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INTERNATIONAL ARBITRATION: PRACTICE AND MODERN DEVELOPMENTS

Overview of International Arbitration in the Intellectual Property Context.

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Arbitration of Intellectual property Rights Issues: The Basics

Resolving intellectual property rights ("IPR") issues through alternative dispute resolution ("ADR") proceedings, was a technique long developing in many major countries. Despite the earlier presence of the Arbitration Act, 9 USC §1 et. seq, in United States law, the subject of use of arbitration in IPR situations, especially regarding US patents, remained an open / contested issue until the original addition of 35 USC §294 to the US Patent Act, in 1982. US law is now resolved in the availability of IPR arbitration as an ADR tool, either through a "pre-problem" contract, such as a license, or as a "post-problem" mechanism elected and / or established by agreement.

There are basics that underlie use of arbitration generally, which also are primary in IPR situations. (*See also Addendums 1 & 2*)

Why Arbitration in Intellectual Property Rights Conflicts

Intellectual property rights are as strong as the means to enforce them. In that context, arbitration, as a private and confidential procedure, is increasingly being used to resolve disputes involving intellectual property rights, especially when involving parties from different jurisdictions.

Arbitrations Require A Contractual Underpining

Arbitrations are all creatures of contract, existing either before a dispute arises or after. A US court cannot order arbitration (binding / non-binding), as part of ADR proceedings, even where “international” in its main aspects (*e.g.*; US and foreign patents / IPR or international parties or both international parties and patent / IPR issues involved). That means arbitration must originate from either:

- a license agreement, or a
- dispute resolution agreement.

It is clear under US law that, post dispute, one may enter into agreement to arbitrate.

Issues That May Be Resolved May Be International In That Sense Of US And Foreign IPR Being Involved, Or The Parties May Be US And Non-US In Origin, Or Both, Provided That The Necessary Agreement Is In Place Or Is Put In Place.

Binding / Non-Binding Arbitration

The difference is straightforward: you can agree to be bound by the arbitrator's result or agree that the result is advisory only. (Note that US federal courts are prohibited from rendering advisory opinions, a first potential advantage of arbitration as an ADR vehicle).

There is no appeal from binding arbitration (*Hall Street Associates v. Mattel, Inc.*, 552 US 1035, 128 S. Ct. 644 (2007)), no overturning of an award for legal or factual errors; review is possible only for misconduct / evident partiality, as provided under Title 9, USC.

Who Determines Whether An IPR Issue May be Resolved by Arbitration?

In the US, the United States Supreme Court has reviewed this question several times, with an answer dependent on specific circumstances.

In *AT&T Technologies, Inc. v. Communication Workers of America*, 475 U.S. 643 (1986), the Court held that the question of whether parties agreed to arbitrate (formed agreement) is to be decided by the court, not the arbitrator, unless the parties clearly and unmistakably provided otherwise; *Granite Rock Co. v. International Brotherhood of Teamsters*, 2010 WL 2518518 (6/24/10), reached same result: a court may order arbitration of a particular dispute only where the court is satisfied that the parties agreed to arbitrate the dispute, and formed an agreement to arbitrate. But *Rent-A-Center West v. Jackson,* 2010 WL 2471053 (6/21/10), held that the arbitrator decides the question of whether an issue is subject to arbitration, so long as parties clearly and unmistakably provided for such a determination, and the validity of agreement to arbitrate such threshold issues is not specifically challenged.

Law Governing Arbitration Proceeding and Award

In the usual instance of an arbitration proceeding arising out of a license agreement, the license agreement will have stated a choice of law governing the license. Usually but not absolutely, that substantive law would also control in any arbitration proceeding arising out of the license. The procedural framework of the arbitration would need, for best practices, to also be recited in the license agreement. Where a post-dispute agreement is entered into, there is usually no practice or presumption as to applicable substantive law or procedural rule / framework, and both would need to be recited. (Application of any choice-of-law rules would, of course, need to be considered and those effects specifically negated if they would defeat the recited substantive law or procedural rule / framework).

Always follow the rule of "better safe than sorry": include a clear statement of governing substantive law and procedural rule / framework in the agreement, and address conflict-of-laws as well.

Again, it is relatively rare to encounter a major international contract without a choice of *substantive* law clause. Most arbitration clauses do not, however, specify the *procedural* law to apply to the arbitration, and many do not even specify the place of arbitration. Such definition is important, because the procedural law to be applied and place of arbitration may be critical to the parties' rights and, in particular, to the enforcement of the award. Also, the definite determination of the place and the procedural law of the arbitration can often save much time and expense during the arbitration proceeding itself. One should also, however, be careful to select a jurisdiction whose procedural law is well adapted to international arbitration and whose courts will not permit undue court interference with the arbitration.

The arbitral award is generally considered an award of the place where it is *issued*, not of the place where the contract is to be performed or of the country whose substantive law applies

to the contract. Accordingly, in designating the place of arbitration, one should be careful to select a country which has adhered to the 1958 Convention of the Recognition and Enforcement of Foreign Arbitral Awards, known as the "New York Convention," so that the award can benefit from the reciprocal enforcement provisions in the countries who are signatories to that convention.

Arbitration Favored

Under US law, the courts favor arbitration, and the parties' statements as to issues to be arbitrated. *See, Mitsubishi Motors v. Soler Chrysler-Plymouth*, 473 U.S. 614, 626 (1988).

Procedural Practices: Ad Hoc vs. Administered Arbitrations

There are two general types of arbitration procedural frameworks, administered and ad hoc.

ICC - based arbitrations ("International Chamber of Commerce") are an example of an administered proceeding, where the parties retain (as it were) a professional, institutional group to provide framework, arbitrator(s) / selection, procedural rules / timetables and etc. (WIPO and the American Arbitration Association ("AAA") also provide administered arbitration mechanisms and rules, applicable to IPR).

Regarding the ICC:

- It is a well-known international arbitration body, has "cachet", which helps to engender confidence in judge asked to enforce request to arbitrate or an award, under the New York Convention.

- All ICC awards, whether final / partial, are first submitted to review by the ICC's Court of Arbitration, which may modify the form of the award, draw arbitrator's attention to "missed" points of substance overlooked / not fully handled, and etc.

  But

- ICC (very) expensive, lots of mandatory procedures, complexities.

Ad hoc arbitrations have no institutional / formal supervision, no review of an award pre-issuance. The CPR has rules for non-administered (ad hoc) arbitration of patent (and trade secret) disputes, which parties follow by agreement. (Note that ICC / WIPO / AAA rules / procedures, may be used ad hoc without retaining those organizations to provide a fully-administered proceeding).

The key to effective ad hoc proceedings is a well-drafted, detailed arbitration agreement, and care in selecting the arbitrators used in resolving the dispute. (Note, again, that the ICC, WIPO and the AAA maintain a list of available, experienced arbitrators having experience with IPR matters, who may act as arbitrators in ad hoc proceedings as well).

Specific IPR Arbitration Rules

WIPO has arbitration rules applicable to IPR but not tailored to such issues (WIPO Arbitration Rules and WIPO Expedited Arbitration Rules)

ICC has arbitration rules applicable to IPR but not tailored to such issues (WIPO Arbitration Rules and WIPO Expedited Arbitration Rules)

AAA has supplementary rules, such that patent disputes are administered under the AAA's Commercial Arbitration Rules and Medication Procedures with the Supplementary Rules for the Resolution of Patent Disputes. The AAA

- Maintains a national panel of patent arbitrators from which arbitrators may be drawn
- Provides, in the supplementary rules, for a preliminary hearing and a scheduling order with a long list of items to be considered, essentially a US court-style combination case management / pretrial order, with a task of the local Patent Rules found in certain US trial courts

Advantages of Arbitration for IPR Task Disputes

- Party Autonomy

- Certainty as to Forum: - submission of dispute to single forum, not several different forums in several different jurisdictions simultaneously.

- Relative Speed of ADR

- Availability of Expert Arbitrators

- Confidentiality

- Neutrality re National Interest(s)

- Avoidance of US Style discovery

- Minimal Damage to Party / Commercial Relationship

- Flexibility of Remedy

- Enforceability of Awards: New York Convention, 120 countries signatories

- Single Procedure

- Binding Effect (if so choose.)

Disadvantage of Arbitration re IP Disputes

- Difficult to Obtain Emergency / Interim Injunctive Relief.

  Merrill Lynch, 999 F. 2d 211, 214 (7th Cir 1993) (breach of contracts, trade secrets misappropriation, noted some equitable power in court to order preliminary injunctive relief in disputes ultimately to be resolved by arbitration), *see also FRA s.p.A.,* 415 F. Supp. 418 (SDNY 1975) (preliminary injunction against false designation of origin).

  But cf. Rule 13.1 of CPR Rules for Non-administered Arbitration of Patent & Trade Secrets (provides for equitable relief such as specific performance and injunctions.); *Sat. Evening Post*, 816 F. 2d at 1194, granted injunctive relief, ordered copyrights transferred.

- Unable to Provide Precedent or Publicity

- Might be Difficult / Impossible to Obtain Punitive Damages,

e.g. 35 U.S.C. §284, enhanced damages may be viewed as punitive, not available under 35 USC §294. (Hint: Agreement should say any enhanced damages "remedial" in nature.)

But trademark, Section 35(a) Lanham Act, 15 U.S.C. §1117(a), only get enhanced damages if *not* punitive; copyright, 17 U.S.C. §504(c), enhanced statutory damages have both punitive and compensatory components.

Summary of US Arbitration re IPR

I.. Overview

Absent contract language to the contrary, all intellectual property issues are the proper subject of binding arbitration in the United States.

a. Patent Issues

The United States Congress has expressly provided for the voluntary, binding arbitration of patent validity, enforceability and infringement issues.

1. 35 USC, '294

(a) **A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration.** Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards by arbitrators and confirmation of awards shall be governed by title 9, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) **An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person**. The parties to an arbitration may agree that in the event of a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be

> modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.
>
> (d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director [of the USPTO]. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Director. The Director shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Director, any party to the proceeding may provide such notice to the Director.
>
> (e) The award shall be unenforceable until the notice required by subsection (d) is received by the Director.

Emphasis added

Congress has also expressly provided for the voluntary, binding arbitration of "any aspect" of patent interference disputes (35 U.S.C. § 135(d)).

As a result, all issues concerning United States patents are properly subject to binding arbitration in the United States, absent limiting language in an applicable contract or statue.

b. Copyright Issues

In the United States, there is no statutory authority for binding arbitration of copyright issues. United States courts have held that federal law does not prohibit binding arbitration of copyright validity or infringement where such issues arise out of a contract dispute. It is likely that United States courts will also hold that such issues are properly the subject of binding arbitration in the absence of an underlying contract dispute.

c. Trademark Issues

Like copyrights, there is no federal statutory authority nor individual satte authority in the United States for binding arbitration of trademark issues.

Binding arbitration of trademark validity and infringement issues is likely to be held by federal courts to be proper, notwithstanding outdated opinions which hold otherwise.

Arbitration Effects Re US ITC

ITC proceedings will be terminated in view of an agreement to arbitrate. See Investigation 337 / 634, Certain Pesticides Containing Clothianidin, 5/8/08 ALJ Bullock (ID terminated investigation because of existence of arbitration agreement)

What is Arbitrable in Which Country, Regarding IPR?

As noted, IPR are country-specific (*e.g.*, a US patent has no effect outside of the United States). Regarding arbitration, the susceptibility of an IPR issue to resolution by that ADR technique is also country-specific: certain countries allow resolution of patent issues by arbitration, others do not.[1]

This is an important consideration in the choice of applicable / controlling substantive law in an arbitration agreement and subsequent proceeding, as well as concerning the ultimate enforceability of an award. Countries are not required to and will not (in the usual course) enforce arbitration awards under the New York Convention, if they cover subject matter not arbitrable under the second country's law. *See,* Article V.1(a), 2(a), Law of Agreement, Law of Others or Arbitration, New York Convention.

Patents

Generally, patent infringement and licensing issues are arbitrable in most countries, but invalidity / validity challenges are not. To the extent that validity / validity challenges are arbitrable, the resulting arbitration decision / award has binding (or any) effect usually only as between the particular parties to the proceeding.

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[1] *See*, with respect to the intellectual property law in a selection of foreign countries, Grantham, "The Arbitrability of International Intellectual Property Disputes," 14 Berkeley J. Int'l. L. 173 (1996); Wei et al., "Exploration and Development of Arbitration of IP Rights (Parts I and II)", King and Wood IP Bulletin (July 2009, October 2009), http://www.kingandwood.com/article.aspx?id=Exploration_and_Development_of_Arbitration_n_IP_Rights; *see generally*, Wu Wei-Hua, "International Arbitration of Patent Disputes," 10 J. Marshall Rev. Intell. Prop. L. 384 (2011).

Briefly, the status of patent issue arbitrability for a variety of major countries is (currently), as now stated.

(Because this area is in constant flux, the latest statutory provisions, case precedent and / or other source of law on this point, *must* be researched and confirmed whenever an arbitration agreement is first executed, updated / revised, or a proceeding contemplated on either the part of a party alleged to infringe / violate a license or IPR rights, or by the IPR rights' owner / holder.)

Belgium

> Belgium patent law expressly permits arbitration of ownership, validity, infringement and licensing *binding*, as with 35 USC §294, *only inter partes.* 28 March 1984 law, Art. 73 § 6.

Brazil

> Validity of patents *not* arbitrable. Patent licenses, trademark assignments, contracts, all arbitrable.

Canada

> Validity of patents *not* arbitrable.

Finland

> Ownership of registered rights - patents, trademarks, utility models - *not* arbitrable.
>
> Validity disputes re registered rights *not* arbitrable. Scope of rights, however, *is* arbitrable.

Germany

> Article 1030 of *Law of Civil Procedure* - all disputes relating to property rights may be arbitrated, but disputes over patent invalidation, revocation, or compulsory licensing *cannot* be arbitrated.

Israel

> As with 35 USC § 294, can arbitrate infringement claim where invalidity defense raised, award *only* binding between the parties.

Italy

Arbitration available only for infringement, not for validity issues, patent (or trademark, Italy)

Japan

Invalidity, enforceability / infringement of patents arbitrable under Code of Civil Procedure Arts. 786-805, but, award declaring a patent utility model, design or trademark invalid, cannot be enforced absent an invalidity decision by JPO.

Copyrights, know how, trade name, issues all arbitrable;

May award damages, injunctions, order destruction of infringing products.

Netherlands

Like Belgium – disputes arising from licensing, infringement issues, arbitrable.

Validity and ownership arbitrable, so long as effects of award limited *inter partes*.

Spain

Not clear under 1988 Arbitration Act, whether validity / ownership disputes arbitrable; infringement is arbitrable.

Switzerland

No statutory provision, but 1975, Fed. Office of IP ruled that arbitral tribunals are empowered to decide all IPR issues, including on the validity of patents, trademarks and designs.

Taiwan

Article 1, Taiwan Arbitration law, with arbitration agreement

patent rights, trademark rights, that can be obtained only through application registration procedures, validity, is *not* arbitrable

copyright, trade secret, which do not require registration, validity should be arbitrable.

All contractual infringement disputes should also be arbitrable, so long as does not involve deletion of ownership rights.

UK

Patents Act: Patent arbitration available only in very limited cases, only with specific sanction of the courts; validity is arbitrable but only binds parties.

US

35 USC § 294, voluntary binding arbitration of patent validity, enforceability and infringement.

PRC

Arbitration Law of PRC, Art 2: contractual disputes, such as IPR assignment; infringement disputes; ownership disputes (licensing agreements, research / tech development agreement; software development agreements; distribution agreements, etc.) arbitrable, but *not* validity.

Full issue amenability to arbitration of trademark and copyright IPR issues is the norm, as it is with respect to trade dress and trade secrets:

Trademark, Trade Dress, Trade Secrets

Belgium

Uncertain, not provided for in Belgian statutes.

Germany

Trademark disputes re the legal effects of registration, invalidation of registration, expiration of rights, *cannot* be arbitrated.

US

Including trademark validity, these disputes regularly resolved through arbitration. *Daiei, Inc. v. US Shoe Corp*, 755 F. Supp. 299 (D. Hawaii 1991)

Cybersquatting resolved through arbitration, ICANN Uniform Domain Name Dispute Resolution Policy (UDRP, 1999) mandatory, expedited nonbinding arbitration to resolve claims of bad faith / abusive registration of trademarks (common law or registered) as domain names (ICANN implemented UDRP through abusive, *inter alia*, WIPO and CPR Institute for Dispute Resolution.)

UK

Issues arbitrable re trademark infringement

Copyright

UK

Arbitrable re infringement

US

Arbitration may be used to resolve contractual copyright disputes and to conform validity of copyrights. *Sat. Evening Post Co. v. Rumbleseat Press Inc.*, 816 F.2d 1191 (7th Cir. 1987)

Conclusion

Arbitration has many advantages, and should be considered, if not pre-arranged as part of any IPR project.

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[*] Member, Illinois, New York, Ohio and Texas Bars. This article reflects only the present considerations and views of the Author, which should not be attributed to Kirkland & Ellis LLP or to any of his or its former or present clients.

Addendum 1

Practical Issues and Problems in the Drafting of International Arbitration Clauses

I. Agreement to Submit Future Disputes Versus Agreements to Submit Existing Ones

A. Agreement to Submit Future Disputes

Agreements to submit future disputes to arbitration are more common. They are usually in the form of an "arbitration clause" within the principal agreement between the parties.

Length and Complexity of Agreement. Agreements to submit future disputes to arbitration are often short and may borrow from recommended standard clauses of arbitral institutions/rules such as the International Chamber of Commerce based in Paris ("ICC"), the American Arbitration Association based in New York ("AAA"), etc. At the time of drafting, the nature of the (possible) dispute is normally not fully known. Exceptions to the shortness of such clauses are known, particularly in *ad hoc* or multiparty settings, where the clause may be lengthy and complex.

B. Agreement to Submit Existing Disputes

Such agreements are less common and are often referred to as "submission to arbitration agreements" or "submission agreements."

These agreements tend to be quite long and involved because they are an attempt to tailor the arbitration to the dispute which is already a known quality. But a submission agreement can simply take the form of a short institutional clause such as that of the ICC.

II. Formation of the Arbitration Agreement

The formation of the arbitration agreement is usually synonymous with the drafting of the agreement.

A. Do the Parties Have "Capacity" to enter into the Agreement to Arbitrate?

Most arbitrations, particularly in the international realm, arise out of defined contractual relationships. Note that a "defined legal relationship *whether contractual or not"* usually suffices.

The New York Convention. This is the case for the purposes of holding that an agreement to arbitrate is valid under the 1958 United Nations ("New York") Convention on Recognition and Enforcement of Foreign Arbitral Awards. This is the principal and most widely applicable multinational convention meant to facilitate the recognition and enforcement of arbitration agreements and arbitral awards deemed to be "foreign."

If the parties had no legal capacity to enter into the arbitration agreement, under the New York Convention it is invalid.

"Capacity" may differ from jurisdiction to jurisdiction and may depend on a number of factors. These include (a) for a natural person, nationality or place of residence and (b) for a corporation, the place of incorporation, or the place of business.

B. Is the Subject Matter of the Underlying Agreement "Arbitrable"?

Another inquiry with respect to formation of the arbitration agreement is whether, under that agreement, the dispute is arbitrable.

Notions of Arbitrability. Subject to the relevant applicable substantive law as well as any mandatory provisions of the law of the situs (if that is a different body of law), the arbitrator's jurisdiction depends on a proper interpretation of the arbitration agreement: Did the parties intend a dispute of the kind in question to be resolved by arbitration?

Problems at the Enforcement Stage. There is a simple relevance to the inquiry as to whether the arbitration agreement covers matters incapable of being settled by arbitration. If it relates to matters which are considered non-arbitrable under (a) the law of the agreement or (b) the law of the situs of the arbitration, if different, the agreement is likely to be unenforceable.

Article V.2(a) of the New York Convention entitles the enforcing court before whom a petition to enforce a foreign award is pending to refuse enforcement for precisely this reason - and whether or not the award debtor raises the ground of non-arbitrability on its own (it is also important to note that the objection to this effect under Article V.2(a) of the New York Convention is becoming more and more limited in the United States.)

C. Is the Agreement to Arbitrate Otherwise "Valid"?

An additional hidden problem here is that under Article V.1(a) of the New York Convention, enforcement of a foreign arbitral award may also be refused if the arbitration agreement is not valid. The award may be deemed invalid either under the law to which the parties have subjected it or, failing any indication of such an agreement as to the applicable law, under the law of the country where the award was made.

Thus whether the subject matter of the arbitration is "arbitrable" under Article V.2(a) of the New York Convention, must be examined under both laws, under Article V.1(a) of the New York Convention.

Concurrent Court Control. Under Article II.3 of the New York Convention, a court is empowered to examine whether or not the arbitration agreement itself is null and void, inoperative, or incapable of being performed. If it is not, then the parties will be referred back to arbitration. For example, if a party seeks to complete arbitration under an arbitration agreement, the defendant may bring court proceedings on the merits even though it has agreed to arbitration. It is in cases like this that Article 11.3 of the New York Convention may be relevant, and will be linked to how well drafted the arbitration clause is.

Article 11.3 of the New York Convention, if applicable, works well in countries such as England and Switzerland where issues of jurisdiction are often finally resolved at the earliest possible stage by means of "concurrent court control." In England, for example, a party seeking to enforce an arbitration agreement may apply, in court, for a stay of court proceedings while the dispute is referred to arbitration. However, the state court will not intervene of its own volition - that is the defendant must ask for a stay of the High Court proceedings. And the court proceedings are not dismissed, and thus may be "revived" at a later date.

In the United States, Section 3 of the Federal Arbitration Act Title 9 USC requires courts to "stay the trial" of actions referable

to arbitration. The FAA, which applies to all international commercial arbitration in the United States, preempts inconsistent state statutes.

Under the FAA, if one party claims that a dispute is non-arbitrable and files an action in federal or state court, the federal district court may stay such action until it first resolves the arbitrability question. Furthermore, if one party fails or refuses to submit to arbitration, in contravention of a written arbitration agreement, the aggrieved party may petition the federal district court for an order to compel arbitration under Section 4.

III. Essential and Optional Elements of an Arbitration Agreement

A. Potential Advantages to Consider in Drafting.

Tailoring the Proceedings. Among the potential advantages to consider in drafting the arbitration agreement are the limitation of the jurisdiction of courts and the establishment of an equitable playing field. This also includes providing for a neutral situs and substantive law or otherwise agreed upon procedural rules. It also encompasses choosing a tribunal with a particular background or complexion.

Among advantages which should be borne in mind at the drafting stage are the possibility of expedited proceedings and a greater ability to enforce the arbitral award abroad pursuant to international agreements such as the New York Convention.

Other advantages include the option to exclude a right to appeal against the arbitral award and the benefits of confidentiality. The parties have the ability to choose an arbitral venue, and preferably provide in the dispute resolution clause for one with developed arbitration statutes. Such statutes should satisfactorily address the issues of judicial supervision and interim relief during the arbitration.

Simplification of Service and Discovery. Finally, the arbitration clause may reflect the fact of simplified commencement of proceedings and service of process. In this way, defects in service of process which plague the beginnings of many transnational litigations may be avoided. A properly drafted clause may serve to ensure facilitation of discovery of foreign witnesses and documents and site inspections as compared with cross-border court litigation. The same may apply to the use of more than one langue for the proceedings.

B. Key Components in Drafting an Arbitration Agreement

A good and effective arbitration agreement may and often should be short, but achieving the appropriately worded brevity requires time and careful consideration in advance.

1. Place of Arbitration ("Situs")

Providing for the situs is indispensable. The reasons go well beyond the obvious desire to choose a place for proceedings if one has the opportunity to do so. The situs will have a direct and determinative impact upon a number of matters crucial to the arbitration.

Where Was the Award "Made"? In short, one should never have to speculate as to where the parties intend to hold their arbitration. One should also never have to speculate as to where the award was "made." The place of the arbitration, or situs, may have a critical influence on the ability to challenge or vacate the aware at that place. It may also help or harm efforts

to enforce the award at a different location, but in consideration of the laws applicable at the place of arbitration. This relates to the earlier discussion regarding capacity, arbitrability and validity.

There are at least four principal reasons why the situs matters:

The Role of the Courts at the Situs. First, will the national courts at the situs, or elsewhere, be able to play a supervisory, interventionist, or injunctive role in the proceedings at the request of a party or of the tribunal? For example, in international arbitrations sited in England, the proceedings could be subject to repeated applications to the courts for rulings on legal questions. This may be the case unless the parties have opted out of the case stated procedure. To what extent, in what manner, and how quickly will the courts be able to play such a role and be inclined to do so at the stipulated situs?

Mandatory Procedures at the Situs. Second, when choosing the situs, the drafter must not lose sight of the inquiry as to whether there are any mandatory procedural or other requirements at the situs which must be followed in the conduct of the arbitral proceedings. These include, notably, statutes of limitation or prescription or qualifications of arbitrations. If there are such requirements, the drafter must determine what they are, and how their observance or partial observance have been interpreted and enforced by the local courts.

Barriers to Enforcement. Third, the choice of a situs in the arbitration clause is directly linked to the question of what barriers to enforcement of the arbitral award may exist. Such barriers may operate as a matter of the law and public policy of the situs chosen, including where enforcement is sought in another locale. The inquiry goes beyond the mere question of whether the place of arbitration is a signatory to the New York Convention.

Bases for Challenge. Fourth, a related, but not identical issue is what bases for annulment or vacatur of the award exist at the situs. One should assess how certain jurisdictions which are frequently the situs for setting aside proceedings (because of their popularity as a situs for arbitrations in the first place) have recently treated questions of set aside proceedings.

2. Applicable Substantive Law

The parties should also decide at the contracting stage which substantive law they wish to apply to the underlying contract and merits of any disputes.

In international contracts where the counterparties are of different nationalities and perhaps entirely different legal traditions, often a “neutral” third-country law is chosen as a perceived compromise. To the extent possible at this early stage of the drafting, the parties should consider a number of issues which impact on which substantive law should be agreed upon.

The Applicable Law and Damages. These include the likelihood that a party might be the claimant as opposed to defendant and the likely nature of the claim which would arise. They also include whether the different bodies of law which are being weighted might result in dramatically discrepant outcomes or damage amounts.

For example, the availability or non-availability of consequential or punitive damages will depend o the jurisdiction and applicable law. Equally crucial is whether the likely subject matter of the dispute might

not be considered "arbitrable" under the law applicable.

Clearly Providing for an Applicable Law. The choice of substantive law should be clearly expressed in the contract, whether in the arbitration agreement itself or in a "neighboring" article of the contract. Otherwise, once a dispute arises, needless time and money may be expended litigating solely the issue of the applicable law.

The Applicable Law and Selecting the Tribunal. The lack of agreement on a choice of law hinders the parties in their selection of arbitrators, since one normally seeks to chose an arbitrator with particular knowledge or training in a specific body of law.

Finally, at the drafting stage one must face the issue of the likelihood that the substantive law agreed as applicable to the contract should or should not be agreed as applicable to the arbitration agreement, which is a separate contract. In *Volt Inf. Sciences, Inc. v. Board of Trustees of Leland Stanford Jr. University*, 489 U.S. 468 (1989), the U.S. Supreme Court held that a choice of California law as applicable to the contract resulted in incorporation of California *arbitration* law into the contract.

3. Number and Qualifications of Arbitrators.

The parties may or may not be able to agree at the contracting stage on such issues as how many arbitrators they wish (usually one or three), what qualifications if any might be stipulated (nationality, training, language, profession, lawyer versus engineer, etc.), and how and within what time frames the tribunal should be constituted. Likewise, they must confront the issue of whether the administrative authority or some other body should constitute the tribunal or part of it if there is a failure to select or agree on arbitrators.

Preserving Flexibility. It may be safest to preserve all options by providing, without more, for "one or three" arbitrators.

Whether to have a on- or three-person tribunal will be a balance act: balancing the desire for a three-member tribunal with the likely greater cost and length of proceedings. Most often, this can be handled, or postponed, by providing for "one or more" arbitrators.

4. Language of the Proceedings.

The language of the proceedings will most often, but not always, be the same as the language of the underlying contract and arbitration agreement. Where the parties are able to agree, they should clearly specify the language of proceedings.

One language should clearly be deemed controlling. Bilingual proceedings will simultaneous transaction are entirely possible but often expensive and time-consuming. If they are to take place, some agreement on cost-sharing and responsibility for translation arrangements should be reached.

IV. Variations on "Standard" or "Model" Arbitration Agreements

The drafter must be clear as to the effect of using standard or model arbitration agreements of a particular institution or providing for the application of a certain body of rules. Namely, providing for, *e.g.*, the AAA or ICC Rules results in an incorporation of *all* of the arbitration rules of that institution or of rules into the contract at issue as if set forth in full in the contract itself.

Implications of Choice of Particular Rules.

First, the drafter should be thoroughly familiar with the particular rules which he is considering providing for, including all relevant appendices, explanatory brochures, etc.

Second, the drafter should avoid needless repetition, in the arbitration agreement, of matters or wording *already* addressed in the rules which are deemed incorporated.

Third, the drafter should clearly and explicitly derogate from, waive, exclude, or otherwise modify those sections of the incorporated rules which are not desired, but only after confirming that they *can* legally and practically be so modified or excluded.

Finally, one must be wise to the very rare, but nonetheless legitimate, opportunities for "improvement" of the rules; institutional rules are the subject of criticism and do undergo revision or amendment from time to time in response to such criticism. The drafter should add only such additional provisions discussed above as the place of arbitration, the applicable substantive law, and the language of the arbitration.

A. Sample Institutional Arbitration Agreements

What follows are several sample or recommended dispute resolution clauses, the recommendations appearing as "standard" clauses in the respective arbitral institution's publications of rules and procedures.

Also, in the case of institutional arbitration clauses in particular, the arbitral institution normally recommends that in addition to the basic standard clause the parties stipulate the number of arbitrators, the applicable substantive law, and the language to be used in the arbitral proceedings.

1. American Arbitration Association (AAA) Commercial Arbitration Rules:

"Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof."

2. AAA International Arbitration Rules:

"Any *controversy or claim arising out of or relating to this* contract shall be *determined* by arbitration in accordance with the International Arbitration Rules of the American Arbitration Association."

3. International Chamber of Commerce (ICC):

"All *disputes arising in connection with the present* contract shall be *finally settled* under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules."

B. Sample Ad Hoc Arbitration Agreement.

1. 1992 Rules and Commentary for Non-Administered Arbitration of International Disputes, Center for Public Resources, Inc. (CPR):

"Any *controversy or claim arising out of or relating to this* contract, *or the breach, termination or validity thereof*, shall be

settled by arbitration in accordance with the Center for Public Resources Rules for Non-administered Arbitration of Business Disputes, by (a sole arbitrator) (three arbitrators, of whom each party shall appoint one) (three arbitrators, none of whom shall be appointed by either party). *The arbitration shall be governed by the United States Arbitration Act*, 9 U.S.C. §1-16, and *judgment upon the award rendered by the Arbitrator(s) may be entered by any court having jurisdiction thereof*."

C. Possible Additional Components to Standard Agreement

Initial Additional Components. Among the initial additional components worth considering is a specific reference in the arbitration agreement to the arbitrability of disputes concerning the existence, validity, or termination of the contract and/or the arbitration agreement themselves. As has been seen, some standard clauses consider such a reference (". . . or the breach, termination or validity thereof") necessary while others do not.

Cooling Off Periods. Another additional component which often becomes an entire clause preceding the actual submission to arbitration is an agreement to attempt settlement, conciliation, mediation, or some referee procedure as a condition precedent to the right to commence arbitration. This might also be called the "cooling off period," an example of which might be the following:

> "All disputes arising in connection with this Agreement shall be finally settled amicable, if possible, by negotiation between the parties. If any such dispute is not so settled within thirty (30) business days after it has arisen, any party may, by the giving of written notice making express reference to this Article, cause the dispute to be referred to a meeting of appropriate higher management of the parties, such higher management to consist of no more than three (3) representatives appointed by each of the parties. Such meeting shall be held within ten (10) business days following the giving of written notice at a place to be agreed by the parties. If the dispute is not settled within twenty (20) business days after the date of the Notice referring the dispute to appropriate higher management, then the dispute shall be finally settled under the Rules of Arbitration of...."

Components Regarding Selection of Arbitrators. There are also a number of additional conditions respecting the selection of arbitrators which might be added, including the name of the appointing authority, certainly the number of arbitrators, the method of selection of arbitrators, removal and replacement of arbitrators, and their qualifications and nationality. Some of these issues are already addressed in certain institutional sets of rules while others are not.

In any event, the drafter must be sure that he provides for an appointing authority which indeed exists and which would be willing and able to serve in the role contemplated.

Other Potential Additions.

- a denial of the right of the tribunal to "adapt" the contract
- a provision for multiparty proceedings, including consolidation and specific provisions for the number and method of selection of the arbitrators, having verified that such selection method does not violate the public policy of the situs or the potential place of enforcement
- providing for two places of arbitration, i.e., "home and home" depending on who is claimant
- a governing procedural law, including discovery limitations and specifying oral hearings or rather a documents-only arbitration
- a governing substantive law with or without exclusion of the conflicts of law rules of the governing body of law
- a governing law of the arbitration agreement if there is some compelling reason why it should be different from that of the underlying contract
- a requirement that the decision be made in accordance with good commercial practice and principles of fairness and equity (*amiable composition*)
- a requirement that the award contain "reasons" (the AAA Commercial Rules generally applicable in many domestic U.S. arbitrations do *not* require reasoned awards)
- an allowance for or prohibition of partial awards
- an allowance for or exclusion of punitive or consequential damages
- an "entry of judgment" agreement in the United States
- consent to the jurisdiction of a specific court for purposes of enforcement
- designation of an agent for service in any action brought in a specific court for purposes of enforcement
- an expansion of the grounds for vacatur (e.g., manifest error in determination or application of substantive law)
- a provision for an award of attorney's fees and costs. [1]

[1] Excerpted from *International Arbitration and Litigation Briefing*, Vol. 1 No. 1, April 1996 (Jones Day)

Addendum 2

WIPO: Why Arbitration in Intellectual Property?

Some of the main characteristics of intellectual property disputes and the results offered by litigation and arbitration are summarized in the following table:

COMMON FEATURES OF MANY IP DISPUTES	COURT LITIGATION	ARBITRATION
International	• Multiple proceedings under different laws, with risk of conflicting result • Possibility of actual or perceived home court advantage of party that litigates in its own country	• A single proceeding under the law determined by parties • Arbitral procedure and nationality of arbitrator can be neutral to law, language and institutional culture of parties
Technical	• Decisions maker might not have relevant expertise	• Parties can selection arbitrator(s) with relevant expertise
Urgent	• Procedures often drawn-out • Injunctive relief available in certain jurisdictions	• Arbityrator(s) and parties can shorten the procedure • WIPO Arbitration may include provisional measures and does not preclude seeking court-ordered injunction
Require finality	• Possibility of appeal	• Limited appeal option
Confidential/trade secrets and risk to reputation	• Public proceedings	• Proceedings and award are confidential