra* note 282, § 35.

312. See MALHOTRA, *supra* note 288, at 824. The award may be appealed, however. See *id.* at 825.

313. See *K.V. George v. Sec’y to Gov’t, Water & Power Dep’t*, (1989) Supp. 1 S.C.R. 398, para. 18 (“[We] hold that the principle of *res judicata* . . . appl[ies] to arbitration proceedings.”).

314. See MALHOTRA, *supra* note 288, at 830 (“The bar of *res judicata* to fresh proceedings applies to the claims which are within the scope of the reference to submission to arbitration whether such claims were actually brought before the tribunal or not.”).

315. See *id.* at 828 (“A valid award creates an estoppel with respect to the issues decided by it and it prevents a party from raising such issues in subsequent proceedings.”).

316. See *Sukanya Holdings v. Pandya*, A.I.R. 2003 S.C. 2252, 2255–56. If the arbitration clause relates to a matter that would affect persons who are not party to the arbitration agreement, the arbitration agreement itself may not be enforced by a court. See *id.* at 2255.

317. MALHOTRA, *supra* note 288, at 834; see also e-mail from Karan Bharihoke, Assoc., J. Sagar Assocs., New Delhi, India (Mar. 24, 2006) (on file with author) (stating that even if an arbitrator’s finding of patent invalidity bound the parties to the arbitration, it would not affect third parties).

318. See Indian Arbitration Act, *supra* note 282, § 34(2)(b)(ii). The parties are also given the option of seeking a non-speaking award (i.e., an award that does not lay out the reasons upon which it is based). *Id.* § 31(3)(a); see also MALHOTRA, *supra* note 288, at 82, 792.

319. MALHOTRA, *supra* note 288, at 793. See Indian Arbitration Act, *supra* note 282, § 34(2)(b)(ii); MALHOTRA, *supra* note 288, at 798 (“When a winning party seeks the enforcement of an arbitral award in a court, the award may become public knowledge when it is challenged by the losing party in the court.”).

*E. Choice of Law*

The Arbitration and Conciliation Act provides that Indian law governs any dispute if both parties to the dispute are Indian.<sup>320</sup> Thus, in a patent dispute between two Indian parties, the Patents Act shall be the applicable substantive law.

In international commercial arbitrations, the Act provides that “the arbitral [t]ribunal shall decide the dispute in accordance with the rules of law designated by the parties as applicable to the substance of the dispute.”<sup>321</sup> If the dispute concerns an Indian patent, however, a court may refuse to enforce an award based on foreign law as being contrary to the public policy of India.<sup>322</sup> We are not aware of any case in which a party has attempted to enforce a foreign arbitral award, or an arbitral award based on anything other than Indian law, concerning the validity or infringement of an Indian patent.

*F. Remedies Available*

Courts in India may implement a wide variety of remedies in suits for patent infringement, including preliminary or permanent injunctions against further infringement, damages or an accounting of profits, and the seizure and destruction of infringing goods or articles whose purpose it is to effect an infringement.<sup>323</sup> Since arbitral tribunals are permitted to issue permanent or preliminary injunctions as well as damages, these remedies should be available to an arbitral tribunal resolving a patent infringement dispute.

### XIII. PATENT ARBITRATION IN THE PEOPLE’S REPUBLIC OF CHINA

Patent arbitration is practically unknown in the People’s Republic of China (“P.R.C.”). The question of patent validity is an administrative dispute that cannot be resolved through arbitration. Therefore, since most patent disputes involve questions of validity, patent arbitration as a practical matter does not occur in the P.R.C. Furthermore, the P.R.C. is not likely to recognize foreign arbitral awards regarding patent validity, as it is not bound to do so under the terms of the New York Convention. It is unclear if a foreign arbitral award regarding patent infringement would be enforced.

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320. Indian Arbitration Act, *supra* note 282, § 28(1)(a).

321. *Id.* § 28(1)(b)(i).

322. *See id.* § 34(2)(b)(ii).

323. *See* Indian Patents Act, *supra* note 280, § 108.

Patent disputes are generally grouped into two categories: administrative (patent validity) and civil (patent infringement).<sup>324</sup> Matters concerning the validity of a patent are handled by the administrative state organ and the people's courts,<sup>325</sup> and therefore are not arbitrable.<sup>326</sup> A claim of infringement appears to be arbitrable in theory.<sup>327</sup> In practice, however, a defense of invalidity by the alleged infringer removes the dispute from the jurisdiction of the arbitral tribunal. Thus, parties engaged in a dispute concerning patent validity or infringement have recourse only to the patent administration organs and the courts.<sup>328</sup> Parties to a property rights dispute, however, may submit their dispute to binding arbitration and expect the award to be enforced.<sup>329</sup>

P.R.C. arbitration law is presently unclear as to whether it is possible for an arbitral tribunal to refer specific issues, such as patent validity, to the courts while retaining jurisdiction over any remaining issues. We believe that an arbitral tribunal could adopt this course with the agreement of the parties. In the absence of a detailed agreement concerning matters to be referred to the courts, however, it may be difficult to determine whether any specific issue is to be resolved by the arbitral tribunal or the courts.

Foreign arbitral awards purporting to adjudge the validity of a P.R.C. patent are unlikely to be enforced. The New York Convention allows authorities in signatory states to refuse enforcement of awards where the subject matter of the dispute "is not capable of settlement by arbitration under the law of that country."<sup>330</sup> It is unclear if foreign arbitral awards concerning infringement of a P.R.C. patent would be

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324. See Xie Xiaoling, *Lun zhuan li jiu fen ji qi jie jue tu jing* [On Patent Litigation and Its Solving Approach], 12 GUANGDONG XING ZHENG XUE YUAN XUE BAO [J. GUANGDONG INST. PUB. ADMIN.] 61, 62 (2000).

325. See *Zhuan Li Fa* [Patent Law] (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 12, 1984, effective Mar. 12, 1984) [hereinafter P.R.C. Patent Law], arts. 3, 45, 46 para. 2, 12 P.R.C. LAWS 163 (allowing appeals regarding patent validity only to the Patent Reexamination Board or the people's court).

326. See *Zhong Cai Fa* [Arbitration Law] (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 31, 1994, effective Sep. 1, 1995) [hereinafter P.R.C. Arbitration Law], art. 3 para. 2, 6 P.R.C. LAWS 91, available at [http://www.cietac.org.cn/english/laws/laws\\_5.htm](http://www.cietac.org.cn/english/laws/laws_5.htm) (disallowing arbitration of administrative disputes); *Min Shi Su Song Fa* [Civil Procedure Law] (promulgated by the Nat'l People's Cong., Apr. 9, 1991, effective Apr. 9, 1991) [hereinafter P.R.C. Civil Procedure Law], arts. 217 para. 2, 260 para. 4, 4 P.R.C. LAWS 183 (disallowing enforcement of illegal arbitral awards).

327. See P.R.C. Patent Law, *supra* note 325, art. 57 para. 1 ("[T]he patentee . . . may institute legal proceedings in the people's court, or request the administrative authority for patent affairs to handle the matter."). To date, there have not been any official interpretations or scholarly opinions that interpret the word "may" here as excluding arbitration as an alternative.

328. See *id.*

329. See P.R.C. Arbitration Law, *supra* note 326, art. 2.

330. See New York Convention, *supra* note 10, art. V(2)(a).



enforced, due to either the underlying question of validity or public policy concerns.<sup>331</sup>

Court-conducted conciliation proceedings may present an alternative to patent arbitration in the P.R.C. If all parties to a court proceeding are willing, the court may conduct conciliation proceedings.<sup>332</sup> If the parties reach a settlement agreement under the court's auspices, the court will issue a Conciliation Statement with the same legal effect as a judgment.<sup>333</sup> Therefore, a Conciliation Statement reached during court proceedings concerning patent validity and infringement is legally binding and enforceable.

#### XIV. PATENT ARBITRATION IN AUSTRALIA

##### *A. Arbitrability*

Patent validity and infringement appear to be arbitrable in Australia. There is no specific law addressing these questions, however, and they have not been tested in court.

In Australia, jurisdiction over patent matters is granted to the Federal Court and the supreme courts of the states and territories.<sup>334</sup> For patent revocation proceedings, this grant of jurisdiction is exclusive.<sup>335</sup> Australian courts have not yet considered whether this jurisdictional grant precludes the enforcement of arbitral awards on the issue of patent validity.

There may be a relevant distinction between court-controlled arbitrations in the course of litigation and enforcement by the court of a private arbitral award. An Australian court has the power to refer all or part of a proceeding to arbitration with the parties' consent.<sup>336</sup> Since there is no apparent constraint on the subject matter that can be referred to arbitration,<sup>337</sup> presumably, patent validity issues can be included. Upon receipt of the arbiter's report, the court can adopt the arbiter's finding on validity and make appropriate orders.

Private arbitral awards regarding patent validity could be rejected by Australian courts on public policy grounds. Australia's International Arbitration Act allows the court to refuse to enforce an award if "(i) the subject-matter of the dispute is not capable of settlement by arbitration under [Australian law]; or (ii) the recognition or enforce-

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331. *See id.* art. V(2)(b).

332. *See* P.R.C. Civil Procedure Law, *supra* note 326, arts. 85, 89 para. 3.

333. *See id.*

334. *See* Patents Act, 1990, §§ 154–55 (Austl.); COMMONWEALTH OF AUSTRALIA CONSTITUTION ACT, § 51(xviii) (granting the federal government power over patents).

335. *See* Patents Act § 138.

336. *See* Federal Court of Australia Act, 1976, § 53A; FED. COURT RULES, Orders 10, 72 (Austl.).

337. *See* Federal Court of Australia Act § 53A.

ment of the award would be contrary to [Australian public policy].”<sup>338</sup> Under these provisions, a court could refuse to enforce a private arbitral award concerning patent validity on public policy grounds.<sup>339</sup>

Nevertheless, there would seem to be no reason in principle why the parties to an arbitration agreement could not agree to have the arbitrator make findings as to validity if those findings are effective only *inter partes*. Presumably, in such circumstances, both parties would want the arbitrator to acknowledge in the award that any finding as to validity carried no consequence for third parties. Settlement of patent litigation often proceeds in a similar matter, with the validity of the patent questioned by the alleged infringer but not directly addressed in the settlement itself.<sup>340</sup>

### B. Law of Arbitration

Arbitration in Australia that is not conducted as an incident of litigation is regulated by two separate regimes: the Commonwealth International Arbitration Act, a federal law, and the Commercial Arbitration Acts enacted by the various Australian states and territories.<sup>341</sup>

Broadly speaking, an international<sup>342</sup> commercial arbitration held in Australia is subject to both the UNCITRAL Model Law and the New York Convention, as incorporated by the International Arbitration Act.<sup>343</sup> That Act covers matters arising from all relationships of a

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338. International Arbitration Act, 1974, sched. 2 art. 36(1)(b) (amended 1989) (enacting UNCITRAL MODEL LAW, *supra* note 4, art. 36(1)(b)). The Act further provides that an award may be set aside as contrary to public policy if “(a) the making of [an] award was induced or affected by fraud or corruption . . . or (b) a breach of the rules of natural justice occurred in connection with the making of [an] award,” without limiting other interpretations of the public policy exception. *Id.* § 19.

339. *See supra* Part III.B.

340. Alternately, a settlement agreement may address the issue of validity in an indirect manner, for instance by containing a provision that the alleged infringer agrees not to challenge the validity of the patent in future proceedings.

341. *See* Commercial Arbitration Act, 1984 (Vict.); Commercial Arbitration Act, 1984 (N.S.W.); Commercial Arbitration Act, 1985 (N. Terr.); Commercial Arbitration Act, 1985 (W. Austl.); Commercial Arbitration Act, 1986 (S. Austl.); Commercial Arbitration Act, 1986 (Tas.); Commercial Arbitration Act, 1986 (Austl. Cap. Terr.); Commercial Arbitration Act, 1990 (Queensl.). The Commercial Arbitration Acts are nearly uniform, except for minor changes in language.

342. The UNCITRAL Model Law leaves the parties substantial autonomy in deciding whether or not their dispute is “international.” UNCITRAL MODEL LAW, *supra* note 4, art. 1(3). One consequence of this autonomy is that the parties can transform an otherwise “domestic” agreement into an “international” one simply by choosing a place of arbitration outside Australia or by agreeing that the subject matter of the arbitration relates to more than one country. For instance, an arbitration concerning goods manufactured in Australia pursuant to a license for an Australian patent might be deemed international if some of the goods were distributed outside of Australia.

343. *See* International Arbitration Act, pts. II, III; *id.* scheds. 2, 3. The UNCITRAL Model Law only applies to arbitration agreements entered into after June 12, 1989 (or entered into before that date where the parties expressly agreed that the Model Law would apply).

commercial nature, whether contractual or not. Matters involving infringement and validity of an Australian patent would most likely be considered “commercial.”<sup>344</sup>

Domestic arbitrations in Australia are governed by the Commercial Arbitration Acts.<sup>345</sup> In these Acts, the term “arbitration agreement” is defined as an agreement in writing to refer present or future disputes to arbitration.<sup>346</sup> The Acts do not specify the subject matters that may be submitted to arbitration.

The arbitral regimes for international and domestic arbitrations are not mutually exclusive. Under the International Arbitration Act, the parties to an international arbitration may agree to exclude the UNCITRAL Model Law.<sup>347</sup> If the Model Law is excluded, the procedural law of the arbitration will be determined by the applicable Commercial Arbitration Act.<sup>348</sup>

The Commercial Arbitration Acts permit much greater judicial intervention in the arbitration process than does the UNCITRAL Model Law. Examples include the right to seek leave to appeal to a court when there is an error of law in the award (unless the parties have agreed otherwise),<sup>349</sup> broader powers for courts concerning interlocutory measures in the arbitration,<sup>350</sup> and broader discretion in removing arbitrators<sup>351</sup> or setting aside awards.<sup>352</sup>

The Commercial Arbitration Acts themselves draw a distinction between domestic and non-domestic arbitration agreements.<sup>353</sup> Under a domestic arbitration agreement, parties cannot contractually exclude the right to appeal unless the exclusion agreement is made after the arbitration commences.<sup>354</sup> The court may render a domestic arbitration agreement null following the removal of an arbitrator, but it does not have the same power with regard to non-domestic arbitration agree-

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344. See *id.*; UNCITRAL MODEL LAW, *supra* note 4, art. 35.

345. See *supra* note 341.

346. See, e.g., Commercial Arbitration Act, § 4(1) (N.S.W.).

347. See International Arbitration Act, § 21. The Model Law may be excluded simply by referring to an alternate set of arbitration rules, such as a provincial Commercial Arbitration Act, in the arbitration agreement. See *Aerospatiale Holdings Austl. Ltd. v. Elspan Int'l Ltd.*, (1992) 28 N.S.W.L.R. 321 (holding that referencing the N.S.W. Commercial Arbitration Act in an arbitration agreement renders the Model Law inapplicable). See generally Richard Garnett, *International Commercial Arbitration: The Australian Legal Regime*, <http://www.arbitrators.org.au/asset/GarnettCPD1.pdf>.

348. See Garnett, *supra* note 347, at 7–8.

349. See, e.g., Commercial Arbitration Act § 38 (N.S.W.).

350. See, e.g., *id.* § 47 (granting the courts the same power to issue interlocutory orders in arbitration proceedings as they have in other proceedings).

351. See, e.g., *id.* § 44.

352. See, e.g., *id.* § 42.

353. See, e.g., *id.* § 40(7).

354. See, e.g., *id.* § 40(6).

ments. Finally, the statutory limitations on *Scott v. Avery* clauses apply only to domestic arbitration agreements.<sup>355</sup>

The Commercial Arbitrations Acts also permit the parties to opt in or out of many of the provisions of the Act by written agreement, such as the presumption of a jointly appointed single arbiter,<sup>356</sup> or the ability of the arbiter to award interim remedies or order specific performance of a contract.<sup>357</sup>

### C. Effect of Award in Later Proceedings

Unless a contrary intention is expressed in the arbitration agreement, an arbitral award is final and binding on the parties and any person claiming under them.<sup>358</sup> It is unclear if a patent arbitration has any preclusive effects on later disputes between the parties to the arbitration. We do not believe that an arbitral award has any preclusive effect whatsoever with regard to third parties.

It is of course possible for the parties to agree that the award may only determine the position regarding the referred particulars of breach. However, so far as validity is concerned, a finding that the patent is invalid logically must affect the finding in a second dispute between the same parties involving the same patent. Moreover, it is difficult to see why the parties (and more particularly, the party other than the patentee) would in practice agree that any finding that the patent was invalid would apply only to the first referred particulars of breach. It follows that, as between those parties, the patentee could not then assert the patent against the other party, even in circumstances where a different infringing product is involved. It also follows that the prior award could be tendered as evidence that, at least as between the parties, the patent had been found to be invalid.

### D. Confidentiality

Arbitration proceedings are generally private, in that third parties are not entitled to observe the process. However, the proceedings will not be confidential unless there is an express agreement as to confidentiality between the parties.<sup>359</sup> An arbitral award, whether interim or

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355. See, e.g., *id.* § 55(2). A *Scott v. Avery* clause is a clause in an arbitration agreement providing that judicial proceedings cannot be brought until after the parties have engaged in arbitration. See *id.*; cf. *Scott v. Avery*, [1856] 5 H.L. Cas. 811 (U.K.).

356. E.g., Commercial Arbitration Act §§ 6–7 (N.S.W.).

357. E.g., *id.* § 23–24.

358. See *id.* § 28.

359. See *Esso Austl. Res. Ltd. v. Plowman*, (1995) 183 C.L.R. 10, 10 (Austl.) (holding that there was nothing inherent in the nature of arbitration contracts in Australia which would give rise to the existence of an implied term that each party will not disclose information provided in and for the purpose of the arbitration).

final, may also be rendered confidential by agreement.<sup>360</sup> Any confidentiality agreement may be limited by the necessary disclosure accompanying enforcement proceedings, appeals, or disclosure to third parties such as insurers.

#### *E. Choice of Law*

The parties to an arbitration may agree to apply law other than Australian law to their dispute. They may also allow the arbitration panel to base the award on considerations of general justice and fairness.<sup>361</sup> There is no precedent on the question of whether an Australian court would enforce an arbitral award under foreign law containing a finding of patent invalidity. However, under the terms of the New York Convention, such an award should be enforceable *inter partes*.<sup>362</sup>

#### *F. Remedies Available*

The remedies for patent infringement available to a court in Australia are an injunction and, at the option of the plaintiff, either damages or an accounting of profits.<sup>363</sup> An award of damages does not include punitive or exemplary damages. The court also has the power to award costs.

The power of an arbitrator to award relief depends on the terms of the arbitration agreement. The parties may elect to make available to the arbitrator any remedy available to the court. In addition, the arbitrator can be empowered to make an award not normally available to the court. In the absence of an agreement to the contrary, the arbitrator is also empowered to make interim awards,<sup>364</sup> order specific performance of a contract,<sup>365</sup> or award costs.<sup>366</sup>

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360. However, it should be noted that neither a private arbitral agreement, nor a general statutory power of the arbitrator over procedure, can limit a government litigant's ability to disclose confidential information obtained in arbitration proceedings, provided the government litigant is acting in furtherance of a legitimate public interest. *See, e.g.*, Commonwealth v. Cockatoo Dockyard Pty. Ltd. (1995) 36 N.S.W.L.R. 662, 682. Presumably, any statutory reporting obligation of the parties also cannot be constrained.

361. *See, e.g.*, Commercial Arbitration Act § 22(2) (N.S.W.).

362. *See* New York Convention, *supra* note 10.

363. *See* Patents Act, 1990, § 122.

364. *E.g.*, Commercial Arbitration Act § 23 (N.S.W.).

365. *E.g.*, *id.* § 24.

366. *E.g.*, *id.* § 34.

## XV. PATENT ARBITRATION IN JAPAN

## A. Arbitrability

Civil patent infringement matters should be arbitrable in Japan.<sup>367</sup> Patent validity matters may be arbitrable,<sup>368</sup> but the effect of an award purporting to decide issues of validity would most likely be limited to the parties to the arbitration.

There are no statutes dealing specifically with issues of patent arbitration in Japan. Japanese patent law deals primarily with applications for patents and standards of patentability.<sup>369</sup> While the Japanese Arbitration Law<sup>370</sup> does not deal specifically with patent issues, it does restrict arbitrable issues to those that could be the subject of a settlement between the parties.<sup>371</sup> This may restrict the effect of an arbitral award or finding concerning patent validity. Aside from this, there are no obvious statutory hurdles that would prevent parties from arbitrating patent infringement or validity issues.

The arbitration of patent validity issues is likely to be limited by public law issues involving the autonomy of the Japanese administration. Under Japanese law, the only body with authority to decide the validity of a patent is the Japanese Patent Office (“JPO”).<sup>372</sup> This power, in turn, is based on the JPO’s status as the granting authority, which protects this exclusive competence of the JPO even from the jurisdiction of the courts. As an initial step, the procedure for the revocation of a patent involves an administrative action before the JPO that reconsiders the original patent grant.<sup>373</sup> It is not possible to skip this proceeding when validity is in question, since Japanese courts only have the competence to interpret the scope of claims, not to invalidate them.<sup>374</sup>

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367. The preferred form of dispute resolution in the domestic Japanese business world has been a “roundtable conciliation” rather than arbitration; the plaintiff and defendant negotiate a private agreement in front of judges, and such agreements can have a res judicata effect. See MINSOHŌ [CODE OF CIVIL PROCEDURE], art. 267, translated in EIBUN-HOREI-SHA, INC., EHS LAW BULLETIN SERIES NO. 2300, THE CODE OF CIVIL PROCEDURE OF JAPAN 114 (2004).

368. See Shigetoshi Matsumoto, *Chitekizaisanken to Chūsai* [Intellectual Property and Arbitration], 924 JURISUTO 56 (1988).

369. Japan is currently in the process of reforming its patent system. These reforms include the composition of a new Intellectual Property Court of Japan (Chitekizaisan-Hotei), which will hear appeals on patent matters. There appears to be no movement to extend these reforms to embrace the subject of patent arbitration.

370. See Japanese Arbitration Law, *supra* note 62.

371. *Id.* art. 13(1).

372. See NOBUHIRO NAKAYAMA, KOGYOSHOUYUKENHŌ (JYO) 229 (2d ed. 2000).

373. See Tokkyo Hō [Patent Law], Law No. 121 of 1959 [hereinafter Japanese Patent Law], art. 123, translated in World Intellectual Property Organization, Database of Intellectual Property Legislative Texts, available at [http://www.wipo.int/clea/docs\\_new/pdf/en/jp/jp006en.pdf](http://www.wipo.int/clea/docs_new/pdf/en/jp/jp006en.pdf).

374. See NAKAYAMA, *supra* note 372.

After the JPO renders its decision on patent validity, interested parties have a right of appeal<sup>375</sup> to the Tokyo Appellate Court.<sup>376</sup> The court itself does not have the jurisdiction to render a patent invalid, as the JPO is the exclusive finder of fact in matters relating to patent validity.<sup>377</sup> Instead, the court may only vacate and remand the decision of the JPO.<sup>378</sup> On remand, the JPO must reexamine the validity of the patent using reasoning consistent with the decision of the court.<sup>379</sup>

The high degree of insularity enjoyed by the JPO even with respect to Japanese courts casts doubt upon the possibility that an arbitral tribunal could issue an award invalidating a patent and expect the award to be enforced. At best, the award could be enforced *inter partes*. We see no policy reason why that should not be allowed.<sup>380</sup>

### B. Law of Arbitration

Japan has recently adopted a modified version of the UNCITRAL Model Law.<sup>381</sup> The law is applicable to both domestic and international arbitrations, and is not limited to commercial arbitration as is the Model Law.<sup>382</sup> This law is also applicable to arbitrations regarding patent issues.<sup>383</sup>

In accordance with the UNCITRAL Model Law, Japanese arbitration law allows court interference with arbitration only in limited cases, and provides for the possibility of court assistance with regard to interim measures and evidence taking.<sup>384</sup> In contrast to the UNCITRAL Model Law, Japanese law limits arbitrable issues to

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375. See Japanese Patent Law, *supra* note 373, arts. 178–84.

376. The Tokyo Appellate Court currently (as of April 1, 2005) has four branch sections that exclusively deal with intellectual property matters. The four branches handle lawsuits seeking the vacation of JPO judgments and appeals from the district courts located within the Tokyo Appellate Court's geographical jurisdiction that include issues surrounding the infringement of intellectual property rights. The four branches employ around ten experts who have working experience as patent examiners or administrative judges of the JPO. Their primary job is to do research and to explain the technological issues in the pending lawsuits to the court. There is no information to date regarding the structure of the new intellectual property appellate court, but we may safely expect that the basic structure of the four branches will remain unchanged.

377. Parties are permitted to offer certain forms of new evidence before the court. See, e.g., *Kyodō Giken Kabushiki Gaisha v. Nihon Kōkan Kabushiki Gaisha*, 34 MINSHŪ 80, 80 (Sup. Ct., Jan. 24, 1982).

378. See Japanese Patent Law, *supra* note 373, art. 181.

379. See *Gyōsei Jiken Soshō Hō* [Administrative Case Litigation Law], Law No. 139 of 1962, art. 33(1), translated in *EIBUN-HOREI-SHA, INC., EHS LAW BULLETIN SERIES NO. 2391, ADMINISTRATIVE CASE LITIGATION LAW 16* (1999). The JPO can still reach the same decision on remand, as long as its reasoning does not contradict the decision of the court. See *id.*

380. See *supra* Part III.B.

381. See Japanese Arbitration Law, *supra* note 62.

382. See *id.* art 1.

383. See *id.*

384. See *id.* arts. 4, 15, 35.

those that can be settled by the parties, requires parties to bear their own costs<sup>385</sup> in the absence of an agreement to the contrary,<sup>386</sup> and also requires an “enforcement decision” by a court for the enforcement of an arbitral award.<sup>387</sup>

### C. Effect of Award in Later Proceedings

Under Japanese arbitration law, an arbitral award, or *Shusaihandan*, has the same effect as the judgment of a civil court.<sup>388</sup> A finalized civil judgment from a Japanese court has effect between the parties and on another person when a party declares itself a party “for the sake of” the other person.<sup>389</sup> A judgment is also effective for successors in interest and privies of any party bound by the decision, and for parties who hold the object of the claim in dispute “for the sake of” another person for whom the judgment is effective.<sup>390</sup>

A civil judgment, once finalized after the passage of fourteen days with no appeal, thus has binding effect only between the parties to the case. If one of the parties desires a third party effect, therefore, it must join the third parties to the suit<sup>391</sup> or, after the first judgment has been rendered, claim that the situation occupied by the third party in question is the same as the protectible legal interests of the other party.<sup>392</sup>

Between the parties, a civil judgment (and thus an award) has preclusive effects only for the issues and theories actually litigated. Thus, an award containing a finding of validity precludes the alleged infringer from pursuing the same theory of invalidity in future proceedings, but a different theory of invalidity could in principle be pursued. An award of infringement cannot be retried in court, unless the accused infringer proves that the product is different from the product that was the subject of the first award.

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385. See *id.* art. 49, no. 2; accord MINSOHŌ [CODE OF CIVIL PROCEDURE], art. 81, no. 1, translated in EIBUN-HOREI-SHA, INC., EHS LAW BULLETIN SERIES NO. 2300, THE CODE OF CIVIL PROCEDURE OF JAPAN 114 (2004); Minjiso no Hiyō ni Kansuru Hōritsu [Law on Costs of Civil Procedure], Law No. 40 of 1973, arts. 2–3.

386. Contingent fee arrangements, however, are strictly prohibited in Japan. See generally Koji Takahashi, *Minso Hiyō Bengoshi Hōshū wo Megutte* [On Costs of Civil Procedure and Attorneys Fees], 1112 JURISUTO 4 (1997).

387. See Japanese Arbitration Law, *supra* note 62, art. 45, no. 1.

388. See *id.* The award must be the subject of an “enforcement decision” from a court, however, if it is to be enforced. See *id.*

389. See MINSOHŌ [CODE OF CIVIL PROCEDURE], art. 115, translated in EIBUN-HOREI-SHA, INC., EHS LAW BULLETIN SERIES NO. 2300, THE CODE OF CIVIL PROCEDURE OF JAPAN 114 (2004).

390. See *id.*

391. See MAKOTO ITOH, MINJI SOSHŌHŌ [CIVIL PROCEDURE] 440, 466 (Yuhikaku 1998); see also MINSOHŌ, art. 115.

392. See ITOH, *supra* note 391.



The Japanese Supreme Court has repeatedly denied the existence of a general doctrine similar to collateral estoppel.<sup>393</sup> In the patent context, however, the Japanese Supreme Court has held that parties to a dispute may only reargue the potential bases for invalidity after a decision of the JPO or of a competent court (on appeal from a JPO decision) where the arguments do not contradict issues already decided.<sup>394</sup> For a finding of invalidity, this has a de facto effect of collateral estoppel for the patentee.

Japanese civil procedure does not place limitations on the admissibility of any form of evidence.<sup>395</sup> An arbitral award including a finding of invalidity could thus be introduced in a later suit concerning infringement of the same patent.<sup>396</sup> There is no established legal rule as to the consequences of taking a position in a later proceeding that contradicts a position taken in an arbitration or administrative action.

#### D. Confidentiality

Japanese arbitration law does not directly address confidentiality. In general, however, it is possible for parties to a Japanese arbitration to maintain the confidentiality of the proceedings and the award through an appropriate contract clause. If the parties require court enforcement of the judgment, the parties will be forced to adhere to the Civil Procedure Law, which requires public trials.<sup>397</sup> If the case proceeds beyond the “roundtable” mediation stage, confidentiality will be lost.

#### E. Remedies Available

Japanese courts can award non-punitive economic damages for patent infringement, along with an injunction against further infringement.<sup>398</sup> A court may also order the confiscation or destruction

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393. See, e.g., *Matsumoto Jutsutaro v. Tamadam Fusano*, 569 HANREI JIHŌ 48 (Sup. Ct., June 24, 1973) (refusing to recognize collateral estoppel in the context of an ownership dispute over real property).

394. See *Okumra v. Spido Henki*, 30 MINSHŪ 79, 79–98 (Tokyo High Ct., Mar. 10, 1976).

395. We note that there are no rules of evidence in Japanese civil law comparable to, for example, the Federal Rules of Evidence in the United States. See, e.g., *Oda Yoshizo v. Minami Kenji*, 6 MINSHŪ 1117 (Sapporo High Ct., Dec. 5, 1950) (holding that hearsay evidence is admissible).

396. See, e.g., *Tōhokoki v. Tipton*, 46 MINSHŪ 245 (Tokyo High Ct., Apr. 28, 1992).

397. The court is allowed to limit the right of access to judicial materials by non-parties, particularly when trade secrets and similar information are involved in the civil proceedings. See MINSHŌ [CODE OF CIVIL PROCEDURE], art. 92, no. 1, translated in EIBUN-HOREI-SHA, INC., EHS LAW BULLETIN SERIES NO. 2300, THE CODE OF CIVIL PROCEDURE OF JAPAN 114 (2004). The parties are also allowed to file a petition for in camera review if they are successful in showing a high possibility of a violation of public policy and good morality.

398. No specific code section regarding compensation exists under Japanese patent law, which provides only presumptive rules, such as for calculating the sum of money for dam-

of infringing goods or the implements of infringement, such as machines used in manufacturing.<sup>399</sup> We believe that an arbitral tribunal could make use of all of these remedies and expect the support of the Japanese courts.

Japanese courts may also issue preliminary orders, or *Karishobun*. *Karishobun* are frequently used in civil cases, and may be issued if the court determines that one party, based on the facts and arguments before the court at that stage in the proceedings, has demonstrated that it is likely to succeed in the action.

Under Japanese arbitration law, parties may make an application at a district court with jurisdiction to issue *Karishobun*.<sup>400</sup> Additionally, the arbitral tribunal has the power to order interim measures of protection.<sup>401</sup> The current state of the law leaves the arbitral tribunal a fair degree of discretion in this regard, pending developments worldwide concerning the enforcement of tribunal issued interim measures.<sup>402</sup>

It is also likely that an arbitral tribunal could award remedies that would be different than those called for by statute, as long as these were within the inherent power of the court to enforce and not contrary to public policy. This is based on the decided tendency for Japanese courts to refrain from policing the free will of the parties where that will is clearly framed in an arbitration agreement.<sup>403</sup>

## XVI. CONCLUSIONS

Arbitration of patent validity and infringement issues in many major technology-producing countries is impeded by a lack of uniformity and various practical barriers. These barriers are apparently not sufficient to eliminate the arbitration of patent issues where strong incentives exist to do so, but do appear to be sufficient to keep the practice from becoming a mainstream alternative to normal civil litigation. Even in countries where no explicit legal barriers are present,

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ages. See Japanese Patent Law, *supra* note 373, art. 103. Therefore, compensation for patent infringement has its theoretical and statutory basis in the general provisions of the Civil Code. See MINPŌ [CIVIL CODE], art. 709. Authorities in the field argue against a new rule, maintaining that flexible case law is more suitable in light of the dramatic fluidity of business practices in the intellectual property field. See NAKAYAMA, *supra* note 372, at 335.

399. See Japanese Patent Law, *supra* note 373, art. 100.

400. See Japanese Arbitration Law, *supra* note 62, art. 15.

401. See *id.* art. 24.

402. See Tatsuya Nakamura, *Salient Features of the New Japanese Arbitration Law Based Upon the UNCITRAL Model Law on International Commercial Arbitration Introduction*, 17 NEWSL. OF THE JAPANESE COM. ARB. ASS'N (Japanese Com. Arb. Ass'n, Tokyo, Japan), Apr. 2004, at 3, available at <http://www.jcaa.or.jp/e/arbitration-e/syuppan-e/newslet/news17.pdf>.

403. Based on the experience of the authors.

practitioners have been slow to adopt arbitration as an alternative to civil court litigation in patent disputes.

There are public interests at stake in any dispute revolving around patent validity, and these interests may not be effectively represented in arbitration. We believe, however, that such concerns do not justify the restrictions on objective arbitrability found under some statutory regimes. Instead, these concerns can be satisfied by a coordinated system of interrelated rules regarding objective arbitrability, the effect of arbitration judgments, confidentiality, choice of law, and remedies. Such a system would ensure that public interests are protected by limiting the self-serving options of parties arbitrating issues of patent validity or infringement.