

Intellectual Property Disputes in Arbitration

by KAMEN TROLLER

1. INTELLECTUAL PROPERTY AND ARBITRATION

Intellectual property (IP) rights often present complex material and legal aspects which are not always known to even well-experienced lawyers or judges who deal with more general aspects of family, commercial or corporate law; in many instances to find a solution to a controversy, it may be necessary to have recourse to technical or artistic experts.

Therefore, ordinary courts may often not be the appropriate instance to decide disputed IP problems, and not all countries or, in Switzerland, not all cantons have created specialised IP tribunals.

Due to their intellectual incorporeal character, the intangible goods which form the object of industrial property are ubiquitous. They exist wherever they are known simultaneously, in each country. The rights which are derived from them are however territorial, valid only in the country which grants or recognises them.

This particular situation makes arbitration appear as the ideal dispute resolution instrument. It gives the parties the possibility to choose judges whom they think to be experts for the particular case, and to determine a procedure which will allow them to present the factual substantive issues in the most efficient way.

The arbitrators may apply the laws of all the countries with which the dispute has a connection—they are not as much subject to strict rules of territorial authority and of voluntary non-recognition of foreign public laws for reasons of own sovereignty.

In particularly delicate cases, where technical secrets have to be divulged in order to allow the tribunal to render a materially correct decision, arbitrators may be obliged by more stringent secrecy obligations and documents may be made more inaccessible than is the case in ordinary state courts.

Under Swiss rules [PIL (184), the Concordat (27) and the Swiss Rules of International Arbitration (24–25)] give the arbitral tribunal ample liberty to take evidence, to have recourse to expert's opinions, etc. Therefore, if e.g. the validity of a patent or a trade mark is contested or when it is doubtful whether a work of art enjoys protection under the copyright law—and therefore, whether the patented technique or the distinctive design or the painting have been illegally imitated, the procedure may be considerably shortened if, before even the exchange of written pleadings, the tribunal obtains expert opinion declaring the patent or trade mark registration null and void, or finding that the painting is completely bare of any originality.

In this context, one should not forget that the World Intellectual Property Organisation (WIPO) has set up its own arbitration system, with rules which correspond to the standard ICC/UNCITRAL rules, but with some particularities taking into consideration the special character of IP disputes, amongst other express rules concerning confidentiality; WIPO also holds a list of IP specialised arbitrators.

2. WHAT ARE IP RIGHTS?

Industrial property rights are rights attached to or resulting from creations of the mind, from intellectual efforts. If successful, these efforts lead to the creation of a new good, which is an intangible (immaterial) asset belonging to its creator. The creator must thereafter embody this intangible good into some material form, which allows it to be protected by an IP right.

The inventor defines a technical rule, and then obtains protection thereof by a patent; the manufacturer of household goods and the fashion designer imagine and realise a model or a design and deposit it to obtain the exclusive right to the requested model or design.

The merchant decides to individualise certain goods through a distinctive designation and registers the latter as a trade mark. The chip designer builds a new multilayer chip and registers it as a topography of a semi-conductor. In all these fields, there are two aspects of the same object—the intellectual creation which leads to an intangible good, and the formal act whereby one registers the good and obtains a title to it from an authority. Only in the field of copyright, which covers amongst others also software, and the so-called neighbouring rights, there is no need for registration to obtain protection—the law grants it automatically to the composer who has written a concert, to the sculptor who has modelled a statue, to the software engineer who has developed a new program, to the conductor and the orchestra who have played a symphony.

There are intangible creations which do not fall into one of the categories of IP rights protected by special laws. These are, e.g. technical and commercial secrets, other technical knowledge (know-how), or the get-up of goods, their outer form or their packaging, or many new organisational achievements like franchises, or character merchandising or promotional programs, publicity campaigns, or training programs of all kinds, but also programs for managing outlets, or other marketing strategies, for new share issues or new art works, etc. All these intangibles may be worth money, and therefore may become the object of a dispute.

3. WHAT ASPECTS OF IP RIGHTS ARE ARBITRABLE?

It is logical and obvious that the inventor, the creator has a proprietary right and interest in his creation, at least if he is independent and not bound by contract to someone who finances him and who may—by virtue of law or of contract—acquire per se all the rights to the creation. Since the intangible good belongs to the creator, he may also do with it what he likes—keep it secret or divulge it to the public, use it for himself or let others use it, give it away or sell it, modify or even destroy it. All these aspects are disposable interests to the intangible goods, they are at the discretion of the party possessing rights to them. They may become the subject of litigation and therefore of arbitration.

Most often, arbitration deals with disputes arising from commercial transactions involving intangible goods or the physical objects in which they are represented or both. The transaction may concern the intangible asset as such (sale of an invention, of the original of a work of art, of a descriptive sign), or only the registered title to it (the patent or the trade mark or the registered model or design or the registration of the topography). Very often, the transaction does not cover the property, the full power over the intangible or all the rights to it, but only a limited use of certain rights—the licence or agency agreements. Licensing is one of the domains of predilection of arbitration—hardly a licence agreement is concluded without an arbitration clause.

Agency agreements are often coupled with a licence agreement—the agent may be obliged to or, to the contrary, not allowed to use the trade mark of a principal when selling the products, or use it only on the product, but not for advertising—all questions which are preferably submitted to arbitrators than to ordinary courts.

But the exclusive rights may also be used by their owners in order to prevent another party from competing with them, by using a machine which embodies a protected technique, selling goods wrapped in packaging or bearing trade marks which are confusingly similar to the ones of the rightful owner. The question whether a patent or a trade mark has been violated, whether a technical secret or a packaging is used by an unauthorised party may be submitted to an arbitral tribunal.

Often the defendant will object that the patent or trade mark which the claimant invoked in its favour is null and void. Under Swiss law, this question may also be decided by the arbitrators, and, unlike other countries where the question is open whether such a decision has effect *erga omnes* or *inter partes* only, the Swiss federal trade mark and patent registrar will strike out a patent or trade mark pursuant to an arbitration award.

A question may arise as to the arbitrability of disputes concerning the so-called personal rights (*droit moral*) of an author or other creator under copyright law (right to be named

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as author, right to the integrity of the work, to keep it unchanged). The Swiss copyright law, e.g. does not exclude those rights from being transferred—the transferee may do what it wishes with these rights (unless otherwise stipulated). Therefore, in my personal opinion, disputes about these rights may also be subject to arbitration.

4. WHICH ASPECTS OF INDUSTRIAL PROPERTY RIGHTS ARE NOT ARBITRABLE?

As already mentioned, the state grants certain titles to the creators and/or owners of intangibles (patents, trade marks, models and designs and semi-conductor registrations).

The registration procedure is not arbitrable—the state retains full power over it—it is not a civil procedure anyhow, but an administrative one.

Some laws on industrial property foresee exceptions limiting the exclusive rights of the creator/owner of the incorporeal good or of the title to it.

The most important category is the so-called compulsory licences, which grant the right to use an exclusive right, without the preliminary agreement of the owner, to certain categories of users. They are mostly foreseen in the event that someone had created or used an invention or trademark or other creation before another *party* created it by itself and/or registered it in its favour or in the event that someone does not make adequate use of the exclusive right or that someone makes an intellectual creation the use of which depends on the simultaneous use of another creation belonging to a different party (dependent patents). In these events, the laws foresee a more or less extended power of the authorities to define the scope of the compulsory licence and the conditions for its grant. With respect to the question whether the conditions for granting or claiming a compulsory licence are fulfilled, and with respect to all other points, where the law grants the state the power to intervene, arbitration is excluded. However, once the (compulsory) licence agreement is concluded, it becomes a voluntary one, and all problems, regarding the execution of that agreement, are arbitrable.

The copyright law foresees an important number of exceptions in favour of the private use—however, in certain circumstances, royalties have to be paid for such use. The collection of the royalties is reserved to authorised collecting agents; it is quite obvious that these domains are not open to arbitration.

Industrial property rights may be the object of expropriation by the state (e.g. certain inventions which serve military purposes) or of export restrictions (licensing of software useful in nuclear energy, etc.). It is quite obvious that these matters are not arbitrable.

Considering that disputes about industrial property have often an international character, and that they may have to be enforced in countries where compulsory legislation exists with regard to competition rules and effect of monopolies such as those created by industrial property rights (e.g. US Sherman Act or EC rules like arts 30 and 91/92 of the Rome Treaty), it is very important to note that according to the Federal Tribunal (ATF 118 II 193 ft), arbitration tribunals sitting in Switzerland are not only authorised and have the power, but even are obliged to decide whether a contract (or certain clauses of a contract) are valid under such laws (unless the parties have explicitly excluded the application of such laws (art.187,1 PIL—*e contrario*)).

When doing so, the Arbitral Tribunal should apply the “application-worthiness test”.

“In general, mandatory rules that ‘only’ aim at protecting a State’s financial, fiscal or political interests, in most cases, have not been regarded as meeting the ‘application-worthiness test’, unless there exist very particular circumstances or connecting factors justifying their application. An example is discussed in the decision of the Swiss Federal Supreme Court in FCR vol.118 (1992) 11 p.348, 353 in *Re Banco Nacional de Cuba v Banco Central de Chile*.” (Marc Blessing, Introduction to Arbitration—Swiss and International Perspectives, Basel 1999, No.811–813).



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