Kluwer Arbitration Blog

Should I Arbitrate My Patent Dispute?

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As noted in **GAR's Guide to IP Arbitration**, "*one of the noticeable trends in international arbitration in the past several years has been the growing use of arbitration to resolve IP-related disputes*." The **World Intellectual Property Organization ("WIPO") Arbitration and Mediation Center** reports that its filings (arbitration, mediation and expert determination) increased by over 15% from 2018 to 2019, held steady in 2020, and increased 44% from 2020 to 2021.

Despite the arbitration of patent disputes not being a new or novel concept, wide-spread use of arbitration for the resolution of patent disputes remains elusive. But why? In large part it appears that questions arise as to the arbitrability of patent disputes, the arbitral process, and the benefits available from selecting arbitration over litigation.

Are patent infringement and invalidity arbitrable?

The arbitrability of substantive patent disputes (*i.e.*, disputes involving questions of patent validity and infringement as opposed to contractual questions involving, for example patent licensing) is increasingly recognized by national legislatures and courts. Indeed, **WIPO Arbitration and Mediation Center** asserts that "*it is now broadly accepted that disputes relating to IP rights are arbitrable.*"

The United States has a relatively long track record with patent arbitration. In 1982, Congress amended Title 35 of the United States Code (*i.e.*, the U.S. patent statute) to include **Section 294**, which is directed to voluntary arbitration and provides a broad scope of arbitrability.

More recently, leading arbitration-friendly jurisdictions have amended their legislations to expressly provide for arbitration of substantive patent disputes. In 2017, Hong Kong amended its **Arbitration Ordinance** (Cap. 609; Part 11A) to, among other things, clarify that ***all disputes over intellectual property rights*** ("IPRs") can be resolved by arbitration. In 2019, Singapore followed suit, amending its **International Arbitration Act** (Arts. 26B and 26G) to expressly provide for the arbitration of IP disputes ***including patent invalidity***.[1)] While Japan does not have a specific civil code provision concerning the arbitrability of patent disputes, the **Japan Patent Office** ("JPO") has a portal to facilitate arbitration of substantive patent disputes.

On May 5, 2021, the **District Court of Munich** recognized the arbitrability of patent validity under both German and Swiss law. Relying on Section 1030 of the German Code of Civil Procedure, which provides that any pecuniary claim is arbitrable, the court found that German *ordre public* did not preclude the arbitrability of patent rights. Further, in analyzing Swiss law, the court found that Swiss public policy did not preclude the arbitrability of disputes relating to the rights of European patent application.

With increasing statutory and judicial acceptance of the arbitrability of patent rights/disputes and the express recognition that such disputes do not violate public policy, the concern that an award may be refused recognition under **Articles V(2)(b) of the New York Convention** is obviated in at least in those countries. For example, in the United States, the Court of Appeals for the **Federal Circuit** has rejected arguments that an arbitral award addressing patent invalidity issues should be refused recognition under Article V(2)(b) of the New York Convention. In doing so, the Federal Circuit explained that US courts construe the public policy exception of the New York Convention narrowly, applying it "only where enforcement would violate the forum state's most basic notions of morality and justice." In fact, the **Korean Supreme Court**, has also rejected a party's argument that the arbitral award addressing patent rights should be aside for violating public policy as defined in Art. V(2)(b) of the New York Convention. This despite that fact that the case involved the use of a patent right, which, under Korean law, could not be created by an agreement between private parties because such a patent right is created and recognized for public interest within the framework of patent law. The Korean Supreme Court, similarly explained the narrow application of this ground. That said, care should always be taken to consider in which countries enforcement is likely to ensure those countries recognize the arbitrability of the validity and infringement of patents rights.

Resolution of Multi-jurisdictional Patent Disputes in a Single Proceeding

While arbitrating patent disputes provides all the benefits of arbitration in general (*e.g.*, ability to select a technically and legally qualified arbitrator, neutrality, confidentiality, efficiency, lower cost of arbitrating IP disputes), there is another aspect of arbitration that makes it particularly attractive for patent disputes: the ability to resolve global disputes in a single proceeding.

Patent disputes frequently implicate patents in multiple jurisdictions, each of which requires litigation in the respective national courts. Arbitration, in contrast, allows parties to resolve the full scope of their dispute in a single proceeding, with one set of attorneys, and under an agreed upon legal regimen, thereby reducing costs and the time to resolution, while eliminating the risk of conflicting decisions.

The UK Court of Appeal recently acknowledged this benefit of arbitrating transnational patent disputes in **Nokia Technologies OY v Oneplus Technology (Shenzhen) Co Ltd,** [2022] EWCA Civ 947 (11 July 2022). This case involved a complex jurisdictional dispute over Nokia's assertion of its Standard Essential Patents (SEPs).

Industry standards (*e.g.*, USB, LTE, Wi-Fi) exist so that different manufacturers can produce compatible equipment. As the court explained, a patent is said to be "standard-essential" if implementation of the standard would necessarily involve infringement of the patent in the absence of a license. Industry members that are involved in the establishment of the standard are required

grant licenses of their SEPs on fair, reasonable and non-discriminatory (FRAND) terms. This ensures patentees are not disadvantaged by cooperating with the establishment of the standards – allowing patentees to be rewarded for their inventions – while guaranteeing access to those standard essential inventions at a fair rate.

As the UK Court of Appeal explained, when disputes arise as to SEPs and FRAND licenses, the parties typically turn to the national courts. However, because patents are territorially limited, a patentee must enforce its patent(s) in each jurisdiction where the accused infringer exploits the patented invention. Not only is this burdensome for the patentee, but it is incredibly inefficient and costly for both parties and creates the inherent risk of inconsistent decisions.

Arbitration provides a facile mechanism for global resolution of such disputes. As Lord Justice Arnold aptly put it, "*[t]he only sure way to avoid these problems is to use a supranational dispute resolution procedure, and the only supranational procedure currently available is arbitration*."

Arbitration Can Avoid Bifurcation of Infringement and Invalidity Determinations

Patent disputes can be further complicated when the dispute arises in a country (*e.g.*, Japan, Germany, China, Korea) in which infringement is bifurcated from the invalidation proceedings. In Japan, for example, infringement is resolved in national courts, whereas invalidity proceedings are conducted in the JPO. In Germany, these issues are resolved in two separate courts. Arbitration, however, allows parties to avoid the bifurcation dilemma, allowing for the resolution of all patent issues in a single proceeding.[2)]

Caution Against Patent/IP Carve-Outs in Arbitration Agreements

Even parties that choose arbitration as the dispute resolution mechanism for their contractual disputes, often choose to exclude patent and other IP disputes from the arbitration agreement ("carve-out"). The Second Circuit's recent decision in ***Lavvan, Inc., v. Amyris, Inc.*, No. 21-1819, 2022 WL 4241192 (2d Cir. Sep. 15, 2022)** demonstrates the negative aspects of such carve-outs.

In *Lavvan*, the court of appeals reviewed the lower court's denial of the defendant's motion to compel arbitration. The arbitration agreement in question provided for arbitration of "*[a]ll disputes that cannot be resolved by the management of both Parties*," but contained a carve-out of all disputes arising "*with respect to the scope, ownership, validity, enforceability, revocation or infringement of any Intellectual Property*". Thus, the plaintiff commenced ICC arbitration of its contractual claims and, simultaneously, pursued litigation of its trade secret misappropriation and patent infringement claims in federal court. In its motion to dismiss, the defendant argued that because all the claims arose from a common factual matrix, and it was at least ambiguous whether the claims fell within the carve-out, any ambiguity should be resolved in favor of arbitration.

The Second Circuit rejected the defendant's argument, holding that the claims asserted in the complaint were "*clearly disputes of the sort exempted from arbitration*" and thus not arbitrable. Additionally, the court noted that "*the fact that these intellectual property claims are intertwined with the contractual issues currently being arbitrated provides no basis on which to require claims*

exempted from arbitration to be subject to it."

Thus, even where contractual and intellectual property claims are intertwined, they must be pursued in two separate and parallel proceedings when the parties include a carve-out regardless of the increased costs, decreased efficiencies and the inherent risk of inconsistent rulings. Given the inherent benefits of arbitration (*i.e.*, ability to select a technically and legally qualified arbitrators, neutrality, increased confidentiality, lower cost, etc.), parties should avoid such carve-outs unless strong overriding reasons exist.

Additionally, while some IP owners may be hesitant to arbitrate their IP disputes because of the lack of appellate review, such hesitancy should be tempered. For a patent owner, if an asserted patent is invalidated in a national court, the patent claims at issue are invalidated *erga omnes – i.e.* towards everyone. Hence, it cannot be asserted against any party. However, because arbitral awards are binding only on the parties to the arbitration and can be subject to strict confidentiality, arbitral invalidation of the patent may not affect the enforceability of the patent against other possible infringers. Thus, agreeing to arbitrate such disputes can provide a lower risk avenue of enforcement than litigation.

Conclusion

It is broadly accepted that patent disputes are arbitrable. While litigation is often perceived as providing certain benefits in patent disputes (*e.g.*, greater discovery, appellate review), any perceived benefits are offset by the substantial expense and inability to achieve a global resolution in a single proceeding. By contrast, arbitration can accomplish the same goals, while providing the added benefits of global dispute resolution in a single neutral proceeding, by qualified arbitrators, at lower cost and with increased confidentiality. As more parties and counsel understand and appreciate the benefits of arbitrating patent disputes, it can be expected that patent arbitrations will not remain elusive for long.

References

?1 *See also*, the website of the Intellectual Property Office of Singapore (“IPOS”)

?2 Patent invalidity is not arbitrable subject matter in Korea and China.

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