Kluwer Arbitration Blog

California International Arbitration Week 2023: When Worlds Collide – Arbitration of International Patent Disputes

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As part of the second annual California International Arbitration Week, KCAB and LimNexus hosted an expert panel on the arbitration of international patent disputes. This post presents some highlights from the panel.

The panel was moderated by Steve Kim who currently serves as Secretary-General of KCAB International and included as speakers Conna Weiner (Arbitrator & Mediator with JAMS), Grant Kim (Partner at LimNexus; Arbitrator), Peter Kang (Partner and Patent Trial Lawyer at Baker Botts; future US Magistrate Judge, ND. Cal.) and Ken Korea (Arbitrator and Mediator with Colev Law; previously Senior Vice President in charge of Silicon Valley IP Office for Samsung Electronics).

The panel focused on a variety of topics, including the types of patent disputes that may be arbitrated, the benefits of arbitrating patent disputes, the arbitrability of patent validity disputes, the reasons behind an apparent reluctance in the intellectual property (IP) community to arbitrate patent disputes, and possible innovative approaches that may be adopted in patent arbitrations.

Types of Patent Disputes

Mr. Steve Kim opened the discussion with a general question about the types of patent disputes that could be arbitrated. In response, Mr. Grant Kim emphasized that, whereas patent infringement suits involving exclusively non-contractual claims are only arbitrated on rare occasions, many patent-related disputes arising out of contracts, such as patent license agreements, will be resolved in arbitration. Purely contractual disputes, e.g. regarding a payment obligation under a license agreement, may depend on core patent issues, e.g. when the payment obligation is conditional on the validity and infringement of the licensed patents.

Drawing from her experience as an in-house lawyer for a major pharmaceutical company, Ms. Weiner added that there is a general mistrust among these companies about giving up useful litigation tools. This mistrust is amplified with regard to patents that often constitute the most valuable assets of large pharmaceutical companies. Ms. Weiner however emphasized that the same procedural protections utilized in litigation could be easily replicated in the arbitration setting. Yet, Ms. Weiner also acknowledged that certain types of patent disputes – in particular Hatch-Waxman

disputes – will not be arbitrated due to the necessary statutory structure created by the US Hatch-Waxman Act.

Mr. Kang elaborated on the reasons why patent disputes are generally underrepresented in arbitration. He explained that disputes involving non-practicing entities as plaintiffs – which make up a large portion of patent disputes – will generally not be arbitrated due to a lack of interest by the plaintiff to spend the necessary funds on an arbitration. Instead, these parties are primarily focused on reaching a settlement and the best tool for this is the pressure of a jury trial.

Mr. Kang furthermore highlighted those patent disputes which are particularly suitable for arbitration. For example, he had been involved in an arbitration between two companies with large patent portfolios of standard essential patents who were attempting to determine the balance in payments due according to the "FREN" standard (fair, reasonable, non-discriminatory). Outside of arbitration, the parties would have had to litigate essentially the same dispute in many different jurisdictions with varying "FREN" standards which would have been highly inefficient.

Benefits of Arbitrating Patent Disputes

Mr. Steve Kim next posed a question about the specific benefits of arbitrating patent disputes to the panel.

Ms. Weiner emphasized the importance of the parties' ability to choose knowledgeable adjudicators in arbitration because of the often highly complex nature of patent disputes. Ms. Weiner furthermore stated that this option will likely result in a materially correct decision which greatly ameliorates the concern of having no appeals process.

Mr. Kang emphasized the benefits of the confidential nature of arbitration with regard to patent disputes. He referred to the patent case *Ericsson Inc. v. TCL*, a "FREN" dispute in which two companies argued over the use of their respective standard patents. TCL took the position that all licenses that Ericsson Inc. had granted should be accessible to TCL to determine a standard for non-discriminatory royalties for the licenses granted. Mr. Kang elaborated that even under the FREN standard patent licensors have a range within which they can negotiate royalties which makes it highly desirable for them to keep the rates granted to competitors confidential.

Mr. Korea focused on the parties' ability to not only choose their adjudicators but interview them in advance. He highlighted this as a particular advantage over US litigation. The Federal Circuit panel of judges will only be announced to the parties on the day of the oral hearings despite patent disputes being heavily panel dependent.

Arbitrability of Patent Validity

Next, Mr. Grant Kim specifically addressed the arbitrability of patent validity disputes in different jurisdictions. Whereas both in the US (see Section 35 USC § 294 "*any dispute relating to patent validity or infringement*") and most of Western Europe, patent validity issues are generally arbitrable, an award rendered within this context will only be binding on the parties to the arbitration. Two notable exceptions are Switzerland and Belgium, where an award regarding patent

validity also binds nonparties to the arbitration. Mr. Grant Kim added that both patent holders and the accused infringer usually prefer the US approach. Arbitration places a lower risk on the patent holder because the patent can only be invalidated in relation to the other party. The accused infringers only need the patent to be invalidated in relation to themselves and will not want it to be invalidated overall to prevent their competition from interfering with their use of the patent.

Mr. Grant Kim then addressed the issue in the context of East Asian jurisdictions. Whereas Hong Kong very broadly allows for arbitration of any disputes related to IP rights, in China, arbitration of patent validity disputes is prohibited since these disputes must only be decided by the patent office according to Chinese law.

Mr. Grant Kim furthermore suggested the possibility of arbitrating patent validity cases in Korea and Japan as long as questions relating to this issue are embedded in a patent infringement dispute which does not require the arbitral tribunal to declare a patent legally invalid.

Why Aren't Patent Disputes Arbitrated More Often?

The panelists identified the reasons why the IP industry is often hesitant to use arbitration. Mr. Korea assumed that part of the reason may be past negative experiences with arbitration, in particular with the lengthy AMD Intel litigation and arbitration proceedings which included a total of 365 days of oral hearings. Another factor raised by Mr. Korea is the apparent lack of appellate rights in arbitration.

Mr. Kang added that the general aversion against arbitration in the IP field also is the result of a lack of tradition within the industry to utilize arbitration. The general predominating mindset in the high-tech industry to innovate prevents parties to consider different methods of dispute resolution at the time of contract conclusion.

Ms. Weiner emphasized that the perceived lack of procedural protections in combination with the possibly high costs of arbitration prevents companies from considering it as an alternative to litigation. Ms. Weiner however stated that this criticism ignores the flexibility of the arbitral process which may be adapted to the parties' wishes and recommended educating the IP industry about this to promote the use of arbitration.

Innovative Approaches to Patent Arbitration

The last topic discussed by the panel covered the use of innovative approaches in patent arbitration and an outlook on the future of patent arbitration. In response, both Ms. Weiner and Mr. Korea again emphasized the flexibility of the arbitral process which can be improved, in particular, by a creative use of experts (e.g. through techniques such as "hot-tubbing"); and having parties voluntary "frontload" and disclose necessary information about the disputed patents.

Mr. Kang suggested that to promote the growth of patent-related arbitration there must be an increased exchange between professionals in the two fields. Greater familiarity with arbitration as a dispute resolution mechanism will render patent litigators more willing to utilize it.

In his final remarks, Mr. Grant concluded that the worlds of patent law and arbitration are indeed already intertwined and that the growth of patent arbitration is ongoing because many contractual disputes involve patent-related issues that will necessarily be arbitrated.

Conclusion

The panel discussed a wide variety of issues that explain the current state of patent arbitration and provided the audience with an overview of possible solutions to the ongoing reluctance in the IP industry to rely too heavily on arbitration. Whereas the growth of patent arbitration has not kept up with the growth of arbitration as a preferred method of dispute resolution in many other industries, the advantages of arbitrating patent disputes are clear and have the potential to further promote the utilization of arbitration in the IP industry in the future.

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