

Intellectual Property Disputes

Why Mediate/Arbitrate Intellectual Property Disputes[†]?

By WIPO Arbitration and Mediation Center*

Introduction

Intellectual property is a central component of the contemporary knowledge economy and its efficient exploitation is of crucial importance. Disputes, however, can interfere with the successful use of intellectual property rights and even put at risk a company's success. While the careful drafting of contracts may reduce their frequency, disputes inevitably arise. Therefore, it is essential that they be managed and resolved efficiently. In order to do so, parties must be familiar with their dispute resolution options.

Although an intellectual property dispute can be resolved through court litigation, parties are, with increasing frequency, submitting disputes to mediation, arbitration or other alternative dispute resolution (ADR) procedures. ADR suits most intellectual property disputes, especially those between parties from different jurisdictions. ADR can empower the parties by enhancing their control over the dispute resolution process. If well managed, ADR can save time and money. In addition, because ADR procedures originate in the agreement of the parties, their application can sometimes result in a less adversarial process. This effect allows the parties to continue or enhance their business relationship.

The World Intellectual Property Organization¹ (WIPO) Arbitration and Mediation Center (the Center) was established in 1994 to promote the time and cost-effective resolution of intellectual property disputes through ADR. To achieve this objective, it created—with the active involvement of many ADR and intellectual property practitioners—the WIPO Mediation, Arbitration, and Expedited Arbitration Rules and Clauses.

[†]A contribution from the LESI Life Sciences Committee.

1. WIPO is an intergovernmental organization whose mandate is to promote the protection of intellectual property. A largely self-financed organization, WIPO is based in Geneva, Switzerland and has 183 Member States. WIPO has a history of over 120 years, going back to 1883, when the Paris Convention for the Protection of Industrial Property was adopted, and to 1886, when the Berne Convention for the Protection of Literary and Artistic Works was adopted. WIPO administers 24 multilateral intellectual property treaties, including the Patent Cooperation Treaty and the Madrid System, which facilitate patent and trademark applications and registrations in different countries.

The Center is the only international provider of specialized intellectual property ADR services. It provides advice on, and administers, procedures conducted under the WIPO Rules. For this purpose, the Center also maintains a detailed database of well over 1,000 outstanding intellectual property and ADR specialists who are available to act as neutrals.² Together with its extensive network of relationships with intellectual property and ADR experts, the Center's position within WIPO ensures that the WIPO procedures are at the cutting-edge of intellectual property dispute resolution. The Center also plays a leading role in the design and implementation of tailor-made dispute resolution procedures.

Since its establishment, the Center has advised parties and their attorneys on options to resolve intellectual property disputes, and provided them with access to high-quality, efficient and cost-effective ADR procedures.³

As this article will later discuss in more detail, cases submitted to the Center have included both contractual (e.g., patent and software licenses, trademark coexistence agreements, distribution agree-

**Article made possible by the WIPO Arbitration and Mediation Center in Geneva, Switzerland.*

2. The Center uses its list of neutrals where a mediator, arbitrator or expert is to be appointed under the WIPO Rules. Usually, the Center makes available to the parties the profiles of neutrals whose qualifications and experience are appropriate for the dispute at hand. In the event that the parties are unable to agree on the neutral, the Center will propose candidates and make the appointment taking into account the parties' rankings of such candidates.

3. In addition to its role in administering disputes under WIPO procedures, the Center provides the following services: (a) assistance in the drafting of contract clauses providing for the submission of future disputes to WIPO procedures; (b) at the request of the parties and against a fee, recommendations of neutrals, with detailed professional profiles, for appointment in disputes that the Center does not handle; (c) development of tailor-made dispute resolution procedures for specific commercial circumstances or industry characteristics; (d) training programs for mediators and arbitrators as well as conferences on intellectual property dispute resolution.

ments for pharmaceutical products, and research and development agreements) and non-contractual disputes (e.g., patent infringement).

As of November 2006, the Center has received 53 Requests for Mediation and 62 Requests for Arbitration. Cases have involved parties from Austria, China, France, Germany, Hungary, Ireland, Israel, Italy, Japan, the Netherlands, Panama, Romania, Spain, Switzerland, the United Kingdom and the United States of America.⁴ Amounts in dispute have varied between Euro 20,000 to several hundred million USD. Whatever the amount in dispute, the Center tries to ensure that all the procedures it administers are handled in a time and cost-effective manner.

In a recent development, the Center makes available to parties in cases under the WIPO Mediation, Arbitration, and Expedited Arbitration Rules, the WIPO Electronic Case Facility⁵ (WIPO ECAF), which allows parties and all other participants to submit communications electronically into an online docket. The parties can choose whether or not they wish to adopt WIPO ECAF to enhance the efficiency of the proceedings.

Advantages of ADR in Intellectual Property Disputes

The use of ADR to resolve disputes involving intellectual property offers several advantages over court litigation. These include:

- *A single procedure.* Through ADR, the parties can agree to resolve in a single proceeding a dispute involving intellectual property protected in different jurisdictions. As a consequence, parties can avoid not only the expense and complexity of multi-jurisdictional litigation but also the risk of inconsistent results across national borders.

- *Party autonomy.* Because of its private nature, ADR affords parties the opportunity to exercise greater control over the way a dispute is resolved than in court litigation. In contrast to court litigation, the parties themselves may select the most appropriate decision-makers for their dispute. In addition, the parties may choose the applicable law, place, and language of the proceeding. Increased party autonomy can also result in a faster process, as parties are free to devise the most efficient procedures for their dispute. This can result in material cost savings.

4. General up-to-date information on the caseload of the WIPO Center is available at <http://www.wipo.int/amc/en/center/caseload.html>.

5. Information on WIPO ECAF including a Users Manual is available at <http://www.wipo.int/amc/en/ecaf/index.html>.

- *Neutrality.* ADR can be neutral to the law, language, and institutional culture of the parties. Therefore, the disputants can avoid any home-court advantage that one of the parties may enjoy in court-based litigation, where familiarity with the applicable law and local processes can offer significant strategic advantages.

- *Confidentiality.* ADR proceedings are not public. Accordingly, the parties may agree to keep the proceedings and any results confidential. This allows the parties to focus on the merits of the dispute without concern about its public impact. Confidentiality may be of special importance where commercial reputation and trade secrets are involved.

- *Finality of Awards.* Unlike court decisions, which can generally be contested through one or more rounds of litigation, arbitral awards are not normally subject to appeal.

- *Enforceability of Awards.* The United Nations Convention for the Recognition and Enforcement of Foreign Arbitral Awards of 1958, known as the New York Convention, generally provides for the recognition of arbitral awards on par with domestic court judgments without review on the merits. This greatly facilitates the enforcement of awards across borders.

Nevertheless, in some circumstances, the parties may prefer court litigation to ADR. For example, ADR's voluntary nature makes it less appropriate if one of the two parties is extremely uncooperative, which may occur in the context of a non-contractual dispute. In addition, a court judgment will be preferable if, in order to clarify its rights, a party seeks to establish a public precedent rather than an award that binds only the litigating parties.

WIPO Procedures

The Center offers rules and neutrals for the following procedures:

- *Mediation:* a non-binding procedure in which a neutral intermediary, the mediator, assists the parties in reaching a settlement of the dispute.

- *Arbitration:* a procedure whereby the dispute is submitted to one or more arbitrators who make a binding decision on the dispute.

- *Expedited arbitration:* an arbitration procedure that is carried out in a short time and at reduced cost.

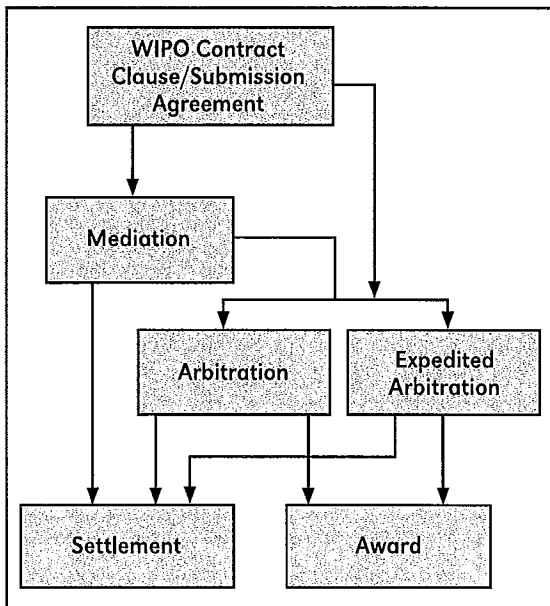
- *Mediation followed, in the absence of a settlement, by arbitration:* a procedure that combines mediation and, where the dispute is not settled through mediation, arbitration.

In addition, the Center is in the process of

establishing Expert Determination Rules and recommended contract clauses for the submission of disputes to expert determination.⁶ Expert determination is a procedure that is especially suitable where it is necessary to determine issues of a technical or scientific nature. The expert's determination may be binding on, or have effect as a recommendation to, the parties.

The WIPO Rules suit all kinds of commercial disputes and, in addition, contain provisions on confidentiality and technical and experimental evidence that are of special interest to parties to intellectual property disputes.

The following diagram provides an overview of the various dispute resolution options and their possible combinations offered by the Center.



Submitting a Dispute to WIPO Mediation or WIPO Arbitration

Referral to WIPO dispute resolution procedures is voluntary. To facilitate party agreement, the Center provides recommended contract clauses (for the submission of future disputes under a particular contract) and submission agreements (for existing disputes) in relation to:

- Arbitration under the WIPO Arbitration Rules;
- Expedited arbitration under the WIPO Expedited Arbitration Rules; and

- Mediation under the WIPO Mediation Rules followed, if the parties do not settle, by arbitration under the WIPO Arbitration Rules.

WIPO clauses are found in a wide variety of contracts involving intellectual property, including patent know-how and software licenses, franchises, trademark coexistence agreements, distribution contracts, joint ventures, research and development contracts, technology-sensitive employment contracts, mergers and acquisitions with intellectual property aspects, sports marketing agreements, publishing, music and film contract and agreements for the settlement of court litigation.

If appropriate, the Center can assist the parties in adapting the model clauses to the circumstances of their contractual relationship. For example, special clauses can be drafted for commercial situations in which a limited number of companies are frequently involved in disputes with each other that concern overlapping intellectual property rights. Because of the general applicability of the WIPO Rules, WIPO clauses are also suitable for inclusion in contracts and disputes that do not involve intellectual property.

A number of the contracts which have been the subject of disputes administered by the Center included clauses providing for mediation followed, in the absence of a settlement, by arbitration based on the following model clause:

"Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be submitted to mediation in accordance with the WIPO Mediation Rules. The place of mediation shall be [specify place]. The language to be used in the mediation shall be [specify language].

If, and to the extent that, any such dispute, controversy or claim has not been settled pursuant to the mediation within [60]/[90] days of the commencement of the mediation, it shall, upon the filing of a Request for Arbitration by either party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. Alternatively, if, before the expiration of the said period of [60]/[90] days, either party fails to participate or to continue to participate in the mediation, the dispute, controversy or claim shall, upon the filing of a Request for Arbitration by the other party, be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. The arbitral tribunal shall consist of (three

6. The WIPO Expert Determination Rules will become available at <http://www.wipo.int/amc/en/index.html>.

arbitrators)(a sole arbitrator). The place of arbitration shall be (specify place). The language to be used in the arbitral proceedings shall be (specify language). The dispute, controversy or claim referred to arbitration shall be decided in accordance with the law of (specify jurisdiction)."

In the following sections, this article will explain the mediation and arbitration procedures administered by the Center and provide examples of recent mediations and arbitrations administered by the Center.

WIPO Mediation

In a mediation procedure, a neutral intermediary, the mediator, helps the parties to reach a mutually satisfactory settlement of their dispute. Experience shows that intellectual property litigation often ends in a settlement. Mediation is an efficient and cost-effective way of achieving that result while preserving, and at times even enhancing, the relationship of the parties. Any settlement is recorded in an enforceable agreement.

The principal characteristics of mediation are:

- *Mediation is a non-binding procedure controlled by the parties.* A party to a mediation cannot be forced to accept an outcome that it does not like. Unlike an arbitrator or a judge, the mediator is not a decision-maker. A mediator, rather, assists the parties in reaching a settlement of the dispute.

Indeed, even when the parties have agreed to submit a dispute to mediation, they have the liberty to opt out of the process at any time after the first meeting if they find that its continuation does not meet their interests. In practice, however, parties usually participate actively in mediations once they begin.

If they decide to proceed with the mediation, the parties decide on how it should be conducted with the mediator.

- *Mediation is a confidential procedure.* In a mediation, the parties cannot be compelled to disclose information that they prefer to keep confidential. If, in order to promote resolution of the dispute, a party chooses to disclose confidential information or make admissions, that information cannot, under the WIPO Mediation Rules, be provided to anyone—including a subsequent court litigation or arbitration—outside the context of the mediation.

Under the WIPO Mediation Rules, the existence and outcome of the mediation are also confidential.

Mediation's confidentiality allows the parties to negotiate more freely and productively, without fear of publicity.

- *Mediation is an interest-based procedure.* In court litigation or arbitration, the facts of the dispute and the applicable law determine the outcome of a case. In a mediation, the parties can also be guided by their business interests. As such, the parties are free to choose an outcome that is oriented as much to the future of their business relationship as to their past conduct.

When the parties refer to their interests and engage in dialogue, mediation often results in a settlement that creates more value than would have been created if the underlying dispute had not occurred.

Because mediation is non-binding and confidential, it involves minimal risk for the parties and generates significant benefits. Indeed, one could say that, even when a settlement is not achieved, mediation never fails, as it causes the parties to define the facts and issues of the dispute, thus in any event preparing the ground for subsequent arbitration or court proceedings.

Mediation is an attractive option for parties that place a premium on the preservation or enhancement of their relationship, seek to maintain control over the dispute settlement process, value confidentiality, or want to reach a speedy settlement without damage to their reputations. Parties to contracts or relationships involving the exploitation of intellectual property often share these goals when a dispute arises.

Parties can agree to submit future or existing disputes to WIPO mediation. By doing so, the parties adopt the WIPO Mediation Rules as part of their agreement to mediate. Setting a minimal framework for the process, the WIPO Mediation Rules⁷ are designed to maximize the control of the parties over the mediation process.

When administering mediation procedures, the Center:

- Assists the parties in selecting and appointing the mediator from its list of qualified neutrals.

- Sets, in consultation with the parties and the mediator, the mediator's fees and administers the financial aspects of the mediation.

- Provides meeting rooms and party-retiring rooms free of charge when the mediation takes place at WIPO in Geneva. Where the mediation takes place in other locations, it assists the parties in organizing appropriate meeting rooms.

7. The WIPO Mediation Rules are available at <http://www.wipo.int/amc/en/mediation/rules/>.

- Assists the parties in organizing any other support services that may be needed, such as translation, interpretation or secretarial services.

The Center works with parties and mediators to limit the cost of mediations. In a WIPO mediation the parties have to pay two sets of fees:

- The administration fee of the Center, which amounts to 0.10% of the value in dispute, up to a maximum of US\$10,000.

- The mediators' fees, which are negotiated and fixed at the time of the appointment of the mediator, taking into account the complexity of the dispute and its economic importance, as well as the experience of the mediator. The Schedule of Fees and Costs sets indicative hourly and daily rates fees for the mediators.⁸

The following section includes some examples of mediations recently administered by the Center.⁹

WIPO Mediation of a Biotech Dispute: Referral by a Court

In 2002, a French and a German company entered into a collaboration agreement for the development of a human antibody for the treatment of a major disease. In 2004, a U.S. corporation acquired the French company. The German company alleged that the U.S. corporation shortly thereafter caused certain payments required under the collaboration agreement to be withheld. In February 2004, the German entity filed with a district court in the U.S. an action for breach of contract against the U.S. corporation. The U.S. corporation filed counterclaims of rescission and breach of contract against the German company. In October 2005, the parties accepted the suggestion of the judge to submit their dispute to mediation and filed a joint request for mediation with the Center.

When the parties could not agree on the name of the mediator, the Center submitted for consideration of the parties a list of five possible candidates, meeting criteria set forth by the disputants in their mediation agreement. After some discussion, the parties agreed on one of the nominees proposed by the Center, an American intellectual property lawyer with considerable mediation experience.

In December 2005, the mediator conducted meetings with the parties in the U.S. As a direct consequence of the facilitative role played by the mediator in the course of the case, the parties settled their dispute in May 2006.

WIPO Mediation of an IT/Telecom Dispute: Narrowing the Issues

A software developer based in the U.S. licensed software applications to a European provider of telecommunications services. The agreement included a clause submitting disputes to WIPO Mediation, followed, in the absence of a settlement, by WIPO Expedited Arbitration.

A controversy arose as to whether the licensee was entitled to let certain affiliated parties have access to the software, and whether additional license fees were due in respect of those third parties. The dispute was submitted to WIPO Mediation.

Taking into account the criteria identified by the parties, the Center proposed as mediator several candidates with experience in the area of software licensing and appointed a mediator in accordance with the parties' preferences.

Mediation sessions were held at a location that was convenient to both parties. The parties developed a mutually acceptable framework for the mediation process and solved a number of the issues in dispute. Using some of the options developed during the mediation, direct negotiations between the parties continued after the termination of the mediation to solve their remaining issues. The WIPO Expedited Arbitration was not initiated.

WIPO Arbitration

Arbitration is a procedure whereby a dispute is submitted, by agreement of the parties, to one or more arbitrators who make a binding decision on the dispute. In choosing arbitration, the parties opt for a private dispute resolution procedure instead of going to court.

The Center believes that arbitration should be cost-effective. In consultation with parties and arbitrators, the Center ensures that all fees charged in a WIPO arbitration are appropriate in light of the circumstances of the dispute. Of course, the most significant contribution to minimizing the costs of arbitration is an efficient conduct of the proceedings.

The principal characteristics of arbitration are:

- *Arbitration is based on the parties' agreement.* An arbitration can only take place if both parties have agreed to it. In the case of future disputes

8. The Schedule of Fees and Costs for WIPO Mediation is available at <http://www.wipo.int/amc/en/mediation/fees/>.

9. The Center's Web site includes further mediation case examples and a detailed, step-by-step description of a WIPO mediation of a patent dispute, see <http://www.wipo.int/amc/en/mediation/case-example.html>.

arising under a contract, the parties may insert an arbitration clause in the relevant contract. An existing dispute can be referred to arbitration by means of a submission agreement between the parties. In contrast to mediation, a party cannot unilaterally withdraw from an arbitration in progress.

- *The parties choose the arbitrator.* Under the WIPO Rules,¹⁰ the parties can agree to have a sole arbitrator. If they choose to have a three-member tribunal, each party appoints one of the arbitrators. The two appointed arbitrators then agree on the presiding arbitrator. Alternatively, the Center can suggest potential arbitrators with relevant expertise or directly appoint members of the arbitral tribunal. The Center maintains an extensive database of arbitrators ranging from seasoned dispute-resolution generalists to highly specialized practitioners and experts covering the entire legal and technical spectrum of intellectual property.

- *Arbitration is neutral.* In addition to their selection of neutrals of an appropriate nationality, parties can choose such important elements as the applicable law, language, and venue of the arbitration. This allows them to ensure that no party enjoys a home-court advantage.

- *Arbitration is a confidential procedure.* The WIPO Arbitration Rules specifically protect the confidentiality of the existence of the arbitration, any disclosures made during that procedure, and the award. In certain circumstances, the WIPO Rules allow a party to restrict access to trade secrets or other confidential information that is submitted to the arbitral tribunal or to a confidentiality advisor to the tribunal.

- *The decision of the arbitral tribunal is final and easy to enforce:* Under the WIPO Rules, the parties agree to carry out the decision of the arbitral tribunal without delay. International awards are enforced by national courts under the New York Convention. Indeed, this convention permits national courts to set aside international awards only in very limited circumstances. Currently, 139 States are parties to this Convention.¹¹

Arbitration, however, may not be appropriate in every intellectual property dispute. A party may wish to obtain a public precedent-setting decision from

a national court. Where there is deliberate bad faith on the part of one party, such as in counterfeit cases, consensual procedures such as arbitration may not be appropriate either.

Traditionally, arbitrability, the question of whether the subject matter of a dispute may be resolved through arbitration, arose in relation to arbitration of certain disputes. As intellectual property rights, such as patents, are granted by national authorities, it was argued that disputes regarding such rights should be resolved by a public body within the national system. However, it is now broadly accepted that disputes relating to intellectual property rights are arbitrable, like disputes relating to any other type of privately held rights. Any right of which a party can dispose by way of settlement should, in principle, also be capable of being the subject of an arbitration since, like a settlement, arbitration is based on party agreement. As a consequence of the consensual nature of arbitration, any award rendered will be binding only on the parties involved and will not as such affect third parties.

The diagram on page 307 sets out the main steps of WIPO Arbitration and WIPO Expedited Arbitration:

As illustrated by the diagram, WIPO Expedited Arbitration is a form of arbitration that is carried out in a shortened time frame and, therefore, at a reduced cost. To achieve those objectives, the WIPO Expedited Arbitration Rules provide for:

- A sole arbitrator rather than a three-member tribunal;
- Shortened time periods for each of the steps involved in the proceedings;
- A shorter hearing; and
- Fixed fees (including the arbitrator's) in the case of disputes of up to U.S. \$10 million.

In the following section, this article includes some examples of arbitrations managed by the Center.

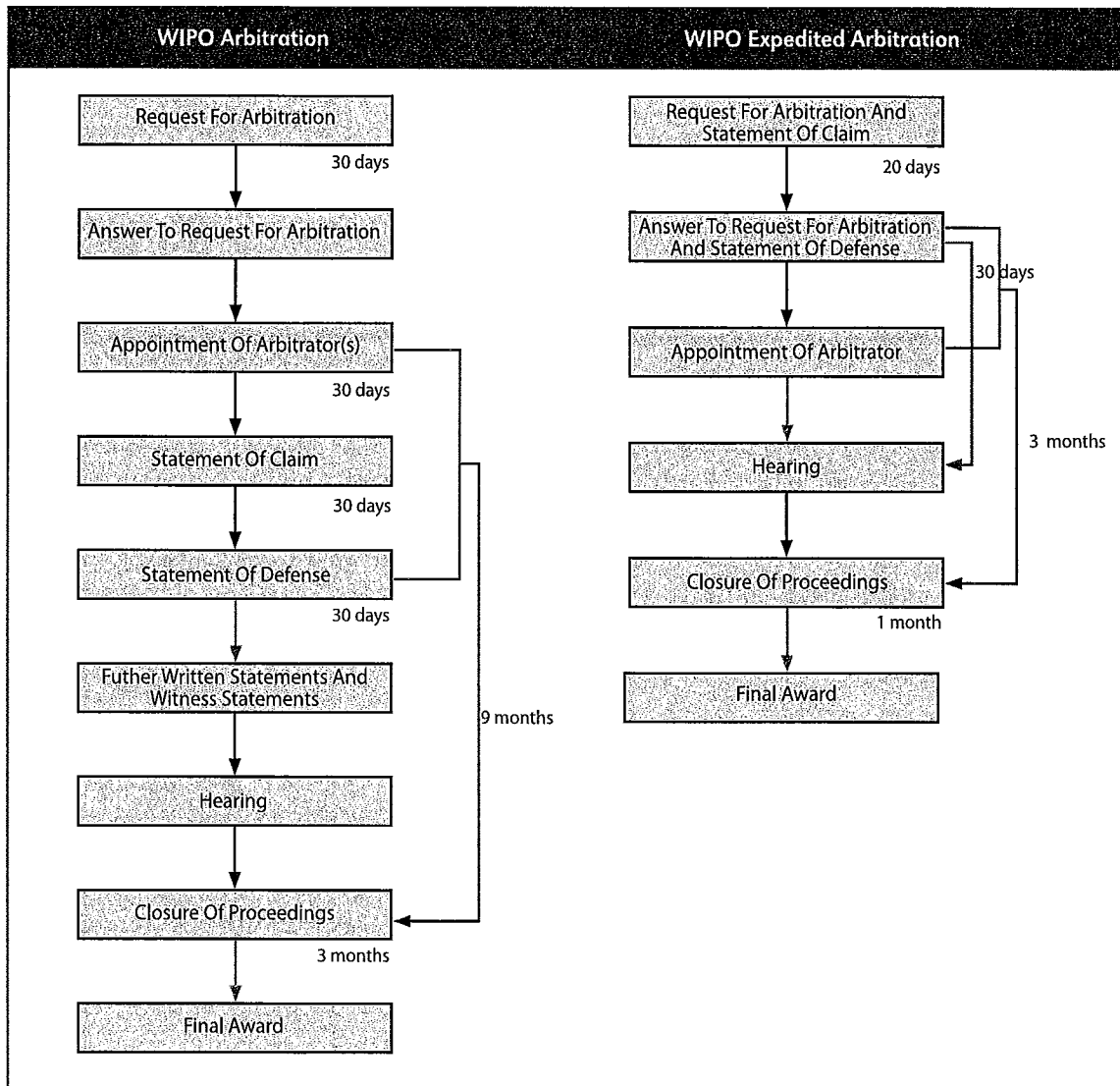
WIPO Expedited Arbitration of a Patent Dispute: Business Secrets and Technical Evidence

An Asian inventor held several U.S. and European patents over components used in consumer goods. The Claimant entered into an exclusive license agreement over the patents with a U.S. manufacturer. The license agreement provided for the use of WIPO Expedited Arbitration to resolve disputes regarding possible infringement of the patents.

A dispute arose between the parties regarding the payment of royalties under their license agreement. As a result, the inventor filed a Request for

10. The WIPO Arbitration Rules are available at <http://www.wipo.int/amc/en/arbitration/rules/>.

11. A list of the States member to the New York Convention is available at <http://www.wipo.int/amc/en/arbitration/ny-convention/parties.html>.



Arbitration and Statement of Claim with the Center requesting a declaration that his patents had been infringed. The parties did not agree on the identity of the sole arbitrator for this case. As a consequence, and in order to cover the full spectrum of patents at stake, the Center appointed as sole arbitrator an English patent lawyer with very substantial experience in U.S. patent law.

Following several evidentiary motions, motions for the protection of business secrets and for the examination of samples of the products, the arbitrator held a hearing for the examination of witnesses. In the final award, the arbitrator addressed issues of

infringement of the asserted patents and whether those patents had been anticipated.

WIPO Arbitration of a Biotech/Pharma Dispute: Hearing as an Opportunity for Settlement

A French biotech company, holder of several process patents for the extraction and purification of a compound with medical uses, entered into a license and development agreement with a large pharmaceutical company. The pharmaceutical company had considerable expertise in the medical application of the substance related to the patents held by the biotech company. The parties included in their contract a clause stating that all disputes arising out of their

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agreement would be resolved by a sole arbitrator under the WIPO Arbitration Rules.

Several years after the signing of the agreement, the biotech company filed a request for arbitration with the Center alleging that the pharmaceutical company had deliberately delayed the development of the biotech compound and claiming substantial damages.

The Center proposed a number of candidates with considerable expertise of biotech/pharma disputes, one of whom was chosen by the parties. Following the parties' written submissions, the arbitrator held a three-day hearing in Geneva, Switzerland for the examination of witnesses. This not only served for the presentation of evidence but also allowed the parties to re-establish a dialogue. On the last day of the hearing, the disputants accepted the arbitrator's suggestion that they should hold a private meeting. As a result of that meeting, the parties agreed to settle their dispute and continued to cooperate towards the development and commercialization of the biotech compound.

Conclusion

Resolving disputes involving rights granted in several jurisdictions and parties based in different jurisdictions presents considerable challenges for intellectual property owners. Faced with the limitations of national courts in an increasingly international context, intellectual property owners should consider the advantages offered by mediation and arbitration procedures to resolve multi-jurisdictional

disputes involving intellectual property.

Although the number of mediations and arbitrations administered by the Center is still relatively modest, in recent years the Center has observed a consistent increase in the number of procedures it administers.

In addition to the administration of mediations and arbitrations, the Center also processes cases under certain specialized procedures. The most prominent of these is the Uniform Domain Name Dispute Resolution Policy (UDRP), which was adopted in 1999 by the Internet Corporation for Assigned Names and Numbers (ICANN) on the basis of recommendations made by WIPO. The UDRP provides trademark owners with an efficient remedy against the bad-faith registration and use of domain names corresponding to their trademark rights.¹² Such procedures not only serve to resolve trademark disputes, but also help to raise intellectual property owners' awareness of alternatives to court litigation.

A growing number of national procedural laws and legal authorities encourage, or even require, the use of ADR to release pressure from national court systems, which may not always be sufficiently equipped to deal with the technical and legal complexity, and an increasing volume, of intellectual property litigation.

The WIPO Arbitration and Mediation Center actively continues its efforts to promote the time and cost-effective resolution of intellectual property and technology disputes. ■

12. The Center is recognized as the leading provider of Internet domain name dispute resolution services. Further information about these services, including a searchable legal index of WIPO domain name panel decisions as well as an overview of WIPO panel positions on issues of interest, is available on the Center's Web site (<http://www.wipo.int/amc/en/domains/>).