International IP Arbitration – A Blessing Or A Bad Idea?
Medtech companies traditionally resolved disputes over IP rights before national courts, but more and more of them are now turning to international arbitration to protect their IP rights. Dorothee Schramm, a partner at Sidley Austin specializing in international commercial disputes, explains the benefits of this growing trend and the pitfalls to avoid.

Intellectual property (IP) has an enormous value in today’s global innovation-driven economy. It is also relevant to common medtech contracts, such as collaboration agreements for R&D, production and marketing, licensing and distribution agreements, as well as technology transfer agreements. Such contracts with foreign partners typically contain arbitration clauses to resolve disputes that may arise and that cannot be resolved through negotiations and/or mediation. (Also see “Conflict Management Strategies And Dispute Resolution Clauses – Ensuring Your International Contract Will Be Enforced” - In Vivo, 4 Feb, 2019.)

**PATENT DISPUTES IN A JOINT R&D PROJECT**

Arbitration clauses can have an important impact on IP rights. Many companies collaborate and contribute to joint R&D projects. Agreements for such projects typically provide for joint patent ownership if several partners contribute to a joint invention, and/or for perpetual, royalty-free access rights to all knowledge resulting from the project. There is always the possibility following the completion of the joint R&D project, that project results may make their way into patent applications of some partners and into the products of other partners.

If the partner seeking the patents then sues another partner for patent infringement, the infringement suits can be brought in several jurisdictions, depending on where the products are sold and manufactured. In such a scenario, an arbitration clause in the joint R&D agreement may allow the partner who is sued for patent infringement to initiate arbitration in a neutral forum to claim co-ownership and access rights to the asserted patents, withdrawal of the infringement suits and the cost of legal fees incurred in defending those suits as damages.

In this exemplary scenario, international arbitration can help a company enforce its IP rights and avoid legal battles that may take years, involve significant legal costs and risk conflicting decisions by different national courts in different countries. This scenario is typical in that most arbitrations over IP are about disputes over patents. Such disputes often relate to:

- Patent ownership, including transfer of patents: examples are joint R&D cases, and cases of improvements patents conceived during a contractual cooperation;

- Utilization rights to patents versus patent infringement: examples are joint R&D cases, and licensing agreements where the licensee (allegedly) uses the licensed patent in new or modified products beyond the limits of a license or after termination of a license; and

- Patent invalidity: examples are cases where the licensor argues that it owes no licensing fees because the patent is invalid, and cases where patent invalidity is invoked as a defense against allegations of patent infringement.

### UPS AND DOWNS OF TRADITIONAL CARVE-OUT CLAUSES FOR IP DISPUTES

Traditionally, many contracts with arbitration clauses contained a carve-out for IP disputes to be resolved by national courts rather than by international arbitration. Such carve-outs are becoming less frequent, as parties are favoring arbitration for all disputes.

The main reason for traditional IP carve-outs was the limited effectiveness of arbitration with regard to patent ownership and patent invalidity actions. Indeed, one must be aware of arbitration’s limitations to properly address these issues. Courts have the advantage that their decisions on patent ownership and patent invalidity can be directly registered in the national patent register. In arbitration, only some liberal countries (such as Switzerland) allow the holding of an arbitral award to be directly registered in the patent register. In most other countries (for example in France), arbitral tribunals can decide disputes about patent ownership or patent invalidity, but the findings will be effective only as between the parties and will not be directly entered into the patent register.

If a dispute concerns patent invalidity, obtaining an award that affects only the rights between the parties is almost always sufficient to satisfy the claimant’s main interest, such as a licensee’s interest in having the licensor’s claim for royalty payments or patent infringement dismissed. In the pharma industry, the limited effect of a confidential award finding a patent to be invalid can even be advantageous for both parties, as it may clarify the situation between them without allowing competitors to benefit from the patent invalidity. The situation is different if the dispute concerns patent
ownership. In such cases, your contract can provide for a contractual right to have patent (co-)ownership transferred, which should in most instances be enforceable the same way as, for example, a claim to have real estate ownership in a land register transferred. In any case, a well-reasoned award may have a deterrent effect on the unsuccessful party not to risk proceedings before a patent court.

The joint R&D example illustrates the downside of traditional carve-out clauses. In the case of a carve-out, claims for transfer, invalidity or infringement of patents must generally be brought in each country where the patent is registered, due to the territoriality of patents. In some countries, a patent invalidity defense against an infringement action must be brought before yet another court (for example in Germany, where an invalidity defense must be brought before the Federal Patent Court, leading to parallel proceedings). The same commercial dispute may end up before several courts in different countries.

Moreover, many commercial disputes concern a variety of issues, some of which may be IP related while others may not. In such cases, a carve-out clause may not only split a commercial dispute between different jurisdictions, but may also result in disagreements about whether certain aspects of the dispute must be submitted to arbitration or state court litigation. Carve-out clauses therefore often lead to costly disputes over jurisdiction in addition to multiple parallel proceedings, which are costly, difficult to coordinate, often involve several legal teams and may lead to contradictory outcomes.

These downsides have contributed to the rise of IP arbitration, which can offer advantages in the form of six Cs: consolidation, confidentiality, choice, capability, clock and cost.

As the joint R&D example described above illustrates, international arbitration offers the possibility to consolidate the overall dispute in one arbitration. Another important advantage of arbitration is the confidentiality of the arbitration proceedings, provided that the contract

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5 TIPS FOR BRINGING IP DISPUTES TO INTERNATIONAL ARBITRATION

1. Carefully choose the place of arbitration and arbitral institution. It is safest to choose one of the major and most reputable places and institutions. Aspects which are relevant to this choice include how liberal the place of arbitration is regarding IP arbitration, the confidentiality of the arbitration proceedings, and the availability of effective interim relief.

2. Make the arbitration clause sufficiently broad. To cover patent infringement claims in connection with a contract dispute, phrase the arbitration clause appropriately. For example, you can refer “all disputes arising out of and in connection with the contract, including tort and IP infringement claims” to arbitration.

3. Clarify the contractual IP rights, especially in joint R&D projects. And specify the contractual rights of the parties and of their (present and future) affiliates to patent (co-)ownership and access rights. You should also contractually define terms that may have different meanings under different patent laws – such as the term “contribution to an invention” entitling a party to patent co-ownership under the contract, as different patent laws pose different requirements for such contribution. Finally, consider drawing up a list of background knowledge and background patents, and addressing improvements to background knowledge and patents.

4. Clarify the contractual remedies. Include language that will allow an arbitral tribunal to make orders to achieve full effectiveness of the award between the parties, for example orders against one party to give up or (partially) transfer patents. It is also worth clarifying that a contractual right to patent (co-)ownership entails the (royalty-free) right to use and sublicense the patent, as this right will stand even if there are problems with the patent transfer.

5. Be careful with the requests for relief. Phrase the relief you are seeking with care and include alternative requests. This can minimize the risk that the remedies you seek with regard to registered patents go beyond those that are recognized by the law at the place of arbitration and/or the place of enforcement, in particular the place of the patent registration.
provides for a seat of arbitration or arbitration rules that provide for confidentiality. An arbitration hearing involves only the parties, whereas a court hearing in infringement or other proceedings often includes the general public (including potential competitors).

Arbitration also offers the parties the choice of the decision makers, which often leads to panels of arbitrators with different areas of expertise. Furthermore, arbitration offers a better chance to properly present one’s case, and is capable of delivering more solid results. With skilled arbitration counsel, even the limited document production typically granted in arbitration often leads to the production of documents that have an important impact on the outcome of the case. Moreover, in IP cases involving scientific questions, arbitral tribunals often develop a much deeper technical understanding on a broader evidentiary basis as compared to a patent infringement court.

Another important aspect is the time required to resolve patent disputes. In the joint R&D example, a final arbitration award could be rendered while the parallel infringement proceedings are still ongoing. This is confirmed by a working group on life sciences dispute resolution appointed by the Arbitration and Mediation Center of the World Intellectual Property Organization (WIPO), which recently published figures for the average duration of patent litigation in selected countries. In those countries (including the UK, US, Japan, China, Brazil, India, Russia, Republic of Korea and several EU countries), the duration of all instances exceed the typical duration of an arbitration, often significantly. While an arbitration often costs more than a court proceeding, parties can potentially obtain full compensation for legal fees, which is not the case before many courts. Moreover, it is often cheaper to have one arbitration than several parallel court proceedings.

In many IP disputes, the availability of interim relief is also important, for example for avoiding the transfer of a disputed patent in an entitlement dispute, or for preventing a patent infringer from entering into or staying on the market. If a contract provides for arbitration at an internationally reputable seat, parties will typically have the choice between requesting interim relief from an appropriate national court or from the arbitral tribunal. Moreover, the arbitration rules of the world’s most reputable arbitral institutions provide for the possibility of appointing an emergency arbitrator if urgent interim relief is required before an arbitration has even started.

While IP arbitration has many benefits, it is also important to understand the risks. The flip-side of consolidating different court proceedings into one arbitration is that the parties put all their eggs in one basket. As a consequence, if a company brings an IP dispute to arbitration it better do it well. This is particularly the case because IP arbitrations can be complex since diverse national patent laws may apply to the validity of a patent in different countries. That said, a company would have to tackle the same laws anyway if there were multiple court proceedings in different countries, and it can better streamline the work in arbitration as it involves only one legal team. As both parties will face this same challenge, they can also agree on the application of one or several “proxy” patent laws to simplify matters.

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